Dynegy Acquisition, Inc.
Form S-4/A
February 08, 2007
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As filed with the Securities and Exchange Commission on February 8, 2007

Registration No. 333-139221

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

PRE-EFFECTIVE AMENDMENT NO. 2

TO

FORM S-4

REGISTRATION STATEMENT

UNDER THE SECURITIES ACT OF 1933

DYNEGY ACQUISITION, INC.

(Exact name of registrant as specified in its charter)

Delaware	**4911**	**20-5653152**
(State or other jurisdiction of incorporation or organization)	*(Primary Standard Industrial Classification Code Number)*	*(I.R.S. Employer Identification Number)*

1000 Louisiana Street, Suite 5800

Houston, Texas 77002

(713) 507-6400

(Address, including zip code, and telephone number, including area code, of registrant s principal executive offices)

J. Kevin Blodgett, Esq.

General Counsel, EVP Administration & Secretary

1000 Louisiana Street, Suite 5800

Houston, Texas 77002

(713) 507-6400

(Name, address, including zip code, and telephone number, including area code, of agent for service)

Copy to:

Julien R. Smythe, Esq.	**Ronald Cami, Esq.**
Akin Gump Strauss Hauer & Feld LLP	**Cravath, Swaine & Moore LLP**
1111 Louisiana Street, 44th Floor	**Worldwide Plaza, 825 Eighth Ave.**
Houston, Texas 77002-5200	**New York, NY 10019-7475**
(713) 220-5800	**(212) 474-1000**

Approximate date of commencement of proposed sale of the securities to the public: As soon as practicable after this registration statement becomes effective.

If the securities being registered on this Form are being offered in connection with the formation of a holding company and there is compliance with General Instruction G, check the following box. ¨

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

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The information in this preliminary proxy statement/prospectus is not complete and may be changed. These securities may not be sold until the registration statement filed with the Securities and Exchange Commission is effective. This preliminary proxy statement/prospectus is not an offer to sell these securities, and it is not soliciting an offer to buy these securities, in any state or jurisdiction where the offer or sale is not permitted.

Preliminary Copy Subject To Completion, Dated February 8, 2007

MERGER PROPOSED YOUR VOTE IS IMPORTANT

To our shareholders:

I am pleased to invite you to attend the special meeting of shareholders of Dynegy Inc. (Dynegy) to be held on Thursday, March 29, 2007, at 10:00 a.m., local time, at Dynegy s headquarters, Wells Fargo Plaza, 1000 Louisiana Street, Houston, Texas 77002. At the special meeting, you will be asked to consider and vote on a proposal to adopt the merger agreement that Dynegy entered into with, among others, LSP Gen Investors, L.P., LS Power Partners, L.P., LS Power Equity Partners PIE I, L.P., LS Power Equity Partners, L.P. and LS Power Associates, L.P. as of September 14, 2006, and to approve the merger contemplated by such merger agreement.

If the transactions contemplated by the merger agreement are completed, you will receive one share of the Class A common stock of a new company, currently named Dynegy Acquisition, Inc. and which we refer to as New Dynegy, for each share of Dynegy s common stock held by you immediately prior to the effective time of the merger. Upon the completion of these transactions, New Dynegy s Class A common stock will be listed on the New York Stock Exchange (the NYSE) under the symbol DYN, which is the symbol under which Dynegy s current Class A common stock is traded on the NYSE.

This proxy statement/prospectus describes these transactions and provides specific information concerning the special meeting. You are encouraged to read this entire document carefully.

If you do not submit your proxy, vote in person or instruct your broker or bank how to vote, it will have the same effect as voting AGAINST the adoption of the merger agreement and the approval of the merger.

Sincerely,

Bruce A. Williamson

Chairman and Chief Executive Officer

Dynegy Inc.

For a discussion of certain risk factors that you should consider in evaluating the transactions contemplated by the merger agreement and an investment in New Dynegy s common stock, see Risk Factors beginning on page 20.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of the securities to be issued under this proxy statement/prospectus or passed on the adequacy or accuracy of this proxy statement/prospectus. Any representation to the contrary is a criminal offense.

We may amend or supplement this proxy statement/prospectus from time to time by filing amendments or supplements as required.

This proxy statement/prospectus is dated February , 2007, and is first being mailed to Dynegy s shareholders on or about , 2007.

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NOTICE OF SPECIAL MEETING OF SHAREHOLDERS

TO BE HELD MARCH 29, 2007

To our shareholders:

Dynegy Inc. (Dynegy) will hold a special meeting of its shareholders on Thursday, March 29, 2007 at 10:00 a.m., local time, at Dynegy s headquarters, Wells Fargo Plaza, 1000 Louisiana Street, Houston, Texas 77002, to consider and vote on a proposal to adopt the merger agreement, dated as of September 14, 2006, by and among Dynegy, Dynegy Acquisition, Inc. (New Dynegy), Falcon Merger Sub Co. (Merger Sub), LSP Gen Investors, L.P., LS Power Partners, L.P., LS Power Equity Partners PIE I, L.P., LS Power Equity Partners, L.P. and LS Power Associates, L.P. (LS Associates and, collectively, the LS Contributing Entities) and to approve the merger of Merger Sub with and into Dynegy. The merger agreement contemplates, among other transactions, that:

- Merger Sub, a new wholly owned subsidiary of New Dynegy, will merge with and into Dynegy, as a result of which Dynegy will become a wholly owned subsidiary of New Dynegy;
- each share of Dynegy s common stock outstanding immediately prior to the merger will be converted into the right to receive one share of the Class A common stock of New Dynegy pursuant to the merger;
- contemporaneously with the merger, the LS Contributing Entities will transfer all of the interests owned by them in entities that own 11 power generation projects to New Dynegy in exchange for (i) 340 million shares of the Class B common stock of New Dynegy, (ii) $100 million in cash and (iii) $275 million in aggregate principal amount of junior unsecured subordinated notes of New Dynegy; and
- LS Associates will transfer its interests in certain power generation development projects to a newly formed limited liability company (the Development LLC) and, in connection with the completion of the merger, will contribute 50% of the membership interests in the Development LLC to New Dynegy; after the completion of the merger, LS Associates and New Dynegy intend to contribute their respective interests in certain additional power generation development projects to the Development LLC.

Upon the completion of these transactions, Dynegy s shareholders, in the aggregate, will hold approximately 60%, and the LS Contributing Entities will hold approximately 40%, of the outstanding common stock of New Dynegy, and New Dynegy will assume approximately $1.9 billion of net debt (debt less restricted cash and investments) of the Contributed Entities (as of September 30, 2006).

A copy of the merger agreement is attached to this proxy statement/prospectus as Annex A. The certificate of incorporation and bylaws of New Dynegy to be in effect following the merger are set forth as Annex B and Annex C, respectively, to this proxy statement/prospectus.

The board of directors of Dynegy has approved the merger agreement and the related transactions and has determined that the transactions, including the merger, are advisable and in the best interests of Dynegy and its shareholders. The board of directors of Dynegy recommends that you vote FOR the adoption of the merger agreement and the approval of the merger.

Only Dynegy s shareholders of record at the close of business on January 29, 2007 are entitled to notice of, and to vote at, the special meeting and any adjournments or postponements of the special meeting. No business other than the proposal described in this notice will be considered at the special meeting or any adjournment or postponement thereof. A complete list of Dynegy s shareholders of record entitled to vote at the special meeting will be available for inspection at the special meeting.

Your vote is very important, regardless of the number of shares you own. Dynegy cannot complete these transactions, including the merger, unless the merger agreement is adopted and the merger is approved by the affirmative vote of two-thirds of the issued and outstanding shares of

(i) Dynegy s Class A common stock voting as a class, (ii) Dynegy s Class B common stock voting as a class and (iii) Dynegy s Class A common stock and Class B common stock voting together as a class. Please submit your proxy as soon as possible to make sure that your shares are represented at the special meeting.

You have the right to dissent and obtain the estimated fair value of your shares after the merger is completed if you do not vote in favor of the transaction and you follow required procedures explained under The Merger Rights of Dynegy s Shareholders Dissenting from the Merger Agreement and the Merger Proposal.

For your shares to be voted, you may complete, sign, date and return the enclosed proxy card or you may submit your proxy by telephone or over the Internet. If you are a holder of record, you may also cast your vote in person at the special meeting. If your shares are held in an account at a brokerage firm or bank, you must instruct them on how to vote your shares. **If you do not submit your proxy, vote in person or instruct your broker or bank how to vote, it will have the same effect as voting AGAINST the adoption of the merger agreement and the approval of the merger.**

By Order of the Board of Directors,

J. Kevin Blodgett

February , 2007

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REFERENCES TO ADDITIONAL INFORMATION

This proxy statement/prospectus incorporates important business and financial information about Dynegy from other documents that are not included in or delivered with this proxy statement/prospectus. The Securities and Exchange Commission (the SEC) maintains a website that contains annual, quarterly and current reports, proxy and information statements and other information regarding registrants, like Dynegy, that file reports with the SEC electronically. The SEC s website address is *http://www.sec.gov*. You may also read and copy any document Dynegy files with the SEC at the SEC s public reference room, 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the operation of its public reference room. The information Dynegy files with the SEC and other information about Dynegy is also available on Dynegy s website at *http://www.dynegy.com*. However, the information on Dynegy s website is not a part of, nor incorporated by reference into, this proxy statement/prospectus. For a listing of the documents incorporated by reference, please see Where You Can Find More Information.

You can also obtain those documents incorporated by reference in this proxy statement/prospectus without charge by contacting Dynegy at:

Dynegy Inc.

1000 Louisiana Street, Suite 5800

Houston, Texas 77002

(713) 507-6400

Attention: Investor Relations Department

In order to ensure timely delivery of requested documents, any request should be made at least five business days prior to the date on which an investment decision is to be made and, in any event, no later than March 22, 2007, which is five business days prior to the special meeting.

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QUESTIONS AND ANSWERS ABOUT THE SPECIAL MEETING

The following questions and answers are intended to briefly address some frequently asked questions regarding the Merger (as defined below) and the other transactions (together with the Merger, the Merger Agreement Transactions) contemplated by the Merger Agreement (as defined below). They should be read together with the section entitled Summary. These questions and answers may not address all questions that may be important to you as a shareholder of Dynegy Inc. (Dynegy). You are urged to read this entire proxy statement/prospectus carefully and the other documents to which Dynegy and New Dynegy (as defined below) refer you.

Q: When and where is the special meeting?

A: The special meeting will take place on Thursday, March 29, 2007, at 10:00 a.m., local time, at Dynegy s headquarters, Wells Fargo Plaza, 1000 Louisiana Street, Houston, Texas 77002.

Q: What am I being asked to vote on?

A: You are being asked to vote to adopt the Plan of Merger, Contribution and Sale Agreement (the Merger Agreement), dated as of September 14, 2006, by and among Dynegy, Dynegy Acquisition, Inc. (New Dynegy), Falcon Merger Sub Co. (Merger Sub), LSP Gen Investors, L.P. (Gen Investors), LS Power Partners, L.P. (LS Partners), LS Power Equity Partners PIE I, L.P. (PIE), LS Power Associates, L.P. (LS Associates) and LS Power Equity Partners, L.P. (LS Equity Partners and, collectively with Gen Investors, LS Partners, PIE and LS Associates, the LS Contributing Entities) and approve the Merger (as defined below). The Merger Agreement contemplates, among other transactions, that:

- Merger Sub, a new Illinois corporation and a wholly owned subsidiary of New Dynegy, will merge with and into Dynegy (the Merger), as a result of which Dynegy will become a wholly owned subsidiary of New Dynegy;

- each share of Dynegy s common stock outstanding immediately prior to the Merger will be converted into the right to receive one share of the Class A common stock of New Dynegy pursuant to the Merger;

- the LS Contributing Entities will transfer all of the interests (the Contributions) owned by them in entities that own 11 power generation projects (the Contributed Entities) to New Dynegy in exchange for (i) 340 million shares of the Class B common stock of New Dynegy, (ii) $100 million in cash and (iii) $275 million in aggregate principal amount of junior unsecured subordinated notes of New Dynegy (the New Dynegy Notes); and

- LS Associates will transfer its interests in certain power generation development projects to a newly formed limited liability company (the Development LLC) and, in connection with the completion of the Merger, will contribute 50% of the membership interests in the Development LLC to New Dynegy; subsequent to the completion of the Merger, LS Associates and New Dynegy intend to contribute their respective interests in certain additional power generation development projects to the Development LLC.

Upon the completion of the Merger Agreement Transactions, Dynegy s shareholders, in the aggregate, will hold approximately 60%, and the LS Contributing Entities will hold approximately 40%, of the outstanding common stock of New Dynegy, and New Dynegy will assume approximately $1.9 billion of net debt (debt less restricted cash and investments) of the Contributed Entities (as of September 30, 2006).

You are only being asked to vote on adoption of the Merger Agreement and the approval of the Merger. You are not being asked to vote on any other of the Merger Agreement Transactions, including the Contributions by the LS Contributing Entities of the Contributed Entities and the

anticipated post-Merger contributions by LS Associates and New Dynegy of their respective interests in certain power generation

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development projects to the Development LLC. However, because the Merger Agreement Transactions are an integral part of the Merger Agreement and the Merger, a vote FOR or AGAINST the adoption of the Merger Agreement and the approval of the Merger will have the effect of approving or disapproving (as the case may be) all of the Merger Agreement Transactions.

Moreover, you are not being asked to vote on the transactions contemplated by the Kendall Agreement (as defined and described beginning on page 187), which will be completed if the Merger Agreement Transactions are not completed. Thus, a vote AGAINST the adoption of the Merger Agreement and the approval of the Merger will not prevent the completion of the transactions contemplated by the Kendall Agreement.

For a more detailed discussion about the Merger, please see The Merger.

Q: What will I receive in the Merger?

A: You will receive one share of New Dynegy s Class A common stock for each share of Dynegy common stock you hold, unless you do not vote to adopt the Merger Agreement and approve the Merger and you exercise and perfect your dissenters rights under Illinois law. See The Merger Rights of Dynegy s Shareholders Dissenting from the Merger Agreement and Merger Proposal.

Q: Why is Dynegy s board of directors (the Dynegy Board) recommending that I vote FOR the adoption of the Merger Agreement and the approval of the Merger?

A: The Dynegy Board believes that the Merger will provide substantial strategic and financial benefits to Dynegy s shareholders, employees and customers, including:

- increased fuel and dispatch diversity of the combined generation portfolios, and in particular, the opportunity to transform the Dynegy portfolio from one with cash flows primarily provided by coal-fired assets and, to a lesser extent, gas-fired peaking assets, to a New Dynegy portfolio with significant cash flows provided by both the existing Dynegy assets as well as efficient gas-fired intermediate-load assets with significant forward contracts. The Dynegy Board believed that stronger and more stable cash flows, and therefore greater financial stability, would result from the combination than could have been achieved from the existing Dynegy portfolio.

- increased geographic diversity, particularly through the expansion of Dynegy s Northeast portfolio and the acquisition of a significant portfolio of power generation facilities in the Western United States. The Dynegy Board believed that such increased geographic diversity would be beneficial due to anticipated continued power demand growth in the Northeast and West.

- the acquisition of both a portfolio of development projects that could provide future growth to New Dynegy, including the acquisition of the LS Power Group s approximately 40% undivided interest in the Plum Point power generation facility (Plum Point), a large-scale greenfield coal-fired generation facility under construction in Arkansas, and access to the development expertise of the LS Contributing Entities, a power project developer with a proven track record. The term greenfield project refers to a project that is developed from completely undeveloped sites, often an unused parcel of land. The Dynegy Board did not believe that Dynegy, as a stand-alone entity, had this level of capability to develop greenfield projects, and believed that it was unlikely that Dynegy could obtain that capability on better terms than through the Development LLC.

- immediate improvement to financial measurements tied to cash flow, which the Dynegy Board believed would be viewed favorably by the capital markets.

the benefits of consolidation to participants in the merchant power generation industry, consisting primarily of greater portfolio diversification and economies of scale. The Dynegy Board believed that New Dynegy should be better positioned to participate in further potential sector consolidation than Dynegy, as a stand-alone entity, would be.

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the ability to use stock as a significant part of the transaction consideration, resulting in an improved credit profile. The Dynegy Board believed that New Dynegy s quantitative and qualitative credit characteristics, including its ratio of debt to capital, funds flow ratio and the predictability of its cash flow, would represent an improvement over Dynegy s current credit characteristics.

the terms of the current shareholder agreement with Chevron U.S.A. Inc. (Chevron) and the resulting impact of the Merger Agreement Transactions on Chevron s share ownership. As a result of the Merger Agreement Transactions, Chevron will hold shares of New Dynegy s Class A common stock and will no longer have the special shareholder rights it currently has in Dynegy. This was viewed to be beneficial because Dynegy sold its natural gas liquids (NGL) business in 2005, and thus Dynegy s business, and New Dynegy s business in the future, were no longer as consistent with Chevron s business objectives as in the past.

the tax-free nature of the Merger Agreement Transactions to Dynegy s shareholders. The Merger will not result in any adverse tax consequences to a Dynegy shareholder that does not have certain unusual tax attributes.

For a more detailed discussion about the Dynegy Board s reasons for the Merger, please see The Merger Recommendation of the Dynegy Board; Reasons of Dynegy for the Merger Agreement Transactions.

Q: Are there any important risks related to the Merger or New Dynegy s business of which I should be aware?

A: Yes, there are important risks involved. Before making any decision on whether and how to vote, Dynegy urges you to read carefully and in its entirety the section entitled Risk Factors beginning on page 20.

Q: Will my rights as a stockholder of New Dynegy be different from my rights as a shareholder of Dynegy?

A: Yes. As a shareholder of Dynegy (an Illinois corporation), your rights are currently governed by the Illinois Business Corporation Act (the IBCA) and Dynegy s articles of incorporation and bylaws. By voting FOR the adoption of the Merger Agreement and the approval of the Merger, you will be, in effect, approving the reincorporation of Dynegy from Illinois to Delaware, as upon the completion of the Merger you will become a stockholder of New Dynegy (a Delaware corporation). Consequently, your rights will be governed by the Delaware General Corporation Law (the DGCL) and New Dynegy s certificate of incorporation and bylaws.

As a result of the reincorporation, in effect, of Dynegy from Illinois to Delaware, your rights as a New Dynegy stockholder will be different from your rights as a Dynegy shareholder because of differences between the DGCL and the IBCA. Because of such differences, (i) Dynegy shareholders, as stockholders of New Dynegy following the completion of the Merger, will no longer be entitled to cumulative voting in the election of directors, (ii) New Dynegy s directors will be elected by plurality vote (versus the majority voting system for directors currently in effect for Dynegy) and (iii) specified corporate transactions and amendments to specified charter provisions affecting stockholder voting rights will require a majority stockholder vote under New Dynegy s certificate of incorporation rather than the super-majority (two-thirds) shareholder vote currently required under Dynegy s articles of incorporation. For further discussion regarding these differences, please see Comparison of Rights of Dynegy s Shareholders and New Dynegy s Stockholders.

Q: Who will manage New Dynegy after the Merger?

A: Dynegy s chairman and chief executive officer, Bruce A. Williamson, along with the other members of Dynegy s current executive management team and Jason Hochberg, a current executive with the LS Power Group, will lead New Dynegy. See Directors and Management of New Dynegy.

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Q: When do Dynegy, New Dynegy and the LS Contributing Entities expect to complete the Merger Agreement Transactions?

A: Assuming that the Merger Agreement and the Merger are approved and adopted by Dynegy s shareholders and all conditions to the completion of the Merger Agreement Transactions are satisfied, the Merger Agreement Transactions are expected to be completed immediately after the special meeting of the shareholders.

Q: Who is entitled to vote at the special meeting?

A: Dynegy s shareholders as of the close of business on January 29, 2007, which is the record date for the special meeting, are entitled to vote at the special meeting. As of January 29, 2007, there were 401,243,690 shares of Dynegy s Class A common stock and 96,891,014 shares of Dynegy s Class B common stock issued and outstanding and entitled to be voted at the special meeting.

Each share of Dynegy s common stock outstanding on the record date will entitle its holder of record on such date to one vote on the Merger Agreement and the Merger.

Q: Who can attend the special meeting?

A: Because of limited seating, only Dynegy s shareholders, their proxy holders and Dynegy s guests may attend the special meeting. If you plan to attend the special meeting, you must have been a shareholder of record as of January 29, 2007 or, if you have beneficial ownership of shares of Dynegy s common stock held by a bank, brokerage firm or other nominee, you must bring a brokerage statement or other evidence of your beneficial ownership of Dynegy s common stock as of January 29, 2007 to be admitted to the special meeting. For more detailed information about attending the special meeting, please see The Special Meeting Special Meeting Attendance.

Q: What shareholder approvals are needed to approve the proposal?

A: The adoption of the Merger Agreement and the approval of the Merger require the affirmative vote of two-thirds of the issued and outstanding shares of (i) Dynegy s Class A common stock voting as a class, (ii) Dynegy s Class B common stock voting as a class and (iii) Dynegy s Class A and Class B common stock voting together as a class.

Pursuant to the voting agreement, dated as of September 14, 2006, by and among Chevron and certain of the LS Contributing Entities, Chevron has agreed to vote its shares of Dynegy s Class B common stock in favor of the Merger Agreement and the Merger. Chevron is the holder of all of the issued and outstanding shares of Dynegy s Class B common stock. As of November 30, 2006, the shares of Dynegy s Class B common stock held by Chevron represented approximately 19.4% of Dynegy s outstanding common stock. In addition, Dynegy s executive officers have agreed to vote their shares of Dynegy s common stock in favor of the Merger Agreement and the Merger. As of November 30, 2006, Dynegy s executive officers had the right to vote less than 1% of the shares of Dynegy s common stock outstanding and entitled to vote at the special meeting.

Q: What happens if I sell my shares of Dynegy s common stock before the special meeting?

A: The record date for the special meeting is January 29, 2007. If you transfer your shares of Dynegy s common stock after the record date but before the special meeting, you will retain your right to vote at the special meeting but will transfer the right to receive one share of New Dynegy s Class A common stock for each share of Dynegy s common stock you hold (if the Merger is completed) to the person to whom you transfer your shares.

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Q: If I would like to submit a proxy, what do I need to do now?

A: After carefully reading and considering the information contained in this proxy statement/prospectus, please submit your proxy as soon as possible so that your shares may be represented at the special meeting. If your shares are not held in street name, which means your shares are not held of record by your broker, bank or other nominee, you can submit your proxy (i) by mail by completing, signing and dating the enclosed proxy card and mailing it in the enclosed postage-prepaid envelope for receipt prior to the date of the special meeting or (ii) by telephone or through the Internet until 11:59 p.m. Eastern Time on March 28, 2007. Instructions for voting by telephone or through the Internet are contained on the enclosed proxy card.

Q: If my shares are held in street name by my broker, will my broker vote my shares for me?

A: Your broker, bank or other nominee will vote your shares for you only if you provide instructions to it on how to vote. Any failure to instruct your nominee on how to vote with respect to the Merger Agreement and the Merger will have the effect of a vote AGAINST the adoption of the Merger Agreement and the approval of the Merger. You should follow the directions your broker, bank or other nominee provides on how to instruct it to vote your shares. If your broker, bank or other nominee holds your shares and you wish to attend the special meeting, please bring a letter from your broker, bank or other nominee identifying you as the beneficial owner of the shares and authorizing you to vote at the special meeting.

Q. What if I fail to instruct my broker?

A. If you fail to instruct your broker to vote your shares of Dynegy s common stock and your broker submits an unvoted proxy, the resulting broker non-vote will have the same effect as a vote AGAINST the adoption of the Merger Agreement and the approval of the Merger.

Q: What do I do if I want to change my vote or vote in person?

A: You may revoke your vote at any time before the special meeting by:

- executing and submitting a revised proxy (including by telephone or over the Internet);
- sending written notice of revocation to Dynegy s secretary at the address provided at the beginning of this proxy statement/prospectus; or
- voting in person at the meeting.

Unless a proxy is properly revoked, shares represented by proxies will be voted at the meeting.

Q: What will happen if I do not send in my proxy or if I abstain from voting?

A: If you do not send in your proxy or if you abstain from voting, it will have the effect of a vote AGAINST the adoption of the Merger Agreement and the approval of the Merger.

Q: Should I send in my stock certificates now?

A: No. If the Merger is completed and you hold stock certificates evidencing your shares of Dynegy s common stock, New Dynegy will send you written instructions for exchanging your Dynegy stock certificates.

Q: How will Dynegy solicit proxies?

A: Proxies may be solicited by mail or facsimile, or by Dynegy s directors, officers or employees, without extra compensation, in person or by telephone. In addition, Dynegy has retained The Altman Group to assist in the solicitation of proxies. Dynegy will reimburse brokerage houses and other custodians, nominees and fiduciaries for their reasonable out-of-pocket expenses for forwarding solicitation material to the beneficial owners of Dynegy s common stock.

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Q: What rights do I have to dissent from the Merger Agreement and the Merger?

A: If you do not vote in favor of the adoption of the Merger Agreement and the approval of the Merger and the Merger is completed, you may dissent and obtain payment for the estimated fair value of your shares under Illinois law. You must, however, comply with all of the required procedures explained under The Merger Rights of Dynegy s Shareholders Dissenting from the Merger Agreement and Merger Proposal and in Annex F to this proxy statement/prospectus.

Q: Who can help answer my questions?

A: If you have any questions about the special meeting or the Merger Agreement or the Merger Agreement Transactions, or if you need additional copies of this proxy statement/prospectus or the enclosed proxy card, you may contact:

Dynegy Inc.

1000 Louisiana Street, Suite 5800

Houston, Texas 77002

(713) 507-6400

Attention: Investor Relations Department

OR

The Altman Group

1200 Wall Street West, 3rd Floor

Lyndhurst, NJ 07071

(800) 311-8393

dyninfo@altmangroup.com

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SUMMARY

This summary is qualified in its entirety by the more detailed information included elsewhere in this proxy statement/prospectus. Because this is a summary, it may not contain all of the information that is material or important to you. You should read this entire proxy statement/prospectus carefully, including the section entitled Risk Factors, as well as Dynegy s periodic and other reports filed with the Securities and Exchange Commission (the SEC) under the Securities Exchange Act of 1934, as amended (the Exchange Act), before making a decision. See Where You Can Find More Information and Incorporation of Certain Documents by Reference.

We have provided detailed definitions for the power industry terms used in this proxy statement/prospectus in the Glossary of Power Industry Terms beginning on page G-1.

The Companies

DYNEGY INC.

1000 Louisiana Street

Suite 5800

Houston, Texas 77002

(713) 507-6400

Dynegy produces and sells electric energy, capacity and ancillary services in key U.S. markets. Dynegy s power generation portfolio currently consists of approximately 11,000 megawatts (MW) of generating capacity (excluding Dynegy s 351 MW Calcasieu generation facility located in Sulphur, Louisiana, which Dynegy (or New Dynegy, upon the completion of the Merger) expects to sell to Entergy Gulf States, Inc. (Entergy) in early 2008 pursuant to an agreement entered into on February 1, 2007) from baseload, intermediate and peaking power plants fueled by a mix of coal, oil and natural gas. The term capacity refers to the maximum electric current being transmitted or demanded for which a generation unit is rated. A baseload plant operates virtually all the time, a peaking plant can be brought online in short order to produce electricity during times of peak demand and an intermediate plant serves system requirements that are greater than baseload but less than peakload. Baseload refers to the minimum amount of electric power delivered or required over a given period of time, peakload refers to the greatest amount of electric power delivered or required during a specified period of time, and intermediate load refers to power demand between baseload and peakload. The term generating unit or generation unit refers to any combination of physically connected generator(s), reactor(s), boiler(s), combustion turbine(s), or other prime mover(s) operated together to produce electric power. A turbine is a machine for generating rotary mechanical power from the energy of a stream of fluid (such as water, steam or hot gas).

Dynegy was incorporated in Illinois in 1999. Dynegy s Class A common stock is listed on the New York Stock Exchange (the NYSE) under the symbol DYN.

LS CONTRIBUTING ENTITIES

1700 Broadway, 35th Floor

New York, New York 10019

(212) 615-3456

The LS Contributing Entities consist of LSP Gen Investors, L.P., LS Power Partners, L.P., LS Power Equity Partners PIE I, L.P., LS Power Associates, L.P. and LS Power Equity Partners, L.P. The LS Contributing Entities are part of the LS Power Group, a leading privately held power plant investor, developer and manager. Founded in 1990, the LS Power Group is a fully integrated development, investment and asset management group of companies focused on the power industry. The LS Power Group s power generation portfolio consists of approximately 8,000 MW of generating capacity from primarily natural gas-fired power plants and a development portfolio of primarily coal-fired generation projects in various stages of development.

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NEW DYNEGY (CURRENTLY NAMED DYNEGY ACQUISITION, INC.)

1000 Louisiana Street

Suite 5800

Houston, Texas 77002

(713) 507-6400

New Dynegy was formed in September 2006 as a Delaware corporation and is currently a wholly owned subsidiary of Dynegy. To date, New Dynegy has not conducted any activities other than those related to its formation and the completion of the Merger Agreement Transactions. Upon the completion of the Merger Agreement Transactions, New Dynegy s name will be changed to Dynegy Inc. and its Class A common stock will be listed on the NYSE under the symbol DYN, which is the symbol under which Dynegy s Class A common stock is currently listed on the NYSE.

Organization of New Dynegy

The following chart depicts the anticipated organization of New Dynegy upon the completion of the Merger Agreement Transactions:

New Dynegy s Business

General

Upon the completion of the Merger Agreement Transactions, New Dynegy s primary business will be the production and sale of electric energy, capacity and ancillary services from its fleet of 29 power generation facilities, with approximately 19,500 MW of generating capacity, operating in 13 states, (i) including Dynegy s 614 MW CoGen Lyondell generation facility located in Houston, Texas, its 576 MW Bluegrass generation facility located in Oldham County, Kentucky and its 539 MW Heard County generation facility located in Heard

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County, Georgia, each of which Dynegy (or New Dynegy, following the completion of the Merger) will seek to sell in 2007 and (ii) excluding Dynegy s 351 MW Calcasieu generation facility located in Sulphur, Louisiana, which Dynegy (or New Dynegy, following the completion of the Merger) expects to sell to Entergy in early 2008.

In addition to its operating generation facilities, New Dynegy will own all of the LS Contributing Entities approximate 40% undivided interest in Plum Point, a new, 665 MW coal-fired plant under construction in Arkansas. Through its interest in the Development LLC, New Dynegy will also own a 50% interest in a portfolio of greenfield development projects totaling more than 7,600 MW of generating capacity and repowering and/or expansion opportunities representing approximately 2,300 MW of generating capacity, thus providing New Dynegy with meaningful organic growth prospects. The term repowering refers to a means of increasing the output and efficiency of conventional thermal generating facilities.

New Dynegy s Competitive Strengths

After giving effect to the Merger Agreement Transactions, New Dynegy believes that the key strengths of its business will include:

Scale and Diversity of Assets in Key Regions of the United States. A large portion of Dynegy s generating capacity is coal-fired, while New Dynegy will have a more balanced portfolio of facilities using coal, natural gas and fuel oil as fuel sources. New Dynegy s portfolio will also be more balanced in terms of dispatch type, with a mix of baseload, intermediate and peaking facilities. The addition of the facilities operated by the Contributed Entities in the Western and Northeastern United States will provide greater geographical diversity to the combined power generation fleet. New Dynegy should also be well positioned to meet market needs by providing a variety of electric energy, capacity and ancillary services through both short- and long-term arrangements.

Financial Stability. New Dynegy will sell electric energy, capacity and ancillary services through a combination of bilateral negotiated forward contracts and spot market transactions in regional central markets. The term bilateral forward contract refers to a direct contract between a buyer and a seller which establishes future prices and quantities of electricity being sold under such contract that will apply regardless of future spot market prices. The term spot market refers to a day-ahead or real-time market that determines the prices buyers and sellers are willing to accept near the actual delivery/consumption period. New Dynegy s commercial strategy will be to construct a balanced portfolio of spot, mid- and long-term sales arrangements. The expected cash flows produced by that mix of arrangements should be greater and more stable than those expected from Dynegy and should better support the liquidity and capital needs inherent in New Dynegy s debt maturity schedule and the timing of its expected capital expenditures. New Dynegy should also have the opportunity to benefit from increasing commodity prices, whether as a result of short-term or long-term increases in demand.

Proven and Mature Asset Development Platform; Repowering and Expansion Opportunities. In addition to the interest in Plum Point, New Dynegy expects to benefit from the growth prospects offered by several development activities initiated by the LS Contributing Entities. Dynegy does not currently have the personnel and other resources required to undertake new greenfield development projects.

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New Dynegy s Competitive Weaknesses

After giving effect to the Merger Agreement Transactions, New Dynegy believes that the key weaknesses of its business will include:

Significant Debt Leverage. Although Dynegy s capital structure and credit ratings are expected to improve as a result of the Merger Agreement Transactions, New Dynegy will remain a highly-leveraged company and its credit ratings are expected to remain below investment grade. Furthermore, even after giving effect to the credit improvements that are anticipated to result from the Merger Agreement Transactions, New Dynegy s access to capital markets may be limited, and its need for liquidity to meet collateral obligations will be determined in part by market prices for power and natural gas, which are beyond New Dynegy s control and are uncertain.

Exposure to the Merchant Market. As is the case with Dynegy, New Dynegy will operate some of its facilities as merchant facilities without term power sales agreements. Although the addition of power-generation facilities with long-term power sales arrangements as part of the Merger Agreement Transactions makes New Dynegy, as a whole, less susceptible to volatility in power and commodity prices than Dynegy currently, New Dynegy s revenues and profitability will still remain subject to such volatility to the extent power sales agreements are not in place with respect to portions of its generating capacity.

For further information regarding New Dynegy s competitive weaknesses, please see Risk Factors.

Strategy

New Dynegy expects that its business strategy will include the following:

Employ a Commodity Cyclical Business Model. New Dynegy intends to optimize its assets by selling electricity and capacity into the spot and term markets when pricing is most attractive. This strategy is expected to be achieved through a diverse portfolio of assets using a combination of spot market sales and term contracts that are intended to capture both short-term and long-term market opportunities.

Establish an Appropriate Capital Structure. New Dynegy believes that the power industry is a commodity cyclical business with significant commodity price volatility and requiring considerable capital investment. New Dynegy believes that maximizing economic returns in this market environment requires a capital structure that can withstand power price volatility as well as a commercial strategy that captures the value associated with both short-term and long-term price trends. New Dynegy intends to employ a capital structure that is responsive to the market environment and its commercial strategy.

Focus on Operational Excellence. New Dynegy will focus on maintaining and enhancing Dynegy s operating track record through increased plant availability, higher dispatch and capacity factors and improved cost controls. New Dynegy will also continue Dynegy s commitment to operating its facilities in a safe, reliable and environmentally compliant manner.

Positioned for Regional Market Recovery. New Dynegy will operate a balanced portfolio of generation assets that is diversified in terms of geography, fuel type and dispatch profile. As a result, New Dynegy believes its substantial coal-fired, baseload fleet should continue to benefit from the impact of higher natural gas prices on power prices in the Midwest and Northeast, allowing it to capture greater margins, while New Dynegy s efficient combined cycle units should provide meaningful cash flows and should benefit from improved margins as demand increases in the Western and New England markets. The term combined cycle refers to an electric generating technology in which additional electricity is produced from otherwise lost waste heat exiting from one or more gas combustion turbines.

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The Merger and the Contributions

The Merger (Page 150)

As part of the Merger, Merger Sub, a new, wholly owned subsidiary of New Dynegy, will merge with and into Dynegy, as a result of which Dynegy will become a wholly owned subsidiary of New Dynegy.

Dynegy Shareholder Vote Required (Page 35)

The adoption of the Merger Agreement and the approval of the Merger will require the affirmative vote of two-thirds of the issued and outstanding shares of (i) Dynegy s Class A common stock voting as a class, (ii) Dynegy s Class B common stock voting as a class and (iii) Dynegy s Class A common stock and Class B common stock voting together as a class. Each share of Dynegy s common stock outstanding on the record date will entitle its holder of record on such date to one vote on the adoption of the Merger Agreement and the approval of the Merger.

What Dynegy Shareholders Will Receive in the Merger (Page 150)

Upon completion of the Merger, each Dynegy shareholder will be entitled to receive one share of Class A common stock, par value $0.01 per share, of New Dynegy for each share of common stock of Dynegy owned by such shareholder immediately prior to the closing of the Merger. The shares of Dynegy s outstanding Class B common stock, which are held by Chevron, will be exchanged for shares of New Dynegy s Class A common stock upon completion of the Merger. The shares of New Dynegy s Class A common stock issued to Dynegy shareholders in connection with the Merger will constitute approximately 60% of the common stock of New Dynegy that will be outstanding upon the completion of the Merger. Upon the completion of the Merger, New Dynegy s Class A common stock will be listed on the NYSE under the symbol DYN, which is the symbol under which Dynegy s Class A common stock is currently listed on the NYSE.

What the LS Contributing Entities Will Transfer to New Dynegy (Page 150)

In connection with the completion of the Merger, the Contributions will be effected by or through:

- the sale by the LS Contributing Entities to New Dynegy of all of the outstanding equity interests in certain entities that collectively own an operating power plant in Kendall County, Illinois (known as Kendall) (the Kendall Interests), resulting in New Dynegy owning the Kendall facility;

- the transfer by the LS Contributing Entities to New Dynegy of all of the equity interests in certain entities that collectively own nine other operating power plants (known as Ontelaunee, Moss Landing, Morro Bay, South Bay, Oakland, Arlington Valley, Griffith, Bridgeport and Casco Bay) (the Operating Entity Interests), resulting in New Dynegy owning those operating power plants, located in Maine, Connecticut, Pennsylvania, Arizona and California;

- the transfer by the LS Contributing Entities to New Dynegy of all of the equity interests in certain entities that collectively own interests in a power plant being constructed in Osceola, Arkansas (known as Plum Point), resulting in New Dynegy owning an approximately 40% undivided ownership interest in Plum Point (the Plum Point interests); and

- the transfer by LS Associates to the Development LLC of all of the interests in certain entities that collectively own various power generation development projects (the Development Interests), and the contribution by LS Associates of 50% of the membership interests in the Development LLC to New Dynegy, resulting in New Dynegy owning a 50% interest in these power generation development projects through the Development LLC.

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Following the completion of the Merger, LS Associates and New Dynegy intend to contribute their interests in certain other development projects to the Development LLC.

What the LS Contributing Entities Will Receive from New Dynegy for the Contributions (Page 151)

In connection with the Contributions, the LS Contributing Entities will receive 340 million shares of Class B common stock, par value $0.01 per share, of New Dynegy, which shares will represent approximately 40% of New Dynegy s common stock that will be outstanding upon the completion of the Merger. The LS Contributing Entities will also receive an aggregate of $100 million in cash and $275 million in aggregate principal amount of the New Dynegy Notes. New Dynegy will have the right to repay the New Dynegy Notes at any time and may elect to do so in connection with the Merger or soon thereafter.

The Merger Agreement

The Merger Agreement, a summary of which is provided beginning on page 150 of this proxy statement/prospectus, is attached as Annex A to this proxy statement/prospectus. You are urged to read the entire Merger Agreement carefully.

Recommendation of Dynegy s Board of Directors (Page 41)

Dynegy s board of directors has unanimously determined that the Merger Agreement and the Merger Agreement Transactions are advisable, fair to and in the best interests of Dynegy s shareholders, and has unanimously approved the Merger Agreement and the Merger Agreement Transactions. Dynegy s board of directors recommends that you vote FOR the adoption of the Merger Agreement and the approval of the Merger.

Opinions of Financial Advisors (Page 43)

In connection with the Merger, Dynegy s board of directors received the written opinions of Credit Suisse Securities (USA) LLC (Credit Suisse) and Greenhill & Co., LLC (Greenhill), each dated September 14, 2006, which provided that, as of that date, and based upon and subject to the matters set forth in their respective opinions, the consideration to be received by the holders of Dynegy s Class A common stock in the Merger was fair, from a financial point of view, to the holders of Dynegy s Class A common stock.

The full text of the written opinions of Credit Suisse and Greenhill are attached hereto as Annex G and Annex H, respectively. The Credit Suisse and Greenhill opinions were provided to Dynegy s board of directors in connection with its evaluation of the consideration to be received by the holders of Dynegy s Class A common stock, do not address any other aspect of the Merger Agreement Transactions and are not recommendations as to how any holder of Dynegy s Class A common stock should vote with respect to the Merger Agreement and the Merger. You are urged to read these opinions, as well as the descriptions of the procedures followed, assumptions made, matters considered and limitations on the reviews undertaken set forth in the section entitled The Merger Opinions of Financial Advisors to Dynegy.

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Material U.S. Federal Income Tax Consequences (Page 61)

The parties have structured the Contributions and the Merger to qualify as exchanges under Section 351 of the Internal Revenue Code of 1986, as amended (the Code). The conversion of Dynegy shares to New Dynegy shares will generally not be taxable to Dynegy s shareholders. The completion of the Merger Agreement Transactions (which include the Contributions and the Merger) is conditioned upon, among other things, the LS Contributing Entities receiving an opinion from Cravath, Swaine & Moore LLP regarding the tax treatment of the Merger Agreement Transactions as exchanges under Section 351 of the Code. You are urged to carefully review the discussion set forth under The Merger Material U.S. Federal Income Tax Consequences to Dynegy s Shareholders.

Regulatory Approvals (Page 65)

All regulatory approvals required for the Merger Agreement Transactions have been obtained. For further information regarding the submitted filings and the status of the required orders or approvals, see The Merger Regulatory Approvals.

New Dynegy Certificate of Incorporation and Bylaws (Annexes B and C)

Effective upon the closing of the Merger Agreement Transactions, New Dynegy s certificate of incorporation and bylaws will be amended (as amended, New Dynegy s Certificate of Incorporation and New Dynegy s Bylaws, respectively) to set forth certain rights, preferences, powers and restrictions of the capital stock of New Dynegy and will govern certain aspects of the internal affairs of New Dynegy. A summary of these rights is set forth in Other Agreements and Documents Certificate of Incorporation of New Dynegy and Other Agreements and Documents Bylaws of New Dynegy, respectively. New Dynegy s Certificate of Incorporation and New Dynegy s Bylaws, in the forms which give effect to the closing date amendments, are attached as Annex B and Annex C, respectively, to this proxy statement/prospectus.

You are urged to read these documents, as they will govern your rights as a stockholder of New Dynegy, which will be different from your rights currently as a Dynegy shareholder. For further discussion regarding these differences, please see Comparison of Rights of Dynegy s Shareholders and New Dynegy s Stockholders.

Dissenters Rights of Dynegy s Shareholders (Page 68)

Dynegy s shareholders who do not vote to adopt the Merger Agreement and approve the Merger and who follow the procedures specified under the IBCA, which procedures are summarized on page 68 of this proxy statement/prospectus and set forth in their entirety in Annex F to this proxy statement/prospectus, shall have the right to dissent from the Merger Agreement and Merger and obtain payment for the estimated fair value of their shares of Dynegy s common stock in the event of the completion of the Merger. Failure to vote against the adoption of the Merger Agreement and approval of the Merger will not waive a shareholder s dissenters rights, as long as the shareholder has not voted in favor of adoption of the Merger Agreement and approval of the Merger and has complied in all other respects with the IBCA in preserving the shareholder s dissenters rights.

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SUMMARY HISTORICAL AND UNAUDITED PRO FORMA CONDENSED

CONSOLIDATED/COMBINED FINANCIAL DATA

Summary Historical Consolidated Financial Data of Dynegy

The following summary historical consolidated financial data of Dynegy as of December 31, 2004 and 2005 and for the years ended December 31, 2003, 2004 and 2005 have been derived from Dynegy s audited consolidated financial statements incorporated by reference herein. The following summary historical consolidated financial data of Dynegy as of December 31, 2001, 2002 and 2003 and for the years ended December 31, 2001 and 2002 have been derived from Dynegy s audited consolidated financial statements which are not included in, or incorporated by reference in, this proxy statement/prospectus. The following summary historical consolidated financial data of Dynegy as of September 30, 2006 and for the nine months ended September 30, 2005 and 2006 have been derived from Dynegy s unaudited condensed consolidated financial statements incorporated by reference herein. Dynegy s unaudited condensed consolidated financial statements were prepared on a basis consistent with that used in preparing its audited consolidated financial statements and include all material adjustments that, in the opinion of Dynegy s management, are necessary for a fair presentation of Dynegy s financial position and results of operations for the unaudited periods.

The summary historical consolidated financial data of Dynegy set forth below should be read in conjunction with Dynegy s Management s Discussion and Analysis of Financial Condition and Results of Operations and Dynegy s historical consolidated financial statements and the notes thereto included in its Annual Report on Form 10-K for the fiscal year ended December 31, 2005, as amended, and in its Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2006, each incorporated by reference herein. Historical results are not necessarily indicative of results that may be expected for any future period. Dynegy s historical consolidated financial statements as of December 31, 2005 and 2004, and for each of the three years in the period ended December 31, 2005, were impacted by significant items in each of the years presented, which are summarized in Dynegy s Annual Report on Form 10-K for the fiscal year ended December 31, 2005, as amended, in Management s Discussion and Analysis of Financial Condition and Results of Operations Results of Operations Summary Financial Information. Dynegy s Annual Report on Form 10-K for the fiscal year ended December 31, 2005, as amended, includes restatements of (i) its consolidated balance sheet and consolidated statement of stockholders equity as of December 31, 2005 and its consolidated statements of operations, cash flows and comprehensive income (loss) for the year ended December 31, 2005 and (ii) its consolidated balance sheet and consolidated statement of stockholders equity as of December 31, 2004 and periods prior to 2004. These restatements are reflected in all periods presented herein. The historical results of Dynegy and of the Contributed Entities are not necessarily indicative of the results that may be expected for New Dynegy for any future period.

	Year Ended December 31,					Nine Months Ended September 30, (unaudited)	
	2001	2002	2003	2004	2005	2005	2006
	(in millions, except per share data)						
Statement of operations data:							
Revenues	$ 3,635	$ 2,109	$ 2,599	$ 2,451	$ 2,313	$ 1,691	$ 1,620
Depreciation and amortization expense	(368)	(378)	(373)	(235)	(220)	(165)	(174)
Goodwill impairment		(814)	(311)				
Impairment and other charges		(176)	(225)	(78)	(46)	(6)	(107)
General and administrative expenses	(385)	(297)	(315)	(330)	(468)	(421)	(160)
Operating income (loss)	823	(1,146)	(769)	(100)	(838)	(384)	79
Debt conversion expense							(249)
Interest expense	(201)	(241)	(503)	(453)	(389)	(284)	(310)
Income tax benefit (expense)	(320)	337	296	172	395	228	154
Income (loss) from continuing operations	423	(1,217)	(813)	(180)	(804)	(417)	(279)
Income (loss) from discontinued operations	(24)	(1,136)	81	165	912	209	3
Cumulative effect of change in accounting principles	2	(234)	40		(5)		1
Net income (loss)	401	(2,587)	(692)	(15)	103	(208)	(275)
Net income (loss) applicable to common shareholders	359	(2,917)	321	(37)	81	(225)	(284)

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	Year Ended December 31,					Nine Months Ended September 30,	
	2001	2002	2003	2004	2005	2005	2006
						(unaudited)	
	(in millions, except per share data)						
Basic earnings (loss) per share from continuing operations	$ 1.17	$ (4.23)	$ 0.53	$ (0.53)	$ (2.13)	$ (1.13)	$ (0.65)
Diluted earnings (loss) per share from continuing operations	$ 1.12	$ (4.23)	$ 0.50	$ (0.53)	$ (2.13)	$ (1.13)	$ (0.65)
Weighted average shares outstanding for basic EPS calculation	326	366	374	378	387	383	446
Weighted average shares outstanding for diluted EPS calculation	340	370	423	504	513	509	512

	As of December 31,					As of September 30,
	2001	2002	2003	2004	2005	2006
						(unaudited)
	(in millions, except per share data)					
Balance sheet data:						
Current assets	$ 8,944	$ 7,574	$ 3,074	$ 2,728	$ 3,706	$ 1,616
Current liabilities	8,538	6,748	2,450	1,802	2,116	888
Property, plant and equipment, net	9,269	8,458	8,178	6,130	5,323	5,005
Total assets	25,074	20,020	12,801	9,843	10,126	7,507
Long-term debt (excluding current portion)	5,016	5,454	5,893	4,332	4,228	3,362
Notes payable and current portion of long-term debt	458	861	331	34	71	48
Total stockholders equity	4,956	2,256	1,975	1,956	2,140	2,314
Book value per basic shares outstanding (a)	$ 13.92	$ 6.06	$ 5.24	$ 5.12	$ 5.32	$ 4.63

(a) Basic shares outstanding at December 31, 2001, 2002, 2003, 2004 and 2005 and at September 30, 2006 were approximately 356 million, 372 million, 377 million, 382 million, 402 million and 500 million, respectively.

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Summary Historical Combined Financial Data of the Power Generation Business of LS Power Development, LLC and Affiliates

The following summary historical combined financial data of the Power Generation Business of LS Power Development, LLC and Affiliates as of December 31, 2005 and for the year ended December 31, 2005 have been derived from the audited historical combined financial statements of the Power Generation Business of LS Power Development, LLC and Affiliates included elsewhere in this proxy statement/prospectus. The following summary historical combined financial data of the Power Generation Business of LS Power Development, LLC and Affiliates as of December 31, 2004 and for the period from December 1, 2004 until December 31, 2004 have been derived from the unaudited historical combined financial statements of the Power Generation Business of LS Power Development, LLC and Affiliates included elsewhere in the proxy statement/prospectus. Also included are the unaudited predecessor financial statements for the periods from January 1, 2004 until November 30, 2004, January 1, 2003 to December 5, 2003, and December 6, 2003 to December 31, 2003. The following summary historical combined financial data of the Power Generation Business of LS Power Development, LLC and Affiliates as of September 30, 2006 and for the nine months ended September 30, 2005 and 2006 have been derived from the unaudited condensed combined financial statements of the Power Generation Business of LS Power Development, LLC and Affiliates included elsewhere in this proxy statement/prospectus.

The combined financial data and financial statements of the Power Generation Business of LS Power Development, LLC and Affiliates reflects the financial condition, results of operations and cash flow of the Contributed Entities as described therein. The unaudited condensed combined financial statements of the Power Generation Business of LS Power Development, LLC and Affiliates were prepared on a basis consistent with that used in preparing its audited combined financial statements and include all material adjustments that, in the opinion of the Contributed Entities management, are necessary for a fair presentation of the Contributed Entities financial position and results of operations for the unaudited periods.

The summary historical combined financial data of the Power Generation Business of LS Power Development, LLC and Affiliates set forth below should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations of the Contributed Entities and the historical combined financial statements and the notes thereto of the Power Generation Business of LS Power Development, LLC and Affiliates included elsewhere in this proxy statement/prospectus. Because of the timing of acquisitions, period-to-period comparisons and analyses of financial condition and results of operations of the Power Generation Business of LS Power Development, LLC and Affiliates may not be helpful for understanding the financial and operational performance of the Contributed Entities as a whole. In particular, the financial condition, results of operations and cash flows of Ontelaunee and the LS Generation Facilities (as defined on page 116) have not been included in the combined financial statements of the Power Generation Business of LS Power Development and Affiliates as of any dates or for any periods prior to their acquisition by the LS Power Group.

	Period from January 1, 2003 to December 5, 2003 (unaudited)	Period from December 6, 2003 to December 31, 2003 (unaudited)	Period from January 1, 2004 through November 30, 2004 (unaudited)	Period from December 1, 2004 until December 31, 2004 (unaudited) (in millions)	Year Ended December 31, 2005	Nine Months Ended September 30, 2005 (unaudited)	Nine Months Ended September 30, 2006 (unaudited)
Statement of operations data:							
Revenues	$ 61	$ 5	$ 73	$ 3	$ 66	$ 54	$ 665
Depreciation expense	(23)	(1)	(14)		(7)	(4)	(33)
General and administrative expenses	(2)		(6)		(5)	(2)	(18)
Operating income (loss)	(210)	2	3		(6)	4	93
Interest expense	(21)	(2)	(34)	(4)	(57)	(34)	(105)
Net income (loss)	$ (232)	$	$ (21)	$ (2)	$ (49)	$ (17)	$ 40

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	As of December 31, 2003 (unaudited)	As of December 31, 2004 (unaudited)	As of December 31, 2005	As of September 30, 2006 (unaudited)
	(in millions)			
Balance sheet data:				
Current assets	$ 40	$ 55	$ 50	$ 406
Current liabilities	476	9	158	121
Property, plant and equipment, net	558	142	349	2,145
Total assets	598	475	665	3,272
Long-term debt (excluding current portion)		439	401	2,172
Notes payable and current portion of long-term debt	457	1	145	31
Total owners equity	$ 2	$	$ 93	$ 749

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Summary Unaudited Pro Forma Condensed Combined Financial Data of New Dynegy

The following summary unaudited pro forma condensed combined statement of operations data of New Dynegy for the year ended December 31, 2005 and for the nine months ended September 30, 2006 give effect to the Merger Agreement Transactions as if these transactions had been completed on January 1, 2005. The following summary unaudited pro forma condensed combined balance sheet data of New Dynegy as of September 30, 2006 give effect to the Merger Agreement Transactions as if these transactions had been completed on September 30, 2006.

The summary unaudited pro forma condensed combined financial data of New Dynegy for the year ended December 31, 2005 and as of and for the nine months ended September 30, 2006 are based on the unaudited pro forma condensed combined financial information set forth elsewhere in this proxy statement/prospectus. See Unaudited Pro Forma Condensed Combined Financial Information. Such financial data do not purport to reflect what New Dynegy s actual results of operations and financial position would have been had the Merger Agreement Transactions in fact occurred (i) as of January 1, 2005 (in the case of the unaudited pro forma condensed combined statement of operations data for the year ended December 31, 2005 and the nine months ended September 30, 2006) or (ii) as of September 30, 2006 (in the case of the unaudited pro forma condensed combined balance sheet data as of September 30, 2006), nor are they necessarily indicative of the results of operations that New Dynegy may achieve in the future.

The summary unaudited pro forma condensed combined financial data of New Dynegy set forth below should be read in conjunction with Dynegy s Management s Discussion and Analysis of Financial Condition and Results of Operations and the financial statements and the notes thereto included in Dynegy s Annual Report on Form 10-K for the fiscal year ended December 31, 2005, as amended, and in Dynegy s Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2006, each incorporated by reference herein. The summary unaudited pro forma condensed combined financial data of New Dynegy set forth below should also be read in conjunction with Unaudited Pro Forma Condensed Combined Financial Information and the historical financial statements of the Power Generation Business of LS Power Development, LLC and Affiliates and the notes thereto and Management s Discussion and Analysis of Financial Condition and Results of Operations of the Contributed Entities included herein. The historical results of Dynegy and of the Contributed Entities are not necessarily indicative of the results that may be expected for New Dynegy for any future period.

The pro forma financial information included herein does not include adjustments for any transactions other than the transactions contemplated by the Merger Agreement Transactions. During 2006, Dynegy executed various debt and equity transactions which are more fully described in Management s Discussion and Analysis of Financial Condition and Results of Operations in Dynegy s Quarterly Report on Form 10-Q for the period ended September 30, 2006. Additionally, the financial condition, results of operations and cash flows of Ontelaunee and the LS Generation Facilities have not been included in the combined financial statements of the Power Generation Business of LS Power Development and Affiliates as of any dates or for any periods prior to their acquisition by the LS Power Group.

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	Pro Forma Year Ended December 31, 2005	Pro Forma Nine Months Ended September 30, 2006
	(unaudited) (in millions, except per share data)	
Statement of operations data:		
Revenues	$ 2,345	$ 2,264
Depreciation and amortization expense	(284)	(250)
Impairment and other charges	(46)	(107)
General and administrative expenses	(473)	(178)
Operating income (loss)	(873)	160
Debt conversion expense		(249)
Interest expense	(478)	(440)
Income tax benefit	422	169
Loss from continuing operations	(899)	(269)
Basic loss per share from continuing operations	$ (1.27)	$ (0.35)
Diluted loss per share from continuing operations	$ (1.27)	$ (0.35)
Weighted average shares outstanding for basic EPS calculation	727	786
Weighted average shares outstanding for diluted EPS calculation	853	852

	Pro Forma As of September 30, 2006 (unaudited) (in millions, except per share data)
Balance sheet data:	
Current assets	$ 1,884
Current liabilities	1,054
Property, plant and equipment, net	8,882
Goodwill	845
Total assets	12,980
Long-term debt (excluding current portion)	5,992
Notes payable and current portion of long-term debt	79
Total stockholders equity	4,353
Book value per basic shares outstanding (a)	$ 5.18

(a) Pro forma basic shares outstanding at September 30, 2006 were approximately 840 million.

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RISK FACTORS

Risks Related to the Merger

In addition to the other information included or incorporated by reference in this proxy statement/prospectus, Dynegy s shareholders should carefully consider the matters described below to determine whether to vote to adopt the Merger Agreement and approve the Merger. Many of the risks described below are present with Dynegy s current business activities and opportunities.

The value of the shares of New Dynegy s common stock that you receive upon the completion of the Merger may be less than the value of your shares of Dynegy s common stock as of the date of the Merger Agreement or on the date of the special meeting.

The exchange ratio of Dynegy common stock for New Dynegy Class A common stock in the Merger is fixed at one-to-one and will not be adjusted in the event of any change in the stock price of Dynegy or the value of the Contributed Entities before the Merger. The relative price of shares of Dynegy s common stock and the value of the Contributed Entities may vary significantly between the date of this proxy statement/prospectus, the date of the special meeting and the date of the completion of the Merger. These variations may be caused by, among other things, changes in the businesses, operations and results of Dynegy and the Contributed Entities, market expectations of the likelihood that the Merger will be completed and the timing of completion, the prospects of post-Merger operations, the effect of any conditions or restrictions imposed on or proposed with respect to New Dynegy by regulatory agencies and authorities, general market and economic conditions and other factors. In addition, it is impossible to predict accurately the market price of New Dynegy s common stock to be received by Dynegy s shareholders after the completion of the Merger. Accordingly, the price of Dynegy s common stock on the date of the special meeting may not be indicative of its price immediately before the completion of the Merger and the price of New Dynegy s common stock after the Merger is completed.

The anticipated benefits of combining Dynegy and the Contributed Entities may not be realized, and New Dynegy may face difficulties integrating the Contributed Entities operations.

Dynegy and the LS Contributing Entities entered into the Merger Agreement with the expectation that the Merger would result in various benefits, including, among other things, synergies and operating efficiencies. However, the achievement of the anticipated benefits of the Merger, including the synergies, cannot be assured or may take longer than expected. In addition, New Dynegy may not be able to integrate the Contributed Entity s operations with Dynegy s existing operations without encountering difficulties, including inconsistencies in standards, systems and controls, and without diverting management s focus and resources from ordinary business activities and opportunities.

Dynegy will incur significant transaction and other related integration costs in connection with the Merger Agreement Transactions.

Dynegy and the LS Contributing Entities expect to incur costs associated with completing the Merger Agreement Transactions and integrating the operations of the two companies, as well as approximately $45 million in transaction fees in the case of Dynegy, including certain fees and expenses of the LS Contributing Entities for which Dynegy has agreed to be responsible. The estimated $45 million of transaction costs incurred by Dynegy will be included as a component of the purchase price for purposes of purchase accounting. The amount of transaction fees expected to be incurred by Dynegy is a preliminary estimate and is subject to change.

Dynegy and the Contributed Entities will be subject to business uncertainties and contractual restrictions in advance of the Merger, which could have a material adverse effect on their businesses.

Uncertainty about the effect of the Merger on customers or suppliers may have an adverse effect on Dynegy and the Contributed Entities and, consequently, on New Dynegy. These uncertainties could cause customers,

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suppliers and others that deal with Dynegy and the Contributed Entities to seek to change existing business relationships with Dynegy and the Contributed Entities. In addition, if key employees depart because of issues relating to the uncertainty and difficulty of integration or a desire not to remain an employee of New Dynegy, New Dynegy s business could be materially affected. In addition, the Merger Agreement restricts Dynegy and the LS Contributing Entities, without the other party s consent, from making certain acquisitions and taking other specified actions until the Merger occurs or the Merger Agreement terminates. These restrictions may prevent Dynegy and the LS Contributing Entities from pursuing otherwise attractive business opportunities and making other changes to their businesses that may arise prior to completion of the Merger or termination of the Merger Agreement.

Dynegy may waive one or more of the conditions to the Merger Agreement that is important to you without your approval.

Each of the conditions to Dynegy s obligations to complete the Merger may be waived, in whole or in part, by Dynegy, to the extent permitted by applicable law. Dynegy s board of directors will evaluate the materiality of any waiver to determine whether amendment of this proxy statement/prospectus and resolicitation of proxies is necessary. If Dynegy s board of directors determines that a waiver is not significant enough to require resolicitation of its shareholders proxies, it will have the discretion to complete the Merger without seeking further shareholder approval. See The Merger Agreement and Merger Agreement Transactions Merger Agreement Conditions. Because certain conditions may not be satisfied prior to the date of the special meeting, there is a risk that Dynegy s board of directors may waive a condition that is important to you without your approval.

Certain directors and executive officers of Dynegy may have interests in the Merger different from, or in addition to, the interests of other shareholders of Dynegy.

Certain of the directors and executive officers of Dynegy are parties to agreements or participate in other arrangements that give them interests in the Merger that are different from, or in addition to, your interests as a shareholder of Dynegy. In voting on the Merger Agreement and the Merger, you should consider whether these interests may have influenced the decisions of Dynegy s directors and executive officers in pursuing, executing, approving and recommending the Merger Agreement and the Merger. These different interests are described under The Merger Interests of Dynegy s Directors and Executive Officers in the Merger.

Risks Relating to the Business of New Dynegy

After completion of the Merger, New Dynegy will be subject to many risks and uncertainties. Many of these risks are substantially similar to the risks currently assumed by Dynegy. New Dynegy s risks and uncertainties include the following.

Because some of New Dynegy s power generation facilities will operate without term power sales agreements, and because wholesale power prices are subject to significant volatility, New Dynegy s revenues and profitability will be subject to significant fluctuations.

As is the case with Dynegy, New Dynegy will operate some of its facilities as merchant facilities without term power sales agreements. For those facilities without term power sales agreements, New Dynegy cannot be sure that it will be able to sell any or all of the electric energy, capacity or ancillary services from those facilities at commercially attractive rates or that those facilities will be able to operate profitably. This could lead to decreased financial results as well as future impairments of its property, plant and equipment or to the retirement of certain of its facilities, resulting in economic losses and liabilities.

When New Dynegy elects to sell electric energy, capacity and ancillary services into the wholesale energy spot market or into other power markets on a term basis, New Dynegy will not be guaranteed any rate of return on its capital investments. Rather, New Dynegy s financial condition, results of operations and cash flows are

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likely to depend, in large part, upon prevailing market prices for power and the fuel to generate such power. Wholesale power markets are subject to significant price fluctuations over relatively short periods of time and can be unpredictable. The term wholesale refers to a transaction in which electricity and other energy services are bought and sold between market participants, utilities, non-utility generators and power marketers, as opposed to sales to the end-use customers.

Given the volatility of power commodity prices, to the extent that New Dynegy does not secure term power sales agreements for the output of its power generation facilities, its revenues and profitability will be subject to increased volatility, and its financial condition, results of operations and cash flows could be materially adversely affected.

New Dynegy s hedging activities will not fully protect it from exposure to commodity price risks, and it will be vulnerable to decreases in power prices and increases in the price of natural gas, coal and oil. To the extent New Dynegy does engage in hedging activities, its models representing the market may be inaccurate.

As is the case with Dynegy, since a substantial portion of New Dynegy s production capacity may not be hedged and will be subject to commodity price risks, New Dynegy has the potential to receive higher or lower prices for capacity, energy and ancillary services resulting in volatile revenue and cash flow. To the extent that New Dynegy s generated power is not subject to a power purchase agreement or similar arrangement, New Dynegy generally will pursue sales of such generated power based on market prices. Where forward sales are not executed, New Dynegy will be impacted by changes in commodity prices, and, in an environment where fuel costs increase and power prices decrease, New Dynegy s financial condition, results of operations and cash flows may be materially adversely affected. In those instances where New Dynegy does execute forward sales or related financial transactions, its internal models may not accurately represent the markets in which it will participate, potentially causing it to make less favorable decisions.

Unauthorized hedging and related activities by New Dynegy employees could result in significant losses.

New Dynegy intends to continue Dynegy s commercial strategy, which emphasizes forward power sales opportunities to capture attractive market prices in the near term. Since New Dynegy will have a portfolio of both hedged and unhedged assets, New Dynegy intends to adopt various internal policies and procedures, similar to those adopted by Dynegy, designed to monitor hedging activities and positions. These policies and procedures will be designed, in part, to prevent unauthorized purchases or sales of products by New Dynegy employees. New Dynegy cannot assure, however, that these steps will detect and prevent all violations of its risk management policies and procedures, particularly if deception or other intentional misconduct is involved. A significant policy violation that is not detected could result in a substantial financial loss for New Dynegy.

New Dynegy will be exposed to the risk of fuel and fuel transportation cost increases and interruptions in fuel supplies because some of the facilities it will own do not have long-term coal, natural gas or liquid fuel supply agreements.

The fuel requirements for some of the power generation facilities New Dynegy will own will be purchased under short-term contracts or on the spot market. As a result, New Dynegy will face the risks of supply interruptions and fuel price volatility, as fuel deliveries may not exactly match that required for energy sales, due in part to the need to pre-purchase fuel inventories for reliability and dispatch requirements. Reliability in an electric system is composed of two components adequacy and security. Adequacy is the ability of the electric system to supply to the electrical demand and energy requirements of the customers at all times, and security is the ability of the electric system to withstand sudden disturbances, such as electric short circuits or unanticipated loss of system facilities.

Moreover, operation of many of the coal-fired generation facilities New Dynegy will own or that will be developed by the Development LLC will be highly dependent on New Dynegy s ability to procure coal. Power

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generators in the Midwest and the Northeast have experienced significant pressures on available coal supplies that are either transportation or supply related. If New Dynegy is unable to procure fuel for physical delivery at prices it considers favorable, its financial condition, results of operations and cash flows could be materially adversely affected.

Availability and cost of emission credits could materially impact New Dynegy s costs of operations.

New Dynegy will be required to maintain, either by allocation or purchase, sufficient emission credits to support its operations in the ordinary course of operating its power generation facilities. These credits will be used to meet New Dynegy s obligations imposed by various applicable environmental laws. If New Dynegy s operational needs require more than its allocated allowances of emission credits, it may be forced to purchase such credits on the open market, which could be costly. If New Dynegy is unable to maintain sufficient emission credits to match its operational needs, it may have to curtail its operations so as not to exceed its available emission credits, or install costly new emissions controls. As New Dynegy uses the emissions credits that it has purchased on the open market, costs associated with such purchases will be recognized as operating expense. If such credits are available for purchase, but only at significantly higher prices, the purchase of such credits could materially increase New Dynegy s costs of operations in the affected markets.

Competition in wholesale power markets, together with an oversupply of power generation capacity in certain regional markets, may have a material adverse effect on New Dynegy s financial condition, results of operations and cash flows.

New Dynegy will have numerous competitors, and additional competitors may enter the industry. The power generation business New Dynegy will own competes with other non-utility generators, regulated utilities, unregulated subsidiaries of regulated utilities and other energy service companies in the sale of energy, as well as in the procurement of fuel, transmission and transportation services. Moreover, aggregate demand for power may be met by generation capacity based on several competing technologies, as well as power generating facilities fueled by alternative or renewable energy sources, including hydroelectric power, synthetic fuels, solar, wind, wood, geothermal, waste heat and solid waste sources. Regulatory initiatives designed to enhance renewable generation could increase competition from these types of facilities. In addition, a buildup of new electric generation facilities in recent years has resulted in an abundance of power generation capacity in certain regional markets New Dynegy will serve.

New Dynegy will also compete against other energy merchants on the basis of its relative operating skills, financial position and access to credit sources. Energy customers, wholesale energy suppliers and transporters often seek financial guarantees, credit support such as letters of credit, and other assurances that their energy contracts will be satisfied. Companies with which New Dynegy will compete may have greater resources in these areas. In addition, many facilities New Dynegy will own are relatively old. Newer plants owned by competitors will often be more efficient than some of the plants New Dynegy will own, which may put some of New Dynegy s plants at a competitive disadvantage. Over time, some of the plants New Dynegy will own may become obsolete in their markets, or be unable to compete, because of the construction of new, more efficient plants.

Other factors may contribute to increased competition in wholesale power markets. New forms of capital and competitors have entered the industry in the last several years, including financial investors who perceive that asset values are at levels below their true replacement value. As a result, a number of generation facilities in the United States are now in the hands of lenders and investment companies. Furthermore, mergers and asset reallocations in the industry could create powerful new competitors. Under any scenario, New Dynegy will face competition from numerous companies in the industry, some of which have superior capital structures.

Moreover, many companies in the regulated utility industry, with which the wholesale power industry is closely linked, are also restructuring or reviewing their strategies. Several of those companies have discontinued

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or are discontinuing their unregulated activities and seeking to divest their unregulated subsidiaries. Some of those companies have had, or are attempting to have, their regulated subsidiaries acquire assets out of their or other companies unregulated subsidiaries. This may lead to increased competition between the regulated utilities and the unregulated power producers within certain markets. The future of the wholesale power generation industry is unpredictable, but may include restructuring and consolidation within the industry, the sale, bankruptcy or liquidation of certain competitors, the re-regulation of certain markets or a long-term reduction in new investment into the industry. To the extent that competition increases, New Dynegy s financial condition, results of operations and cash flows may be materially adversely affected.

New Dynegy will depend on transmission facilities operated by RTOs and ISOs, which could result in an inability to sell and deliver power to the market that may, in turn, adversely affect the profitability of New Dynegy s generation facilities.

Regional Transmission Organizations (RTOs) and Independent System Operators (ISOs) have emerged in most of the markets in which New Dynegy will operate and compete. The RTOs and ISOs provide transmission services, administer transparent and competitive power markets and maintain system reliability. Many of these RTOs and ISOs operate real-time and day-ahead markets in which New Dynegy will participate to sell energy. New Dynegy may be affected by changes in market rules, tariffs, market structures, administrative fee allocations and market bidding rules in these RTOs and ISOs. The ISOs or RTOs that oversee most of the wholesale power markets impose, and in the future may continue to impose, price limitations, offer caps and other mechanisms to guard against the potential exercise of market power in these markets. These types of price limitations and other regulatory mechanisms may adversely affect the profitability of New Dynegy s generation facilities that sell energy and capacity into the wholesale power markets.

New Dynegy will not own, control or set the rates for the transmission facilities it will use to deliver energy, capacity and ancillary services to its customers. In addition, transmission capacity may not be available to New Dynegy, the total costs of transmission may exceed its projections or cause it to forego transactions and changes in the transmission grid could reduce its revenues.

New Dynegy will not own or control the transmission facilities required to sell the wholesale power from the generation facilities it will own. If the transmission service from these facilities is unavailable or disrupted, or if the transmission capacity infrastructure is inadequate, New Dynegy s ability to sell and deliver wholesale power may be materially adversely affected. Furthermore, the rates for transmission capacity from these facilities are set by others and the market and thus are subject to changes, some of which could be significant. Moreover, changes in the transmission infrastructure within or connecting individual markets could reduce prices in those markets by increasing the amount of generating capacity competing to serve the same markets. As a result, the business, financial condition, cash flows and results of operations of New Dynegy may be materially adversely affected. The term grid refers to the interconnected layout of an electrical transmission and distribution system.

An event of loss and certain other events relating to the Dynegy Northeast Generation facilities could trigger a substantial obligation that would be difficult for New Dynegy to satisfy.

Dynegy acquired the Dynegy Northeast Generation power generating facilities (DNE) in January 2001 for $950 million. In May 2001, Dynegy entered into an asset-backed sale-leaseback transaction relating to these facilities to provide it with long-term acquisition financing. In this transaction, Dynegy sold four of the six generating units comprising these facilities for approximately $920 million to Danskammer OL LLC and Roseton OL LLC, and Dynegy concurrently agreed to lease them back from these entities. New Dynegy will have no option to purchase the leased facilities at Roseton or Danskammer at the end of their lease terms, which end in 2035 and 2031, respectively. If one or more of the leases were to be terminated prior to the end of its term because of an event of loss, because it becomes illegal for New Dynegy to comply with the lease, or because a change in law makes the facility economically or technologically obsolete, New Dynegy would be required to make a termination payment in an amount sufficient to redeem the pass-through trust certificates related to the unit or facility for which the lease is terminated. At December 31, 2005, the termination payment would have

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been approximately $1 billion for all of the DNE facilities. It could be difficult for New Dynegy to raise sufficient funds to make this termination payment if a termination of this type were to occur with respect to the DNE facilities, resulting in a material adverse effect on New Dynegy s financial conditions, results of operations, liquidity or cash flows.

New Dynegy s business will be subject to complex government regulation. Changes in these regulations or in their implementation may affect New Dynegy s costs of operating its facilities or its ability to operate its facilities or increase competition, any of which may negatively impact its results of operations.

New Dynegy will be subject to extensive federal, state and local laws and regulations governing the generation and sale of energy commodities, as well as discharge of materials into the environment and otherwise relating to the environment and public health and safety in each of the jurisdictions in which it will have operations. Compliance with these laws and regulations will require expenses (including legal representation) and monitoring, capital and operating expenditures, including those related to pollution control equipment, emission credits, remediation obligations and permitting at various operating facilities. Furthermore, these regulations are subject to change at any time, and New Dynegy will not be able to predict what changes may occur in the future or how such changes might affect any facet of its business.

The costs and burdens associated with complying with the increased number of regulations may have a material adverse effect on New Dynegy, if it fails to comply with the laws and regulations governing its business or if it fails to maintain or obtain advantageous regulatory authorizations and exemptions. Moreover, increased competition resulting from potential legislative changes, regulatory changes or other factors may create greater risks to the stability of New Dynegy s power generation earnings and cash flows generally. New Dynegy could suffer erosion in market position, revenues and profits as competitors gain access to the service territories of its power generation subsidiaries.

New Dynegy s costs for compliance with existing environmental laws will be significant, and costs for compliance with new environmental laws could adversely affect its financial condition, results of operations and cash flows.

New Dynegy s business will be subject to extensive and frequently changing environmental regulation by federal, state and local authorities. Such environmental regulation imposes, among other things, restrictions, liabilities and obligations in connection with the generation, handling, use, storage, transportation, treatment and disposal of hazardous substances and waste and in connection with spills, releases and emissions of various substances into the environment. Existing environmental laws and regulations may be revised or reinterpreted, new laws and regulations may be adopted or become applicable to New Dynegy or the facilities it will own, litigation or regulatory or enforcement proceedings could be commenced and future changes in environmental laws and regulations could occur, including potential regulatory and enforcement developments related to air emissions. Proposals currently under consideration could, if and when adopted or enacted, require New Dynegy to make substantial capital and operating expenditures. If any of these events occurs, New Dynegy s business, operations and financial condition could be materially adversely affected.

Moreover, many environmental laws require approvals or permits from governmental authorities for the operation of a power generation facility, before construction or modification of a project may commence or before wastes or other materials may be discharged into the environment. The process for obtaining necessary permits can be lengthy and complex and can sometimes result in the establishment of permit conditions that make the project or activity for which the permit was sought unprofitable or otherwise unattractive. Even where permits are not required, compliance with environmental laws and regulations can require significant capital and operating expenditures. New Dynegy, either directly or through its ownership in the Development LLC, will be required to comply with numerous environmental laws and regulations, and to obtain numerous governmental permits when it constructs, modifies and operates the facilities it will own. In addition, certain of the facilities New Dynegy will own are also required to comply with the terms of consent decrees or other governmental orders.

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With the continuing trend toward stricter standards, greater regulation and more extensive permitting requirements, New Dynegy s capital and operating environmental expenditures are likely to be substantial and may increase in the future. New Dynegy may not be able to obtain or maintain all required environmental regulatory permits or other approvals that it needs to operate its business. If there is a delay in obtaining any required environmental regulatory approvals or permits, or if New Dynegy fails to obtain or comply with any required approval or permit, the operation of its facilities may be interrupted or become subject to additional costs and, as a result, New Dynegy s business, financial condition, results of operations and cash flows could be materially adversely affected.

Different regional power markets in which New Dynegy will compete have changing transmission regulatory structures, which could materially adversely affect New Dynegy s performance in these regions.

New Dynegy s financial condition, results of operations and cash flows are likely to be affected by differences in market and transmission regulatory structures in various regional power markets. Problems or delays that may arise in the formation and operation of new or maturing RTOs and similar market structures, or changes in geographic scope, rules or market operations of existing RTOs, may affect New Dynegy s ability to sell, the prices it receives for or the cost to transmit power produced by its generating facilities. Rules governing the various regional power markets may also change from time to time, which could affect New Dynegy s costs or revenues. New Dynegy will be unable to assess fully the impact that these uncertainties may have on its business, as it remains unclear which companies will be participating in the various regional power markets, or how RTOs will develop or what regions they will cover.

New Dynegy s financial condition, results of operations and cash flows could be adversely impacted by strikes or work stoppages by unionized employees.

A majority of the employees at facilities New Dynegy will own or lease will be subject to collective bargaining agreements with various unions that expire in 2007 and 2008. If union employees strike, participate in a work stoppage or slowdown or engage in other forms of labor strife or disruption, New Dynegy could experience reduced power generation or outages if replacement labor is not procured. The term outage refers to the period during which a generating unit, transmission line or other facility is out of service. The ability to procure such replacement labor is uncertain. Strikes, work stoppages or an inability to negotiate future collective bargaining agreements on favorable terms could have a material adverse effect on New Dynegy s financial condition, results of operations and cash flows.

Dynegy, as New Dynegy s predecessor registrant, has reported two material weaknesses in its internal control over financial reporting, one of which caused a restatement, and both of which, if not remedied, could adversely affect New Dynegy s internal controls and financial reporting.

In connection with Dynegy s management s assessments of the effectiveness of its internal control over financial reporting as of December 31, 2004 and 2005 and September 30, 2006, Dynegy s management concluded that, as of such dates, it did not maintain effective internal control over its financial reporting due to a material weakness in its processes, procedures and controls related to the preparation, analysis and recording of the income tax provision. Dynegy s management s assessment of the effectiveness of its internal control over financial reporting as of December 31, 2005 was audited by PricewaterhouseCoopers LLP, which expressed an unqualified opinion on management s assessment and an adverse opinion on the effectiveness of its internal control over financial reporting as of December 31, 2005.

In addition, in connection with Dynegy s management s assessment as of September 30, 2006, Dynegy s management concluded that, as of September 30, 2006, it did not maintain effective internal control over its financial reporting due to a material weakness in its processes, procedures and controls related to the calculation and analysis of its risk management asset and liability balances. A material weakness is a control deficiency, or combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of Dynegy s annual or interim financial statements would not be prevented or detected.

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These control deficiencies have resulted in the restatement of Dynegy s 2005, 2004 and 2003 annual consolidated financial statements. Further, these control deficiencies could have resulted in a misstatement of the income tax provision and related deferred tax accounts and disclosures that would result in a material misstatement to its annual or interim consolidated financial statements that would not be prevented or detected.

The material weakness related to the calculation and analysis of Dynegy s risk management asset and liability balances resulted in an adjustment to its condensed consolidated financial statements as of and for the three months ended March 31, 2006 prior to being reported in its Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2006. Further, this control deficiency could result in a misstatement of revenue and the related risk management asset and liability balances that would result in a material misstatement of Dynegy s annual or interim consolidated financial statements that would not be prevented or detected.

Certain of the corrective processes, procedures and controls that Dynegy has implemented or is in the process of implementing with respect to its tax accounting and tax reconciliation processes, procedures and controls relate to annual controls that cannot be tested until the preparation of its 2006 annual tax provision. Moreover, the controls that Dynegy has implemented or is in the process of implementing related to the accuracy of its risk management asset and liability balances have not been in place for an adequate period of time to test and conclude that they are operating effectively. Accordingly, Dynegy cannot assure you that these processes, procedures and controls will result in remediation. Failure to remediate these material weaknesses, or the identification of additional material weaknesses, could result in materially inaccurate financial reports and negatively impact the market s view of New Dynegy s control environment and, potentially, New Dynegy s stock price and ability to access the capital markets.

New Dynegy will have significant debt that could negatively impact its business, and its credit ratings are anticipated to be less than investment grade.

New Dynegy will be highly leveraged, and will have pledged substantially all of its assets to secure its debt. At September 30, 2006, New Dynegy would have total pro forma net debt of $5.2 billion, which includes:

- debt outstanding under Dynegy s Fourth Amended and Restated Credit Agreement, as amended, which includes a $470 million revolving credit facility that is currently undrawn, and a $200 million term facility that is currently fully drawn;
- $1.05 billion principal amount of 8.375% Senior Unsecured Notes due 2016 issued by Dynegy Holdings, Inc., Dynegy s wholly owned subsidiary (DHI);
- $275 million in aggregate principal amount of the New Dynegy Notes; and
- $1.9 billion in net debt (debt less restricted cash and investments) assumed by New Dynegy from the Contributed Entities.

New Dynegy s significant level of debt could:

- make it difficult to satisfy its financial obligations, including debt service requirements;
- limit its ability to obtain additional financing to operate its business;
- limit its financial flexibility in planning for and reacting to business and industry changes;

impact the evaluation of its creditworthiness by counterparties to commercial agreements and affect the level of collateral it is required to post under such agreements;

place it at a competitive disadvantage compared to less leveraged companies;

increase its vulnerability to general adverse economic and industry conditions, including changes in interest rates and volatility in commodity prices; and

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- require it to dedicate a substantial portion of its cash flows to payments on its debt, thereby reducing the availability of its cash flow for other purposes including its operations, capital expenditures and future business opportunities.

New Dynegy may incur additional indebtedness as part of completing the Merger and in the future. If new debt is added to the current debt levels of New Dynegy and its subsidiaries, the related risks that New Dynegy and its subsidiaries face could increase significantly.

The payment of dividends on New Dynegy s common stock will be restricted and, moreover, subject to the discretion of New Dynegy s board of directors.

The financing agreements under which certain of New Dynegy s subsidiaries will be borrowers and New Dynegy will be a guarantor will contain certain restrictions on the payment of dividends on New Dynegy s Class A common stock similar to those to which Dynegy is currently subject. See Market Price and Dividend Information Dividend Policy. Moreover, even if permitted under New Dynegy s financing agreements, dividend payments on New Dynegy s Class A common stock will be at the discretion of New Dynegy s board of directors. Dynegy has not paid a dividend on any class of its common stock since 2002.

New Dynegy s Bylaws provide that, so long as the holders of New Dynegy s Class B common stock own greater than 15% of the total combined voting power of New Dynegy, New Dynegy shall not make dividend payments or similar distributions or change policies regarding dividends or similar distributions if all of the directors of New Dynegy who are elected by holders of New Dynegy s Class B common stock voting as a separate class (the Class B Directors) present at the meeting at which such action is considered vote against such action, other than dividends or distributions made in the form of (i) cash, provided that at the time of declaration of such dividend, New Dynegy has received indicative ratings that, after giving effect to such cash dividend, its senior unsecured credit ratings would be BB- (with stable outlook) or better from Standard & Poor s Ratings Services (S&P) and Ba3 (with stable outlook) or better from Moody s Investor Service (Moody s), or (ii) New Dynegy s common stock.

New Dynegy s access to the capital markets may be limited.

New Dynegy will be a highly leveraged company with anticipated near-term capital needs; New Dynegy may also require additional capital from time to time beyond the near-term. Unlike those companies in the power generation industry that are investment grade and for which the capital markets are typically open, New Dynegy s access to the capital markets may be limited. Moreover, the timing of any capital-raising transaction may be impacted by unforeseen events, such as strategic growth opportunities, legal judgments or regulatory requirements, which could require New Dynegy to pursue additional capital in the near term. New Dynegy s ability to obtain capital and the costs of such capital are dependent on numerous factors, including:

- general economic and capital market conditions;
- covenants in its existing debt and credit agreements;
- credit availability from banks and other financial institutions;
- investor confidence in it and the regional wholesale power markets;
- its financial performance and the financial performance of its subsidiaries;
- its levels of indebtedness;

its requirements for posting collateral under various commercial agreements;

its maintenance of acceptable credit ratings;

its cash flow;

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- provisions of tax and securities laws that may impact raising capital; and

- long-term business prospects.

New Dynegy may not be successful in obtaining additional capital for these or other reasons. An inability to access capital may limit New Dynegy s ability to pursue development projects, plant improvements or acquisitions that it may rely on for future growth and to comply with regulatory requirements and, as a result, may have a material adverse effect on New Dynegy s financial condition, results of operations and cash flows, and on its ability to execute its business strategy.

If New Dynegy issues a material amount of its common stock in the future or certain New Dynegy stockholders sell a material amount of New Dynegy s common stock, New Dynegy s ability to use its net operating losses to offset its future taxable income may be limited under Section 382 of the Code.

New Dynegy s ability to utilize previously incurred net operating losses (NOLs) of Dynegy to offset future taxable income would be reduced if New Dynegy were to undergo an ownership change within the meaning of Section 382 of the Code. In general, an ownership change occurs whenever the percentage of the stock of a corporation owned by 5-percent shareholders (within the meaning of Section 382 of the Code) increases by more than 50 percentage points over the lowest percentage of the stock of such corporation owned by such 5-percent shareholders at any time over the preceding three years. Under certain circumstances, sales or dispositions of New Dynegy s common stock by the Contributed Entities, Chevron or other stockholders could trigger an ownership change, and New Dynegy will have limited control over the timing of any such sales or dispositions of New Dynegy s common stock. Any such future ownership change could result in limitations, pursuant to Section 382 of the Code, on New Dynegy s utilization of NOLs to offset its future taxable income.

More specifically, depending on prevailing interest rates and New Dynegy s market value at the time of such future ownership change, an ownership change under Section 382 of the Code would establish an annual limitation which might prevent full utilization of the deferred tax assets attributable to Dynegy s previously incurred NOLs against the total future taxable income of a given year. The Merger will increase the likelihood that previously incurred NOLs will become subject to the limitations set forth in Section 382 of the Code. If such an ownership change were to occur, New Dynegy s ability to raise additional equity capital may be limited.

The magnitude of such limitations and their effect on New Dynegy is difficult to assess and depends in part on New Dynegy s value at the time of any such ownership change and prevailing interest rates. For accounting purposes, at December 31, 2005, Dynegy s net operating loss deferred tax asset attributable to its previously incurred NOLs was valued at approximately $270 million. Dynegy believes that it has generated material incremental NOLs in 2006.

The ultimate outcome of unresolved legal proceedings and investigations relating to the past activities of Dynegy and its subsidiaries cannot be predicted. Any adverse determination could have a material adverse effect on New Dynegy s financial condition, results of operations and cash flows.

Dynegy is, or has in recent years been, a party to various material litigation matters and regulatory matters arising out of its business operations. These matters include, among other things, certain actions and investigations by the Federal Energy Regulatory Commission (the FERC) and related regulatory bodies, litigation with respect to alleged actions in the western power and natural gas markets, purported class action suits with respect to alleged violations of the Employee Retirement Income Security Act of 1974 (ERISA) and various other matters. The ultimate outcome of pending matters cannot presently be determined, nor can the liability that could potentially result from a negative outcome in each case reasonably be estimated.

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Risks Associated with New Dynegy Class A Common Stock

The interests of the LS Control Group may conflict with your interests and, with respect to the Development LLC, the interests of New Dynegy.

After the Merger, the LS Control Group (as defined on page 172) will own approximately 40% of the voting power of New Dynegy and will have the right to nominate up to three members of the 11-member board of directors of New Dynegy. By virtue of such stock ownership and board representation, the LS Control Group will have the power to influence New Dynegy s affairs and the outcome of matters required to be submitted to stockholders for approval. Moreover, by virtue of such stock ownership and board representation and its 50 percent membership interest (via the LS Power Group) in the Development LLC, the LS Control Group will have the power to influence the affairs of the Development LLC.

The LS Control Group may have interests that differ from those of holders of New Dynegy s Class A common stock, and these relationships could give rise to conflicts of interest, including:

- conflicts between the LS Control Group and other stockholders of New Dynegy, whose interests may differ with respect to the strategic direction or significant corporate transactions of New Dynegy; and

- conflicts related to corporate opportunities that could be pursued by New Dynegy, on the one hand, or by the LS Control Group, on the other hand.

Likewise, with respect to the Development LLC, the LS Control Group may have interests that differ from those of New Dynegy (as the owner of the remaining 50 percent membership interest in the Development LLC), which may give rise to conflicts of interests.

Further, New Dynegy s Certificate of Incorporation will renounce any interest in and waive any claim that a corporate or business opportunity taken by the LS Control Group constitutes a corporate opportunity of New Dynegy unless such corporate or business opportunity is expressly offered to one of Dynegy s directors or officers who is a director or officer of New Dynegy.

See Other Agreements and Documents Corporate Opportunity Agreement and Comparison of Rights of Dynegy s Shareholders and New Dynegy s Stockholders Waiver of Corporate Opportunity Doctrine.

The LS Control Group s significant interest in New Dynegy could be determinative in matters submitted to a vote by New Dynegy s stockholders. In addition, the rights granted to the LS Shareholders (as defined on page 171) under the Shareholder Agreement (as defined on page 171) and New Dynegy s Bylaws will provide them significant influence over New Dynegy. Such influence could result in New Dynegy either taking actions that New Dynegy s other stockholders do not support or failing to take actions that New Dynegy s other stockholders do support.

The LS Control Group s ownership interest in New Dynegy, together with its rights under the Shareholder Agreement and New Dynegy s Bylaws, will provide it with significant influence over the conduct of New Dynegy s business. Unless substantially all of New Dynegy s public stockholders vote together on matters presented to New Dynegy s stockholders from time to time, the LS Control Group will have the power to determine the outcome of matters submitted to a vote of all common stockholders.

Rights granted to the LS Control Group under the Shareholder Agreement and New Dynegy s Bylaws that will provide it with significant influence over New Dynegy s business include:

- the ability to nominate up to three directors to New Dynegy s board of directors based on its percentage ownership interest in New Dynegy; and

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the requirement that New Dynegy not pursue any of the following actions if all directors nominated by the LS Control Group present at the relevant board meeting vote against such action:

any amendment of New Dynegy s Certificate of Incorporation or New Dynegy s Bylaws;

any merger or consolidation of New Dynegy and certain dispositions of its assets or businesses, certain acquisitions, binding capital commitments, guarantees and investments and certain joint ventures with an aggregate value in excess of a specified amount;

payment of dividends or similar distributions by New Dynegy;

engagement by New Dynegy in new lines of business;

any liquidation or dissolution of New Dynegy, or certain bankruptcy-related events;

the issuance of any New Dynegy equity securities, with certain exceptions for issuances of New Dynegy s Class A common stock;

incurrence of any indebtedness in excess of a specified amount;

hiring, or termination of the employment of, New Dynegy s chief executive officer (other than Bruce A. Williamson);

entry into any agreement or other action that limits the activities of any holder of New Dynegy s Class B common stock or any of its affiliates; and

entry into other material transactions with a value in excess of a specified amount.

Such influence could result in New Dynegy either taking actions that New Dynegy s other stockholders do not support or failing to take actions that New Dynegy s other stockholders do support. See Other Agreements and Documents Bylaws of New Dynegy, Other Agreements and Documents Shareholder Agreement and Comparison of Rights of Dynegy s Shareholders and New Dynegy s Stockholders Blocking Rights.

New Dynegy s stockholders may be adversely affected by the expiration of the transfer restrictions in the Shareholder Agreement, which would enable the LS Control Group to, among other things, transfer a significant percentage of its New Dynegy common stock to a third party.

The transfer provisions in the Shareholder Agreement, subject to specified exceptions (see Other Agreements Shareholder Agreement Transfer Restrictions), restrict the LS Control Group from transferring shares of New Dynegy common stock. These restrictions will expire upon the earlier of:

- two years from the date the Merger is completed;
- the date the stockholders party to the Shareholder Agreement cease to own at least 15% of the total combined voting power of New Dynegy s outstanding securities; and
- subject to certain conditions, the date a third party offer is made to acquire more than 25% of New Dynegy s assets or voting securities.

In addition, if the transfer restrictions in the Shareholder Agreement are terminated, the LS Control Group will be free to sell their shares of New Dynegy common stock, subject to certain exceptions, to any person on the open market, in privately negotiated transactions or otherwise in accordance with law. These sales or transfers could create a substantial decline in the price of shares of New Dynegy common stock. See Other Agreements and Documents Shareholder Agreement.

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Risks Associated with the Development of Power Generation Projects

Plum Point, which is currently under construction, may not be completed, and construction of other development projects in which New Dynegy will have an ownership interest after the closing of the Merger Agreement Transactions may never be initiated or completed.

Pursuant to the Merger Agreement Transactions, New Dynegy will acquire all of the LS Power Group s ownership interest in Plum Point, which is currently in the construction phase, with an expected completion date in 2010. New Dynegy will also acquire 50% of the ownership interest in the Development LLC, which will own the various greenfield projects and expansion or replacement projects contributed to the Development LLC by the LS Power Group and Dynegy. After the closing of the Merger Agreement Transactions, additional development projects will be contributed from time to time by the LS Power Group and by New Dynegy to the Development LLC. However, as a result of economic and other conditions, Plum Point may not be completed, and the development projects may not be pursued or completed, and higher costs than those that are anticipated may be incurred with respect to any of the projects. These projects also generally require various governmental and other approvals, which may not be received. New Dynegy s inability to complete the Plum Point project, or the Development LLC s inability to complete a development project on time or within budget, may adversely affect New Dynegy s financial condition, results of operations and cash flows.

In addition, the development and construction of power generation facilities may be adversely affected by one or more factors commonly associated with large infrastructure projects, including, but not limited to, changes in the forecasted financial viability of new-build generation in a region, shortages of equipment, materials and labor, delays in delivery of equipment and materials, labor disputes, litigation, failure to obtain necessary governmental and regulatory approvals and permits, adverse weather conditions, unanticipated increases in costs, natural disasters, accidents, local and political opposition, unforeseen engineering, design, environmental or geological problems and other unforeseen events or circumstances. Any one of these events could result in delays in, or even the abandonment of, the development of the affected power generation facility. Such events may also result in cost overruns, payments under committed contracts associated with the affected project, and/or the write-off of equity investment in the project. Any such development may materially adversely affect New Dynegy s financial condition, results of operations and cash flows.

The future operation and performance of the various development projects owned by the Development LLC, if completed, are subject to a wide variety of factors and cannot be predicted with certainty at this time.

If a development project is successfully completed by the Development LLC, the operation and performance of the completed facility could be affected by many factors, including start-up problems, the breakdown or failure of equipment or processes, the performance of the completed facility below expected levels of output or efficiency, failure to operate at design specifications, labor disputes, changes in law, failure to obtain necessary permits or to meet permit conditions, government exercise of eminent domain power or similar events and catastrophic events including fires, explosions, earthquakes and droughts. The occurrence of such events could significantly reduce or eliminate the revenues from, or significantly increase the expenses associated with, any such completed facility and, as a result, negatively impact New Dynegy s financial condition, results of operations and cash flows.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This proxy statement/prospectus includes or incorporates by reference statements reflecting assumptions, expectations, projections, intentions or beliefs about future events that are intended as forward-looking statements. All statements included or incorporated by reference in this proxy statement/prospectus, other than statements of historical fact, that address activities, events or developments that New Dynegy or its management expects, believes or anticipates will or may occur in the future are forward-looking statements. These statements represent New Dynegy s reasonable judgment regarding the future based on various factors and using numerous assumptions and are subject to known and unknown risks, uncertainties and other factors that could cause, among other statements, the actual results and financial position of New Dynegy and the effects and consequences of the Merger Agreement Transactions to differ materially from those contemplated by the statements. You can identify these statements by the fact that they do not relate strictly to historical or current facts. They may use words such as anticipate, estimate, project, forecast, plan, may, will, should, expect and other words of similar meaning. In particular, these include, but are r statements relating to the following:

- completion of the Merger Agreement Transactions and the success of the business of New Dynegy after the completion of the Merger Agreement Transactions;
- the successful integration of Dynegy and the Contributed Entities after the Merger;
- the anticipated benefits of combining Dynegy and the Contributed Entities;
- beliefs and assumptions about costs relating to the Merger and integrating Dynegy and the Contributed Entities after the Merger;
- projected operating or financial results, including anticipated cash flows from operations, revenues and profitability;
- beliefs and assumptions about economic conditions and the demand and prices for electricity;
- beliefs about commodity pricing;
- intended hedging activities and the results of such activities;
- sufficiency of coal, oil and natural gas inventories and transportation;
- the level of creditworthiness of counterparties;
- the availability and costs of transmission facilities;
- weather conditions, including the economic and operational effects of mild weather;

obligations resulting from the occurrence of events relating to DNE s facilities;

risks associated with the refurbishment and operation of power generation facilities;

developments in the electric industry, such as changes in regulation and increased competition;

expectations regarding environmental matters, including costs of compliance and availability and adequacy of emission credits;

acts of terrorism;

relationships with unionized employees and potential union-related disruptions;

strategies to remediate the material weakness existing in Dynegy s accounting for income taxes and risk management assets and liabilities;

the availability of net operating losses to offset future taxable income;

beliefs and assumptions relating to liquidity, including the ability to satisfy or refinance debt maturities and other obligations before or as they come due;

- strategies to address New Dynegy s substantial leverage, to access capital markets or to obtain additional financing on more favorable financing terms;
- beliefs about the outcome of legal and administrative proceedings, including the matters involving the western power and natural gas markets, environmental matters and the investigations relating primarily to past trading practices;
- the interests and actions of the LS Control Group and the implications of the LS Control Group s significant influence over New Dynegy;
- expectations regarding capital expenditures, interest expense and other payments;
- the price of coal, oil and natural gas that New Dynegy will purchase and the price of electric power that New Dynegy will sell, and any hedging arrangements that New Dynegy may put in place to capture or mitigate changes in those prices;
- plans to achieve fuel-related, general and administrative and other targeted cost savings;
- measures to compete effectively with industry participants;
- beliefs and assumptions about market competition, generation capacity and regional recovery of the wholesale power generation market;
- positioning New Dynegy, including the Development Assets (as defined on page 117) held by the Development LLC, for future growth;
- expectations of completion of development projects; and
- measures to complete the exit from the customer risk management business and the costs associated with this exit.

Any or all of the forward-looking statements may turn out to be wrong, and actual results may differ materially from those expressed or implied by such forward-looking statements. They can be affected by inaccurate assumptions or by known or unknown risks, uncertainties and other factors, many of which are beyond New Dynegy s control, including those set forth in Risk Factors. The areas of risk and uncertainty described above should be considered in connection with any written or oral forward-looking statements that may be made after the date of this proxy statement/prospectus by New Dynegy, Dynegy or the LS Contributing Entities or anyone acting for any or all of them. Neither Dynegy, New Dynegy nor the LS Contributing Entities undertakes any obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

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THE SPECIAL MEETING

General

The Dynegy Board is using this proxy statement/prospectus to solicit proxies from the holders of shares of Dynegy s common stock for use at the special meeting. This proxy statement/prospectus and accompanying proxy card are first being mailed to Dynegy s shareholders on or about , 2007.

Date, Time and Place of the Special Meeting

Dynegy will hold its special meeting of shareholders on Thursday, March 29, 2007, at 10:00 a.m., local time, at Dynegy s headquarters, Wells Fargo Plaza, 1000 Louisiana Street, Houston, Texas 77002, or at any reconvened meeting after an adjournment or postponement of the special meeting.

Purpose of the Special Meeting

At the special meeting, holders of Dynegy s common stock will be asked to adopt the Merger Agreement and approve the Merger.

The Dynegy Board has unanimously approved the Merger Agreement and the Merger Agreement Transactions, including the Merger, and recommends that Dynegy s shareholders vote FOR the adoption of the Merger Agreement and the approval of the Merger.

Record Date and Outstanding Shares

The Dynegy Board has fixed the close of business on January 29, 2007 as the record date for determining holders of outstanding shares of Dynegy s common stock entitled to notice of, and to vote at, the special meeting or any adjournment or postponement of the special meeting. As of the record date, there were outstanding 401,243,690 shares of Dynegy s Class A common stock and 96,891,014 shares of Dynegy s Class B common stock. Dynegy s Class A common stock and Dynegy s Class B common stock are the only classes of outstanding securities entitled to notice of, and to vote at, the special meeting. Each holder of Dynegy s common stock is entitled to one vote at the special meeting for each share of Dynegy s common stock held by that shareholder at the close of business on the record date. Pursuant to the IBCA and Dynegy s bylaws, shares of Dynegy s common stock held by Dynegy (*i.e.,* treasury stock) may not be voted at the special meeting and are not to be counted in determining the total number of outstanding shares of Dynegy s common stock entitled to vote at the special meeting.

Quorum

The presence of the holders of a majority of the shares of Dynegy s common stock outstanding, represented in person or by proxy and entitled to vote, is necessary to constitute a quorum at the special meeting.

Vote Required

Adoption of the Merger Agreement and approval of the Merger requires the affirmative vote of two-thirds of the issued and outstanding shares of (i) Dynegy s Class A common stock voting as a class, (ii) Dynegy s Class B common stock voting as a class and (iii) Dynegy s Class A and Class B common stock voting together as a class. In accordance with the rules of the NYSE, brokers and nominees who hold shares in street name for customers may not exercise their voting discretion with respect to the adoption of the Merger Agreement and the approval of the Merger. Thus, absent specific instructions from the beneficial owner of such shares, brokers and nominees may not vote such shares with respect to the adoption of the Merger Agreement and the approval of the Merger. Shares represented by these broker non-votes will not vote, effectively counting as an AGAINST vote. Abstentions also have the same effect as shares voted AGAINST the proposal to adopt the Merger Agreement and approve the Merger.

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Voting by Chevron and Dynegy s Executive Officers

Pursuant to the voting agreement, dated as of September 14, 2006, entered into by and among Chevron and certain of the LS Contributing Entities (the Chevron Voting Agreement), Chevron has agreed to vote its shares of Dynegy s Class B common stock in favor of adopting the Merger Agreement and approving the Merger. Chevron is the holder of all of the issued and outstanding shares of Dynegy s Class B common stock. As of November 30, 2006, the issued and outstanding shares of Dynegy s Class B common stock represented approximately 19.4% of the total number of shares of Dynegy s common stock issued and outstanding.

As of the record date, Dynegy s executive officers had the right to vote less than 1% of the shares of Dynegy s common stock outstanding and entitled to vote at the special meeting. Each Dynegy executive officer (Bruce A. Williamson, Stephen A. Furbacher, Holli C. Nichols, Lynn A. Lednicky and J. Kevin Blodgett) has entered into a voting agreement, dated as of September 14, 2006 (the Officers Voting Agreement), with the LS Contributing Entities in which he or she has agreed to vote, or cause to be voted, the shares of Dynegy s common stock owned by him or her for the adoption of the Merger Agreement and approval of the Merger.

Solicitation of Proxies

Dynegy will bear the cost of soliciting proxies. Proxies may be solicited by mail or facsimile, or by Dynegy s directors, officers or employees, without extra compensation, in person or by telephone. Dynegy has retained The Altman Group to assist in the solicitation of proxies for a fee of $100,000 plus out-of-pocket expenses. If the solicitation period is no longer than five weeks, the fee will be reduced to $83,000. Dynegy will reimburse brokerage houses and other custodians, nominees and fiduciaries for their reasonable out-of-pocket expenses for forwarding solicitation material to the beneficial owners of Dynegy s common stock.

Questions concerning the proposal to be acted upon at the special meeting should be directed to Dynegy s Investor Relations Department at (713) 507-6400 or to The Altman Group at dyninfo@altmangroup.com. Additional copies of this proxy statement/prospectus or the proxy card may be obtained from Dynegy s Investor Relations Department at its principal executive office or from The Altman Group. The mailing address of Dynegy s Investor Relations Department is 1000 Louisiana Street, Suite 5800, Houston, Texas 77002, and the telephone number is (713) 507-6400. The mailing address of The Altman Group is 1200 Wall Street West, 3rd Floor, Lyndhurst, NJ 07071, and the telephone number is (800) 311-8393. For a period of at least ten days prior to the special meeting, a complete list of shareholders entitled to vote at the special meeting will be available for inspection during ordinary business hours at Dynegy s executive offices by shareholders of record for proper purposes and will be on file at a registered office and subject to inspection by any shareholder for a proper purpose.

Revocation of Proxies

The enclosed proxy, even though executed and returned, may be revoked at any time prior to the voting of the proxy by:

- executing and submitting a revised proxy (including a telephone or Internet vote);
- sending written notice of revocation to Dynegy s Secretary at the address provided at the beginning of this proxy statement/prospectus; or
- voting in person at the special meeting.

In the absence of a revocation, shares represented by proxies submitted in response to this solicitation will be voted at the special meeting.

Voting by Telephone or Internet

Shareholders of record can simplify their voting and reduce Dynegy s costs by voting their shares by telephone or through the Internet. The telephone and Internet voting procedures are designed to authenticate

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shareholders identities, allow shareholders to vote their shares and confirm that their instructions have been properly recorded. If your shares are held in the name of a bank or broker, the availability of telephone and Internet voting will depend upon the voting processes of the bank or broker. Accordingly, shareholders should follow the voting instructions on the form they receive from their bank or broker.

Shareholders who elect to vote by telephone or through the Internet may incur telecommunications and Internet access charges and other costs for which they are solely responsible. The telephone and Internet voting facilities for shareholders of record will close at 11:59 p.m., Eastern Time, on March 28, 2007. Instructions for voting by telephone or through the Internet are contained on the enclosed proxy card. Voting your shares by telephone or through the Internet will not affect your right to vote in person if you decide to attend the special meeting; however, if you attend and vote at the special meeting, any votes you cast previously via telephone or the Internet will automatically be revoked and superseded by the votes cast at the special meeting.

Voting by Mail

Shareholders who elect to vote by mail are asked to sign, date and return the enclosed proxy card using the postage-paid envelope provided. The persons named as proxies on the proxy card were designated by the Dynegy Board. All shares represented by properly executed proxies received in time for the special meeting will be voted at the special meeting in the manner specified by the shareholders giving those proxies. Properly executed proxies that do not contain voting instructions will be voted FOR the adoption of the Merger Agreement and approval of the Merger.

Special Meeting Attendance

Because of limited seating, only shareholders, their proxy holders and Dynegy s guests may attend the special meeting. If you plan to attend the special meeting, you must be a shareholder of record as of January 29, 2007 or, if you have beneficial ownership of shares of Dynegy s common stock held by a bank, brokerage firm or other nominee, you must bring a brokerage statement or other evidence of your beneficial ownership of Dynegy s common stock on January 29, 2007 to be admitted to the special meeting.

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THE MERGER

Background of the Merger Agreement Transactions

In mid-2005, after an extensive analysis by Dynegy of the strategic options for itself and its two unregulated businesses, power generation and natural gas liquids, the Dynegy Board decided to exit the NGL business. As a result of this decision, in October 2005 Dynegy sold its NGL business to Targa Resources for approximately $2.475 billion. During 2005, and in anticipation of the sale of its NGL business and receipt of the proceeds therefrom, Dynegy also assessed its options in the power generation sector of the energy business. These options included restructuring Dynegy to focus on generation activities, or a larger-scale consolidation transaction that could involve either public or private entities.

In that context, during late 2005 Dynegy engaged in a number of exploratory discussions with other companies in the power generation sector as well as with potential investors who were active in the sector. Those discussions included the exploration of various potential merger, acquisition and sale transactions. Discussions were held with several parties, including the LS Power Group. Each of these entities signed confidentiality agreements and received non-public information with which to evaluate a potential acquisition of, or merger with, Dynegy, including plant level operating and financial data as well as information about retirement or refinancing of Dynegy s then-current debt obligations. Information exchanges continued through the fall. In discussions with various parties, Dynegy s management conveyed its view that any transaction involving a change of control for Dynegy s shareholders should involve consideration that included a control premium, providing Dynegy s shareholders with some amount in excess of the then-current market value of Dynegy s outstanding equity securities. None of the parties with whom Dynegy had discussions responded with a proposal, and the Board did not consider any transactions at the time.

Absent any proposals with respect to a potential transaction, Dynegy s management and Board determined that the discussions were unlikely to result in any transaction in 2005 or early 2006. Dynegy s management and Board elected to move Dynegy forward as a stand-alone entity focused on the generation business. As part of this decision, Dynegy completed a series of liability management activities whereby it reduced outstanding debt, retired a preferred security and issued both unsecured debt and equity. These liability management transactions substantially changed Dynegy s capital structure and positioned it to operate as a stand-alone entity focused on the generation business. In addition, Dynegy s management believed it was now well-positioned to participate in consolidation opportunities within the merchant generation business.

At the suggestion of a financial adviser that was aware of the discussions in 2005 between Dynegy and the LS Power Group, a meeting between executives of Dynegy and the LS Power Group was arranged. Both Dynegy, by virtue of its then-completed liability management activities described above, and the LS Power Group, by virtue of its acquisition of certain generation assets with approximately 6,260 MW of capacity from subsidiaries of Duke Energy, were substantially different companies than at the time of the discussions in the fall of 2005. On June 2, 2006, Messrs. Williamson and Lednicky from Dynegy met with Mr. Segal, the Chairman and Chief Executive Officer of the LS Power Group, and Mr. Bartlett, the President of LS Power Equity Advisors, L.P., in New York City to discuss the potential for a transaction between the LS Contributing Entities and Dynegy. The potential transaction discussed involved a contribution by the LS Power Group of its operating entities, including the entities it had just acquired from subsidiaries of Duke Energy, in return for Dynegy stock. In addition, the executives discussed the potential for including an interest in certain development projects being pursued by the LS Contributing Entities. After that meeting, Dynegy and the LS Contributing Entities began preliminary due diligence investigations of each other based on publicly available and other general information.

On June 26, 2006, the LS Power Group and Dynegy entered into a mutual confidentiality agreement.

During July 2006, Dynegy and the LS Power Group exchanged non-public information and continued to conduct preliminary due diligence investigation activities. In addition, during that month, the parties discussed

the principal terms and related issues that had arisen to date with respect to the proposed transaction. While the valuation process by the two companies had just commenced, the parties began to discuss the consideration Dynegy would pay for the Contributed Entities. Based on the then-known information, LS Power proposed that upon consummation of an all-stock transaction, the LS Power Group should own between 46% and 48% of New Dynegy s outstanding stock. The other principal terms discussed included the rights and restrictions attending the stock to be issued to the LS Power Group, New Dynegy s and the LS Power Group s relative ownership in the Development LLC and the rights of, and restrictions on, New Dynegy and the LS Power Group in connection with their respective interests in the Development LLC. Related issues included whether the New Dynegy stock issued to the LS Power Group would be a special class of stock, whether the management-related rights of the LS Power Group members would arise from their status as stockholders or through their right to appoint members to the New Dynegy Board of Directors, the limitations, if any, on the rights of the LS Power Group s members to acquire additional shares of the outstanding common stock of New Dynegy and the mechanics, timing and limitations under which members of the LS Power Group could sell the stock they would receive or distribute such stock to their investors. An additional issue involved the potential tax implications related to potential limitations on New Dynegy s utilization of Dynegy s existing net operating loss carryforwards if the LS Power Group were to hold more than approximately 40% of the outstanding stock of New Dynegy. During this period, it was agreed that the LS Power Group would receive a separate class of stock (the Class B shares), that the management rights of the members of the LS Power Group would arise from their right to appoint members to the New Dynegy Board of Directors, and that there would be some limits on the rights of the LS Power Group members to acquire additional shares of the outstanding common stock of New Dynegy, although there was no agreement as to what those limits would be. Given the balance of rights and restrictions on the Class B shares, both Dynegy and the LS Power Group conducted negotiations on the premise that the value of a share of New Dynegy Class A stock would be equal to the value of a share of New Dynegy Class B stock.

Based on the progress reached with respect to these preliminary matters, more detailed due diligence investigations began and the LS Power Group opened an electronic data room to Dynegy on July 28, 2006.

On July 17, 2006, Dynegy management presented an overview of the potential transaction with the LS Power Group at a regularly scheduled Dynegy Board meeting. The presentation included a discussion of Dynegy management s due diligence completed to date, the issues being negotiated in the potential transaction and Dynegy management s analysis of the economic attributes of the Contributed Entities. At that time, the Dynegy Board authorized management to continue negotiations with the LS Power Group regarding the potential transaction.

Detailed due diligence investigations proceeded throughout the month of August 2006, while representatives of Dynegy and the LS Power Group continued to discuss the material terms of the potential transaction. These material terms included the matters described above, with particular attention being paid to governance and approval rights of the Class B Directors to be nominated by members of the LS Power Group, the ability of the LS Power Group to monetize the New Dynegy common stock it was expected to receive and governance and funding of the Development LLC. During this time period, discussion of the exact amount and form of consideration to be paid by Dynegy was generally deferred until a later date; however, the parties further reviewed the basis for potential limits on the amount of stock New Dynegy could issue to the LS Power Group due to tax considerations.

At a special meeting of the Dynegy Board in New York City on August 10, 2006, Dynegy s management provided the Dynegy Board with a summary of the status of the negotiations and due diligence review with respect to the proposed transaction. The Dynegy Board also met with Mr. Segal and other executives of the LS Power Group to discuss various matters relating to a potential transaction, including the manner in which the Dynegy Board considered matters and the role the Class B Directors would have on New Dynegy s Board of Directors.

Executives from both Dynegy and the LS Power Group met again in New York City on August 11, 2006. Key issues discussed included the amount of stock consideration to be paid by Dynegy and the amount of cash

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that could be paid as consideration in lieu of stock, the number of Class B Directors to be nominated by members of the LS Power Group as holders of New Dynegy s Class B common stock, the actions over which these directors would have approval rights and ownership levels of each party in the Development LLC. It was agreed that the Development LLC would be a 50/50 joint venture. With respect to the discussions on consideration, Dynegy proposed that the maximum amount of stock that could be offered was limited to no more than 40% of New Dynegy s expected outstanding shares and that for New Dynegy to ensure proper levels of liquidity, the amount of cash that Dynegy would have available to consummate the transaction was approximately $100 million. No agreement was reached on other remaining issues. Despite this lack of agreement, both Dynegy and the LS Power Group agreed that more detailed negotiations were appropriate.

Because of the tax issues that had been identified and the desire by all parties for New Dynegy to have the proper amount of liquidity, it was generally recognized by the parties that New Dynegy would be limited in the amount of stock it could issue and cash it could pay to the LS Power Group. To address these issues, after the August 11 meeting, the parties began discussing the potential to add unsecured subordinated junior notes as a form of consideration in the transaction.

On August 16, 2006 and August 28, 2006, respectively, Credit Suisse and Greenhill were retained as financial advisors to Dynegy. Given the size and transforming nature of the transaction being discussed, Dynegy s management and Board believed that it could benefit from two financial advisors. Credit Suisse and Greenhill both had long-standing relationships with Dynegy, but in different roles. Credit Suisse had historically acted as both a financial advisor and arranger for capital raising transactions. Greenhill had historically provided financial advice in connection with merger and acquisition transactions, including those discussed with third parties in the fall of 2005 described above.

Initial draft transaction documents were exchanged beginning the week of August 14, 2006. During the weeks of August 21 and 28, 2006, members of management of Dynegy, its legal advisor, Akin Gump Strauss Hauer & Feld LLP (Akin Gump), and financial advisors met with members of management of the LS Power Group and their legal advisor, Cravath, Swaine & Moore LLP, in New York City to discuss definitive documentation.

On August 24, 2006, Dynegy management provided the Dynegy Board with a status update on the negotiations with and due diligence review of the LS Power Group. Topics discussed with the Dynegy Board included the results of due diligence to date, and a review of those items that had generally been agreed between Dynegy and the LS Power Group as well as those items on which no agreement had been reached. Open items included the total amount and forms of consideration (stock, debt and cash) to be received by the LS Power Group, the number of New Dynegy Board members to be appointed by the LS Power Group as holders of New Dynegy s Class B common stock and the actions over which these directors would have approval rights. The Dynegy Board took no action related to a potential transaction at that time but supported management s continued negotiations with the LS Power Group.

On September 6, 2006, Messrs. Williamson and Segal met and exchanged views as to the appropriate financial consideration for the potential transaction, the apportionment of such consideration among stock, debt and cash, and the actions over which the Class B Directors would have approval rights.

On September 8, 2006, Mr. Segal met with an advisory committee that represents certain of the owners of the LS Power Group. That committee gave approval to proceed with a potential transaction, subject to reaching specified final terms.

On September 10, 2006, the Dynegy Board held a special meeting to review the status of the transaction and to discuss the major terms of and matters associated with the transaction. At that meeting, Dynegy s management sought and received the views of the Dynegy Board concerning various matters related to the rights the LS Power Group would be given with respect to their ownership position in New Dynegy. In addition, both Credit Suisse

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and Greenhill gave presentations to the Dynegy Board as to their methodology in considering the fairness of the potential transaction using an assumed valuation that was substantially consistent with the price that was finally agreed upon. The assumed valuation these financial advisors used in the presentations was based on the earlier negotiations (at which no agreement was reached) regarding amount and form of consideration between Dynegy and the LS Power Group. At that meeting, the Dynegy Board authorized Dynegy management to negotiate a transaction having certain parameters that were consistent with those upon which final agreement was reached, subject to final Dynegy Board approval.

From September 11 through September 14, 2006, members of Dynegy and the LS Power Group management and their legal advisors and Dynegy s financial advisors met in New York City to finalize documentation for the transaction. On September 12, 2006, Messrs. Williamson and Segal tentatively agreed via telephone that the consideration to be paid to the LS Power Group would consist of 340 million shares of New Dynegy s Class B common stock, $100 million in cash and $275 million in aggregate principal amount of the New Dynegy Notes. This agreement was subject to Dynegy Board approval and completion of definitive documentation. Messrs. Williamson and Segal each viewed the value of a share of Class B common stock that the LS Power Group would receive as equal to the value of a share of New Dynegy s Class A common stock, considering not only the restricted ability of the LS Power Group to transfer the shares for a limited period of time following the closing of the transaction, but also the additional rights that the holders would have, including Board representation, approval rights and the right to cause New Dynegy to be put up for auction.

On September 14, 2006, the Dynegy Board met again at a regularly scheduled meeting and Dynegy s management updated the Dynegy Board as to the status of its due diligence review, the negotiations and other aspects of the proposed merger, and Akin Gump delivered its final due diligence report. Dynegy management and Akin Gump also reviewed with the Dynegy Board its duties relative to consideration and approval of the proposed transaction. At that meeting, Credit Suisse and Greenhill each also reviewed with the Dynegy Board their respective financial analyses of the consideration to be received by the holders of Dynegy Class A common stock in the Merger and rendered to the Dynegy Board their oral opinions, which were confirmed by the delivery of written opinions from Credit Suisse and Greenhill, each dated September 14, 2006, to the effect that, as of that date and based on and subject to the factors, assumptions and limitations described in the respective opinions, the consideration to be received by the holders of Dynegy Class A common stock in the Merger as tentatively agreed between Messrs. Williamson and Segal on September 12, 2006 was fair, from a financial point of view, to such holders. For a discussion of the opinions of Credit Suisse and Greenhill, see Opinions of Financial Advisors to Dynegy. Given the rights attributable to the Class B common stock as well as the limited transfer restrictions with respect to the Class B common stock, the value of a share of the Class B common stock was considered to be equal to that of a share of the Class A common stock. At the September 14, 2006 meeting, the Dynegy Board unanimously approved execution of the transaction documents containing the pricing terms tentatively agreed upon by Messrs. Williamson and Segal on September 12. Documentation was completed and signed early on the morning of September 15.

On September 15, 2006, the transaction was announced before the market opened.

Recommendation of the Dynegy Board; Reasons of Dynegy for the Merger Agreement Transactions

Recommendation of the Dynegy Board

The Dynegy Board unanimously determined that the Merger Agreement and the Merger Agreement Transactions are advisable, fair to and in the best interests of Dynegy s shareholders. Accordingly, the Dynegy Board unanimously approved the Merger Agreement and the Merger Agreement Transactions, and recommends that Dynegy s shareholders vote FOR the adoption of the Merger Agreement and the approval of the Merger. For a discussion of the interests of the directors and management of Dynegy in the Merger Agreement Transactions, see Interests of Dynegy s Directors and Executive Officers in the Merger.

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Reasons of Dynegy for the Merger Agreement Transactions

The Dynegy Board, in reaching its decision to approve the Merger Agreement Transactions, consulted with Dynegy s management, its financial advisors and its legal advisor, and considered the following factors as generally supporting its decision to approve the Merger Agreement Transactions:

increased fuel and dispatch diversity of the combined generation portfolios, and in particular, the opportunity to transform the Dynegy portfolio from one with cash flows primarily provided by coal-fired assets and, to a lesser extent, gas-fired peaking assets, to a New Dynegy portfolio with significant cash flows provided by both the existing Dynegy assets as well as efficient gas-fired intermediate-load assets with significant forward contracts. The Dynegy Board believed that stronger and more stable cash flows, and therefore greater financial stability, would result from the combination than could have been achieved from the existing Dynegy portfolio.

increased geographic diversity, particularly through the expansion of Dynegy s Northeast portfolio and the acquisition of a significant portfolio of power generation facilities in the Western United States. The Dynegy Board believed that such increased geographic diversity would be beneficial due to anticipated continued power demand growth in the Northeast and West.

the acquisition of both a portfolio of development projects that could provide future growth to New Dynegy, including the acquisition of the LS Power Group s approximately 40% undivided interest in Plum Point, a large-scale greenfield coal-fired generation facility under construction in Arkansas, and access to the development expertise of the LS Contributing Entities, a power project developer with a proven track record. The Dynegy Board did not believe that Dynegy, as a stand-alone entity, had this level of capability to develop greenfield projects, and believed that it was unlikely that Dynegy could obtain that capability on better terms than through the Development LLC.

immediate improvement to financial measurements tied to cash flow, which the Dynegy Board believed would be viewed favorably by the capital markets.

the benefits of consolidation to participants in the merchant power generation industry, consisting primarily of greater portfolio diversification and economies of scale. The Dynegy Board believed that New Dynegy should be better positioned to participate in further potential sector consolidation than Dynegy, as a stand-alone entity, would be.

the ability to use stock as a significant part of the transaction consideration, resulting in an improved credit profile. The Dynegy Board believed that New Dynegy s quantitative and qualitative credit characteristics, including its ratio of debt to capital and the predictability of its cash flow, would represent an improvement over Dynegy s current credit characteristics.

the balance of rights and restrictions in the Shareholder Agreement with the LS Contributing Entities. While the LS Control Group would have a significant share ownership position in New Dynegy, the terms of the Shareholder Agreement would restrict the exercise of certain of the rights otherwise associated with such a position.

the terms of the current shareholder agreement with Chevron and the resulting impact of the Merger Agreement Transactions on Chevron s share ownership. As a result of the Merger Agreement Transactions, Chevron will hold shares of New Dynegy s Class A common stock and will no longer have the special shareholder rights it currently has in Dynegy. This was viewed to be beneficial because Dynegy sold its NGL business in 2005, and thus Dynegy s business, and New Dynegy s business in the future, were no longer

as consistent with Chevron s business objectives as in the past.

the tax-free nature of the Merger Agreement Transactions to Dynegy s shareholders. The Merger will not result in any adverse tax consequences to a Dynegy shareholder that does not have certain unusual tax attributes.

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- the financial presentations of Credit Suisse and Greenhill. The two firms provided separate opinions, dated September 14, 2006, to the Dynegy Board as to the fairness, from a financial point of view, to the holders of Dynegy s Class A common stock of the consideration to be received in the Merger, as more fully described below under Opinions of Financial Advisors to Dynegy.

The Dynegy Board also considered the following factors relating to potential adverse consequences of the proposed transaction to Dynegy:

- the presence of a large shareholder holding a separate class of shares and having special rights associated with those shares;

- the actions, such as asset sales or the issuance of equity, New Dynegy may have to take to meet its capital needs, including the repayment of the New Dynegy Notes, the funding of planned development activities and the provision of adequate liquidity to support New Dynegy s cash and collateral needs;

- the potential that the transaction would not be consummated, and the resulting expenditure of resources without receipt of the expected benefits;

- the limited ability of Dynegy to terminate the Merger Agreement and related agreements based on changed circumstances affecting either Dynegy or the LS Contributing Entities; and

- the absence of contractual indemnities for breaches of representations and warranties by the LS Contributing Entities.

The Dynegy Board determined that these negative factors were outweighed by the potential benefits of the Merger Agreement Transactions.

This discussion of the information and factors considered by the Dynegy Board is for illustrative purposes only and is not intended to be exhaustive. In making its determination to approve the Merger Agreement Transactions, the Dynegy Board did not assign any relative or specific weights to the various factors that it considered in reaching its determination that the Merger Agreement and the Merger Agreement Transactions are advisable and fair to, and in the best interests of, Dynegy and Dynegy s shareholders. Rather, the Dynegy Board viewed its position and recommendation as being based on the totality of the information presented to it, and the factors it considered. In addition, individual members of the Dynegy Board, in making their decisions, may have given different weight to different information and factors.

Opinions of Financial Advisors to Dynegy

Opinion of Credit Suisse

Dynegy retained Credit Suisse to act as Dynegy s financial advisor in connection with the Merger. In connection with Credit Suisse s engagement, Dynegy requested that Credit Suisse evaluate the fairness, from a financial point of view, to the holders of Dynegy s Class A common stock of the consideration to be received in the Merger. On September 14, 2006, the Dynegy Board met to review the proposed Merger, the proposed Contributions of the Contributed Entities and the terms of the Merger Agreement. During this meeting, Credit Suisse reviewed with the Dynegy Board certain financial analyses as described below and rendered an oral opinion to the Dynegy Board, which opinion was confirmed by delivery of a written opinion dated September 14, 2006, to the effect that, as of that date and based on and subject to the factors, assumptions and limitations described in Credit Suisse s opinion, the consideration to be received by the holders of Dynegy s Class A common stock in the Merger was fair, from a financial point of view, to the holders of Dynegy s Class A common stock.

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The full text of Credit Suisse s written opinion, dated September 14, 2006, to the Dynegy Board, which sets forth, among other things, the procedures followed, assumptions made, matters considered and limitations on the scope of the review undertaken by Credit Suisse in rendering its opinion, is attached as Annex G hereto and is incorporated herein by reference in its entirety. Holders of Dynegy s Class A common stock are encouraged to read this opinion carefully in its entirety. Credit Suisse s opinion was provided to the Dynegy Board for its information in connection with its evaluation of the consideration to be received by the holders of Dynegy s Class A common stock in the Merger and relates only to the fairness, from a financial point of view, of the consideration to be received in the Merger to the holders of Dynegy s Class A common stock. Credit Suisse s opinion does not address any other aspect or implication of the proposed Merger, Contributions or related transactions or any agreement, arrangement or undertaking entered into in connection with such transactions or otherwise and does not constitute a recommendation to any shareholder as to how such shareholder should vote or act on any matter relating to the proposed Merger or Contributions. The summary of Credit Suisse s opinion herein is qualified in its entirety by reference to the full text of the opinion.

In arriving at its opinion, Credit Suisse reviewed the Merger Agreement (including the exhibits thereto) and certain publicly available business and financial information relating to Dynegy and the Contributed Entities. Credit Suisse also reviewed certain other information relating to Dynegy and the Contributed Entities, including financial forecasts relating to Dynegy and the Contributed Entities and information relating to certain anticipated tax benefits provided to or discussed with Credit Suisse by Dynegy, and held discussions with the managements of Dynegy and the LS Contributing Entities regarding the business and prospects of Dynegy and the Contributed Entities, respectively. Credit Suisse also considered certain financial and stock market data of Dynegy and certain financial data of the Contributed Entities, and compared that data with similar data for certain other companies that focus primarily on the power generation sector and whose businesses Credit Suisse deemed similar to those of Dynegy and the Contributed Entities and considered, to the extent publicly available, the financial terms of certain other business combinations and other transactions which have recently been effected or announced. Credit Suisse considered Dynegy s existing articles of incorporation, bylaws and shareholder agreement with Chevron. Credit Suisse also considered such other information, financial studies, analyses and investigations and financial, economic and market criteria which it deemed relevant.

In connection with its review, Credit Suisse did not assume any responsibility for independent verification of any of the foregoing information and relied on such information being complete and accurate in all material respects. With respect to the financial forecasts for Dynegy and the Contributed Entities that Credit Suisse reviewed, the management of Dynegy advised Credit Suisse, and Credit Suisse assumed, that such forecasts were reasonably prepared on bases reflecting the best currently available estimates and judgments of the management of Dynegy as to the future financial performance of Dynegy and the Contributed Entities, including certain tax benefits anticipated by the management of Dynegy and the amount, realization and timing thereof. Credit Suisse also, with Dynegy s consent, (i) relied on the estimates of the management of Dynegy as to the range of values for certain development assets being contributed to New Dynegy by the LS Contributing Entities, and (ii) did not make any distinction between New Dynegy s Class A common stock and New Dynegy s Class B common stock, and did not give effect to any relative premium or discount based on control, liquidity, voting rights or other rights, restrictions or aspects relating thereto or the voting power of any holder thereof as a result of the Merger and the Contributions. Credit Suisse assumed, with Dynegy s consent, that, in the course of obtaining any regulatory or third party consents, approvals or agreements in connection with the Merger and the Contributions, no delay, limitation, restriction or condition will be imposed that would have an adverse effect on Dynegy, the Contributed Entities, New Dynegy or the Merger and the Contributions and that the Merger and the Contributions will be completed in accordance with the terms of the Merger Agreement without waiver, modification or amendment of any material term, condition or agreement thereof. Dynegy also informed Credit Suisse, and Credit Suisse assumed, that the Merger and Contributions will be treated as tax-free exchanges for federal income tax purposes as contemplated by the Merger Agreement.

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In addition, Credit Suisse was not requested to make, and did not make, an independent evaluation or appraisal of the assets or liabilities (contingent or otherwise) of Dynegy or the Contributed Entities, nor was Credit Suisse furnished with any such evaluations or appraisals. Credit Suisse s opinion addressed only the fairness, from a financial point of view, to the holders of Dynegy s Class A common stock of the exchange ratio and did not address any other aspect or implication of the Merger and the Contributions or any agreement, arrangement or understanding entered into in connection with such transactions or otherwise. Credit Suisse s opinion was necessarily based upon information made available to it as of the date of the opinion and financial, economic, market and other conditions as they existed and could be evaluated on the date of the opinion. Credit Suisse did not express any opinion as to what the value of shares of New Dynegy s Class A common stock actually will be when issued to the holders of Dynegy s Class A common stock pursuant to the Merger or the prices at which shares of New Dynegy s Class A common stock or New Dynegy s Class B common stock or any other securities of New Dynegy will trade or be transferable at any time. Credit Suisse s opinion did not address the relative merits of the Merger and the Contributions as compared to alternative transactions or strategies that might be available to Dynegy, nor did it address the underlying business decision of Dynegy to proceed with the Merger and related transactions. Except as described above, Dynegy imposed no other limitations on Credit Suisse with respect to the investigations made or procedures followed in rendering its opinion.

In preparing its opinion, Credit Suisse performed a variety of financial and comparative analyses, including those described below. The summary of Credit Suisse s analyses described below is not a complete description of the analyses underlying Credit Suisse s opinion. The preparation of a fairness opinion is a complex process involving various determinations as to the most appropriate and relevant methods of financial analysis and the application of those methods to the particular circumstances and, therefore, a fairness opinion is not readily susceptible to partial analysis or summary description. In arriving at its opinion, Credit Suisse made qualitative judgments with respect to the analyses and factors that it considered. Credit Suisse arrived at its ultimate opinion based on the results of all analyses undertaken by it and assessed as a whole and did not draw, in isolation, conclusions from or with regard to any one factor or method of analysis. Accordingly, Credit Suisse believes that its analyses must be considered as a whole and that selecting portions of its analyses and factors or focusing on information presented in tabular format, without considering all analyses and factors or the narrative description of the analyses, could create a misleading or incomplete view of the processes underlying its analyses and opinion.

In its analyses, Credit Suisse considered industry performance, general business, economic, market and financial conditions and other matters, many of which are beyond the control of Dynegy and the LS Contributing Entities. No company, transaction or business used in Credit Suisse s analyses as a comparison is identical to Dynegy or the Contributed Entities, their businesses or the proposed Merger and Contributions, and an evaluation of the results of those analyses is not entirely mathematical. Rather, the analyses involve complex considerations and judgments concerning financial and operating characteristics and other factors that could affect the acquisition, public trading or other values of the companies, business segments or transactions analyzed. The estimates contained in Credit Suisse s analyses and the ranges of valuations resulting from any particular analysis are not necessarily indicative of actual values or predictive of future results or values, which may be significantly more or less favorable than those suggested by the analyses. In addition, analyses relating to the value of businesses or securities do not purport to be appraisals or to reflect the prices at which businesses or securities actually may be sold. Accordingly, the estimates used in, and the results derived from, Credit Suisse s analyses are inherently subject to substantial uncertainty.

Credit Suisse was not requested to, and it did not, recommend the specific form or amount of consideration payable in the proposed Merger and Contributions, which consideration was determined through negotiation between Dynegy and the LS Contributing Entities, and the decision to enter into the Merger and related transactions was solely that of the Dynegy Board and the LS Contributing Entities. Credit Suisse s opinion and financial analyses were only one of many factors considered by the Dynegy Board in its evaluation of the proposed Merger and Contributions and should not be viewed as determinative of the views of the Dynegy Board or Dynegy s management with respect to the Merger, the exchange ratio or the consideration to be received in the Merger Agreement Transactions by the LS Contributing Entities.

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The following is a summary of the material financial analyses reviewed with the Dynegy Board in connection with Credit Suisse s opinion dated September 14, 2006. **The financial analyses summarized below include information presented in tabular format. In order to fully understand Credit Suisse s financial analyses, the tables must be read together with the text of each summary. The tables alone do not constitute a complete description of the financial analyses. Considering the data in the tables below without considering the full narrative description of the financial analyses, including the methodologies and assumptions underlying the analyses, could create a misleading or incomplete view of Credit Suisse s financial analyses.**

Credit Suisse s analyses were based on an implied aggregate consideration payable by New Dynegy to the LS Contributing Entities in connection with the proposed Contributions of approximately $2,384 million, consisting of:

- 340 million shares of New Dynegy s Class B common stock, valued at $5.91 per share based on the closing price of Dynegy s Class A common stock on September 12, 2006;
- the New Dynegy Notes; and
- $100 million in cash.

Credit Suisse performed the following Discounted Cash Flow Analysis, Selected Companies Analysis and Selected Precedent Transactions Analysis of the Contributed Entities and Dynegy, and the following Contribution Analysis, each of which is a standard valuation methodology customarily undertaken in transactions of this type. The main purpose of each of these analyses was to derive an implied reference range of percentage equity ownership in New Dynegy for the LS Contributing Entities, which we refer to as the implied equity ownership reference range for the LS Contributing Entities, and compare that range with the percentage equity ownership in New Dynegy that the LS Contributing Entities would receive in the Contribution (i.e., 40.5% aggregate equity ownership in New Dynegy).

In each of the Discounted Cash Flow Analysis, Selected Companies Analysis and Selected Precedent Transactions Analysis, the implied equity ownership reference range for the LS Contributing Entities was calculated based on the ratio of the implied aggregate equity reference range for the Contributed Entities in relation to the combined implied aggregate equity reference range for the Contributed Entities and Dynegy.

Discounted Cash Flow Analysis

Credit Suisse performed separate discounted cash flow analyses of the Contributed Entities and Dynegy and derived implied equity reference ranges for the Contributed Entities and Dynegy. Generally, a discounted cash flow analysis is designed to provide insight into the potential value of a company based on its estimated future cash flows and expenditures. As summarized below under the caption Implied Aggregate Consideration Reference Range, the results of the discounted cash flow analyses were used to derive a reference range for the implied value of the aggregate consideration payable to the LS Contributing Entities in the Contribution, which range was then compared with the implied aggregate equity reference range derived for the Contributed Entities. As summarized below under the caption Implied Equity Ownership Reference Range, the results of the discounted cash flow analyses were also used to derive an implied equity ownership reference range for the LS Contributing Entities in New Dynegy, which range was then compared with the percentage equity ownership in New Dynegy that the LS Contributing Entities would receive in the Contribution.

The Contributed Entities. Credit Suisse performed a discounted cash flow analysis of the Contributed Entities to calculate the estimated present value of the stand-alone, unlevered, after-tax free cash flows that the Contributed Entities could generate from calendar years 2007 through calendar year 2015. Unlevered, after-tax free cash flows represent the amount of cash generated and available for principal, interest and dividend payments after providing for ongoing business operations of the applicable entity. Estimated financial data for the Contributed Entities were

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based on Dynegy management s estimates. Credit Suisse calculated a range of estimated terminal values for the Contributed Entities by multiplying the Contributed Entities estimated earnings before interest, taxes, depreciation and amortization, commonly referred to as EBITDA, a financial measure commonly used to estimate terminal values when performing a discounted cash flow analysis, for calendar year 2015 by selected multiples ranging from 8.5x to 10.0x. Terminal value is an estimate of the value of the applicable entity beyond the projected period. The estimated after-tax free cash flows and terminal values were then discounted to present value using discount rates of 8.5% to 9.5%. This analysis indicated the following implied aggregate equity reference range for the Contributed Entities, as compared with the implied aggregate consideration payable by New Dynegy to the LS Contributing Entities in connection with the Contributions:

Implied Aggregate Equity Reference Range for the Contributed Entities	Implied Aggregate Consideration Payable for the Contributions
$1,777 million $2,475 million	$2,384 million

Dynegy. Credit Suisse also performed a discounted cash flow analysis of Dynegy to calculate the estimated present value of the stand-alone, unlevered, after-tax free cash flows that Dynegy could generate from calendar year 2007 through calendar year 2011. Estimated financial data for Dynegy were based on Dynegy management s estimates. Credit Suisse calculated a range of estimated terminal values for Dynegy by multiplying Dynegy s estimated EBITDA for calendar year 2011 by selected multiples ranging from 8.0x to 9.5x. The estimated after-tax free cash flows and terminal values were then discounted to present value using discount rates of 10.5% to 11.5%. This analysis indicated the following implied aggregate equity reference range for Dynegy:

Implied Aggregate Equity Reference Range for Dynegy
$2,497 million $3,562 million

Implied Aggregate Consideration Reference Range. Credit Suisse derived a reference range for the implied value of the aggregate consideration payable to the LS Contributing Entities in connection with the Contributions, based on the New Dynegy Notes and cash components of the aggregate consideration and a range of implied values for the equity component of the aggregate consideration derived from the implied equity reference range for Dynegy indicated by the discounted cash flow analysis. This analysis indicated the following implied aggregate consideration reference range, as compared with the implied aggregate equity reference range for the Contributed Entities based on the discounted cash flow analysis:

Implied Aggregate Consideration Reference Range	Implied Aggregate Equity Reference Range for the Contributed Entities
$2,074 million $2,793 million	$1,777 million $2,475 million

Implied Equity Ownership Reference Range. Based on the ratio of the implied aggregate equity reference range for the Contributed Entities in relation to the combined implied aggregate equity reference range for the Contributed Entities and Dynegy, as indicated by the discounted cash flow analysis, Credit Suisse derived an implied equity ownership reference range in New Dynegy for the LS Contributing Entities, taking into account the New Dynegy Notes and cash components of the aggregate consideration payable to the LS Contributing Entities in connection with the Contributions. The resulting implied equity ownership reference range was then compared with the percentage equity ownership in New Dynegy that the LS Contributing Entities would receive in the Contributions:

Implied Equity Ownership Reference Range for the LS Contributing Entities	LS Contributing Entities Equity Ownership in New Dynegy
30.6% 49.7%	40.5%

Selected Companies Analysis

Credit Suisse performed separate selected companies analyses of the Contributed Entities and Dynegy and derived implied equity reference ranges for the Contributed Entities and Dynegy. Generally, a selected

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companies analysis is designed to provide insight into the potential value of a company based on a review of the market prices of other companies in the relevant industry in relation to the financial metrics of those companies. As summarized below under the caption Implied Aggregate Consideration Reference Range, the results of the selected companies analyses were used to derive a reference range for the implied value of the aggregate consideration payable to the LS Contributing Entities in the Contribution, which range was then compared with the implied aggregate equity reference range derived for the Contributed Entities. As summarized below under the caption Implied Equity Ownership Reference Range, the results of the selected companies analyses were also used to derive an implied equity ownership reference range for the LS Contributing Entities in New Dynegy, which range was then compared with the percentage equity ownership in New Dynegy that the LS Contributing Entities would receive in the Contribution.

The Contributed Entities. Credit Suisse reviewed financial and stock market information of the following five selected publicly traded companies in the electric power generation industry:

- Mirant Corporation;
- NRG Energy, Inc.;
- Reliant Energy, Inc.;
- TXU Corp.; and
- Dynegy Inc.

Credit Suisse also reviewed financial and operational information for the following four selected privately held gas-fired generation companies:

- Boston Generating, LLC;
- Lake Road Generating Company, LP;
- Liberty Electric Power LLC; and
- Mach Gen, LLC.

Credit Suisse reviewed, among other things, enterprise values as a multiple of estimated EBITDA, and estimated after-tax free cash flow yield as a percentage of equity values, for calendar years 2006, 2007 and 2008 for the selected publicly traded companies. Credit Suisse also reviewed enterprise values as a multiple of electric power generation capacity for the selected privately held gas-fired generation companies. Credit Suisse then applied selected ranges of multiples derived from the selected companies to the corresponding financial and operational data for the Contributed Entities in order to derive an implied aggregate equity reference range for the Contributed Entities. All current market data were based on closing stock prices on September 12, 2006. Estimated financial data for Dynegy were based on Dynegy management s estimates and publicly available research analysts estimates, and estimated financial data for the other selected publicly held companies were based on publicly available research analysts estimates. Estimated financial data for the Contributed Entities were based on Dynegy management s estimates. This analysis indicated the following implied aggregate equity reference range for the Contributed Entities, as compared with the implied aggregate consideration payable by New Dynegy for the Contributions:

Implied Aggregate Equity Reference Range for the Contributed Entities	Implied Aggregate Consideration Payable for the Contributions
$1,648 million $2,677 million	$2,384 million

Dynegy. Credit Suisse reviewed financial and stock market information of Dynegy and the following four selected publicly traded companies in the electric power generation industry:

Mirant Corporation;

NRG Energy, Inc.;

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Reliant Energy, Inc.; and

TXU Corp.

Credit Suisse reviewed, among other things, enterprise values as a multiple of estimated EBITDA, and estimated after-tax free cash flow yield as a percentage of equity values, for calendar years 2006, 2007 and 2008 for the selected companies. Credit Suisse then applied selected ranges of multiples derived from the selected companies to the corresponding financial and operational data for Dynegy in order to derive an implied aggregate equity reference range for Dynegy. All current market data were based on closing stock prices on September 12, 2006. Estimated financial data for Dynegy were based on Dynegy management s estimates, and estimated financial data for the selected companies were based on publicly available research analysts estimates. This analysis indicated the following implied aggregate equity reference range for Dynegy:

Implied Aggregate Equity Reference Range for Dynegy
$2,248 million $3,448 million

Implied Aggregate Consideration Reference Range. Credit Suisse derived a reference range for the implied value of the aggregate consideration payable to the LS Contributing Entities in connection with the Contributions, based on the New Dynegy Notes and cash components of the aggregate consideration and a range of implied values for the equity component of the aggregate consideration derived from the implied equity reference range for Dynegy indicated by the selected companies analysis. This analysis indicated the following implied aggregate consideration reference range, as compared with the implied aggregate equity reference range for the Contributed Entities based on the selected companies analysis:

Implied Aggregate Consideration Reference Range	Implied Aggregate Equity Reference Range for the Contributed Entities
$1,906 million $2,717 million	$1,648 million $2,677 million

Implied Equity Ownership Reference Range. Based on the ratio of the implied aggregate equity reference range for the Contributed Entities in relation to the combined implied aggregate equity reference range for the Contributed Entities and Dynegy, as indicated by the selected companies analysis, Credit Suisse derived an implied equity ownership reference range in New Dynegy for the LS Contributing Entities, taking into account the New Dynegy Notes and cash components of the aggregate consideration payable to the LS Contributing Entities in connection with the Contributions. The resulting implied equity ownership reference range was then compared with the percentage equity ownership in New Dynegy that the LS Contributing Entities would receive in connection with the Contributions:

Implied Equity Ownership Reference Range for LS Contributing Entities	LS Contributing Entities Equity Ownership in New Dynegy
29.3% 55.1%	40.5%

Selected Precedent Transactions Analysis

Credit Suisse performed separate selected precedent transactions analyses of the Contributed Entities and Dynegy and derived implied equity reference ranges for the Contributed Entities and Dynegy. Generally, a selected precedent transactions analysis is designed to provide insight into the potential value of a company based on a review of the financial terms implied by the selected transactions. As summarized below under the caption Implied Aggregate Consideration Reference Range, the results of the selected precedent transactions analyses were used to derive a reference range for the implied value of the aggregate consideration payable to the LS Contributing Entities in the Contribution, which range was then compared with the implied aggregate equity reference range derived for the Contributed Entities. As summarized below under the caption Implied Equity Ownership Reference Range, the results of the selected precedent transactions analyses were also used to derive an implied equity ownership reference range for the LS Contributing Entities in New Dynegy, which range was then compared with the percentage equity ownership in New Dynegy that the LS Contributing Entities would receive in the Contribution.

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The Contributed Entities. Credit Suisse reviewed the purchase price multiples implied in the following 25 selected transactions in five geographical regions involving gas-fired power generation assets:

West

Buyer	Seller	Plant/Portfolio
LS Power Group	PPL Corporation	Griffith (50%)
LS Power Group	Duke Energy Corporation	DENA Portfolio
NRG Energy, Inc.	Dynegy Inc.	West Coast Power (50%)
Nevada Power Company	Pinnacle West Capital Corporation	Silverhawk (75%)
Sempra Energy, Inc.	Reliant Energy, Inc.	El Dorado (50%)

Northeast

Buyer	Seller	Plant/Portfolio
Duke Energy North America, LLC	UIL Holdings Corporation	Bridgeport Energy (33.3%)
Dynegy	Exelon Corporation	Independence

South (ERCOT)

Buyer	Seller	Plant/Portfolio
Centrica Plc	TECO Energy, Inc.	Frontera
Public Service Enterprise Group Incorporated	TECO Energy, Inc.	Odessa (50%) / Guadalupe (50%)
Centrica Plc	FPL Energy, LLC	Bastrop Energy Center
Calpine Corporation	NRG Energy, Inc.	Brazos Valley

Southeast

Buyer	Seller	Plant/Portfolio
Duke Energy Corporation	Dynegy Inc.	Rockingham
Westar Energy, Inc.	Oneok, Inc.	Spring Creek
Matlin Patterson Global Opportunities Partners LP	Duke Energy Corporation	Southeast Portfolio
Entergy Corporation	Cleco Corporation	Perryville

Midwest

Buyer	Seller	Plant/Portfolio
Exelon Corporation	Peoples Energy Corporation	Southeast Chicago Energy Project (29%)
Dynegy Inc.	NRG Energy, Inc.	Rocky Road (50%)
Ameren Corporation	Aquila, Inc.	Portfolio
Ameren Corporation	NRG Energy, Inc.	Audrain
LS Power Group	Calpine Corporation	Ontelaunee Energy Center
American Electric Power Company, Inc.	Reliant Energy, Inc.	Ceredo Generating Station
American Electric Power Company, Inc.	Public Service Electric and Gas Company	Waterford
Cinergy Corporation	Allegheny Energy, Inc.	Wheatland
ArcLight Capital Partners, LLC / Tyr Capital, LLC	Alleghney Energy, Inc.	Lincoln
LS Power Group	NRG Energy, Inc.	Kendall

Credit Suisse reviewed, among other things, the purchase price paid or proposed to be paid in the selected transactions as a multiple of the electric power generation capacity of the target companies or assets, as the case may be. Credit Suisse then applied selected ranges of multiples derived from the selected transactions to the

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corresponding operational data for the applicable assets of the Contributed Entities in order to derive an implied aggregate equity reference range for the Contributed Entities. Financial and operational data of the selected transactions were based on publicly available information. The financial and operational data of the Contributed Entities were based on information provided by Dynegy s management. This analysis indicated the following implied aggregate equity reference range for the Contributed Entities, as compared with the implied aggregate consideration payable by New Dynegy in connection with the Contributions:

Implied Aggregate Equity Reference Range for the Contributed Entities	Implied Aggregate Consideration Payable for the Contributions
$954 million $2,016 million	$2,384 million

Dynegy. Credit Suisse reviewed the purchase price multiples implied in the 25 selected transactions listed above, as well as the following selected transactions in four geographical regions involving coal-fired power generation assets:

	Midwest	
Buyer	**Seller**	**Plant/Portfolio**
Duquesne Light Holdings, Inc.	Pepco Holdings, Inc.	Portfolio
Buckeye Power, Inc.	Ohio Valley Electric Corporation	Clifty Creek, Kyger Creek
UGI Utilities, Inc.	Allegheny Energy, Inc.	Conemaugh (4.86%)
Mirant Corporation	Potomac Electric Power Company	Portfolio
PPL Corporation / Allegheny Energy, Inc.	Potomac Electric Power Company	Conemaugh (9.72%)
Reliant Energy Utilities, Inc.	Sithe Energies, Inc.	GPU Portfolio
	Northeast	
Buyer	**Seller**	**Plant/Portfolio**
Dominion Resources, Inc.	USGen New England, Inc.	Brayton Point / Salem Harbor
NRG Energy, Inc.	Wisconsin Energy Corporation	Bridgeport / New Haven Harbor
	West	
Buyer	**Seller**	**Plant/Portfolio**
Red Hawk Energy, LLC	NRG Energy	Mt. Poso Cogeneration (39.5%)
The AES Corporation	Southern California Edison Corporation / Nevada Power Company	Mohave (70%)
TransAlta Corp.	PacifiCorp and other sellers	Centralia
	South (ERCOT)	
Buyer	**Seller**	**Plant/Portfolio**
American National Power	Sempra Generation Company	Coleto Creek
PNM Resources, Inc.	Sempra Energy, Inc.	Twin Oaks Power
Brownsville Public Utilities Board	American Electric Power Company	Oklaunion (7.8%)
Sempra Energy, Inc. / Carlyle/Riverstone Global Energy & Power Fund II, LP	American Electric Power Company Portfolio	Coleto Creek
Golden Spread Electric Cooperative, Inc.	American Electric Power Company	Oklaunion (7.8%)
Sempra Energy, Inc.	Texas-New Mexico Power Company	Twin Oaks Power

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Credit Suisse reviewed, among other things, the purchase price paid or proposed to be paid in the selected transactions as a multiple of the electric power generation capacity of the target companies or assets, as the case may be. Credit Suisse then applied selected ranges of multiples derived from the selected transactions to the corresponding operational data for the applicable assets of Dynegy in order to derive an implied aggregate equity reference range for Dynegy. Financial and operational data of the selected transactions were based on publicly available information. The financial and operational data of Dynegy were based on information provided by Dynegy s management. This analysis indicated the following implied aggregate equity reference range for Dynegy:

Implied Aggregate Equity Reference Range for Dynegy
$1,891 million $3,415 million

Implied Aggregate Consideration Reference Range. Credit Suisse derived a reference range for the implied value of the aggregate consideration payable to the LS Contributing Entities in connection with the Contributions, based on the New Dynegy Notes and cash components of the aggregate consideration and a range of implied values for the equity component of the aggregate consideration derived from the implied equity reference range for Dynegy indicated by the selected precedent transactions analysis. This analysis indicated the following implied aggregate consideration reference range, as compared with the implied aggregate equity reference range for the Contributed Entities based on the selected precedent transactions analysis:

Implied Aggregate Consideration Reference Range	Implied Aggregate Equity Reference Range for the Contributed Entities
$1,663 million $2,695 million	$954 million $2,016 million

Implied Equity Ownership Reference Range. Based on the ratio of the implied aggregate equity reference range for the Contributed Entities in relation to the combined implied aggregate equity reference range for the Contributed Entities and Dynegy, as indicated by the selected precedent transactions analysis, Credit Suisse derived an implied equity ownership reference range in New Dynegy for the LS Contributing Entities, taking into account the New Dynegy Notes and cash components of the aggregate consideration payable to the LS Contributing Entities in connection with the Contributions. The resulting implied equity ownership reference range was then compared with the percentage equity ownership in New Dynegy that the LS Contributing Entities would receive in the Contributions:

Implied Equity Ownership Reference Range for LS Contributing Entities	LS Contributing Entities Equity Ownership in New Dynegy
16.0% 52.0%	40.5%

Contribution Analysis

Credit Suisse performed a contribution analysis of the Contributed Entities and Dynegy, which is a comparison of the relative contributions of selected cash flow measures from the Contributed Entities and Dynegy to the combined entity. Through a review of the relative estimated contributions by the Contributed Entities and Dynegy of selected cash flow measures to New Dynegy, Credit Suisse was able to derive an implied equity ownership reference range for the LS Contributing Entities in New Dynegy, which range was then compared with the percentage equity ownership in New Dynegy that the LS Contributing Entities would receive in the Contribution.

Credit Suisse reviewed the estimated contributions by the Contributed Entities, on the one hand, and Dynegy, on the other hand, to New Dynegy s estimated EBITDA and after-tax free cash flow for calendar years 2007 and 2008. Based on the estimated relative contribution by each entity, Credit Suisse then derived an implied equity ownership reference range for the LS Contributing Entities, taking into account the New Dynegy Notes and cash components of the aggregate consideration payable to the LS Contributing Entities in connection with the Contributions. Estimated financial information for the Contributed Entities and Dynegy were based on Dynegy management s estimates. This analysis indicated the following results:

	Implied Equity Ownership Reference Range for LS Contributing Entities	LS Contributing Entities Equity Ownership in New Dynegy
Based on Estimated EBITDA Contribution	26.9% 28.5%	40.5%
Based on Estimated Free Cash Flow Contribution	44.4% 48.5%	40.5%

Miscellaneous

Dynegy selected Credit Suisse based on Credit Suisse s qualifications, experience and reputation, and its familiarity with Dynegy and its business. Credit Suisse is an internationally recognized investment banking firm and is regularly engaged in the valuation of businesses and securities in connection with mergers and acquisitions, leveraged buyouts, negotiated underwritings, competitive biddings, secondary distributions of listed and unlisted securities, private placements and valuations for corporate and other purposes.

From time to time, Credit Suisse and its affiliates in the past have provided, are currently providing and in the future may provide investment banking and other financial services to Dynegy unrelated to the proposed Merger and Contributions, for which services Credit Suisse and its affiliates have received, and would expect to receive, compensation. Credit Suisse and its affiliates also from time to time in the past have provided, are currently providing and in the future may provide investment banking and other financial services to one or more of the Contributed Entities and their respective affiliates, including their respective portfolio companies and managed funds, for which services Credit Suisse and its affiliates have received, and would expect to receive, compensation. In addition, Credit Suisse and its affiliates may provide investment banking and other financial services to New Dynegy subsequent to the completion of the Merger Agreement Transactions, for which services Credit Suisse and its affiliates would expect to receive compensation. Credit Suisse is a full service securities firm engaged in securities trading and brokerage activities as well as providing investment banking and other financial services. In the ordinary course of business, Credit Suisse and its affiliates may acquire, hold or sell, for its own and its affiliates accounts and the accounts of customers, equity, debt and other securities and financial instruments (including bank loans and other obligations) of any of Dynegy and the Contributed Entities, as well as provide investment banking and other financial services to such entities. Neither Credit Suisse nor its affiliates are currently providing any investment banking or other financial services directly to the LS Contributing Entities or any of their respective affiliates in connection with the Merger or the Contributions.

Dynegy has agreed to pay Credit Suisse for its financial advisory services in connection with the Merger and the Contributions an aggregate fee currently estimated to be approximately $24 million, of which $3 million became payable upon delivery of Credit Suisse s opinion and the balance of which is payable contingent upon the completion of the Merger and the Contributions. Dynegy also has agreed to reimburse Credit Suisse for its reasonable expenses, including the fees and expenses of legal counsel and any other advisor retained by Credit Suisse. In addition, Dynegy has agreed to indemnify Credit Suisse and related parties against liabilities, including liabilities under the federal securities laws, arising out of its engagement.

Opinion of Greenhill

Pursuant to an engagement letter, dated November 18, 2005, as amended and restated by the engagement letter dated August 28, 2006, Dynegy retained Greenhill to provide financial advisory services and to render an

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opinion to the Dynegy Board that the conversion of each outstanding share of Dynegy s Class A common stock and Dynegy s Class B common stock into the right to receive one share of New Dynegy s Class A common stock pursuant to the Merger (the Dynegy Merger Consideration) and after giving effect to the Contributions in exchange for cash, New Dynegy s Class B common stock and the issuance of the New Dynegy Notes (the LS Consideration), was fair, from a financial point of view, to the holders of Dynegy s common stock (other than Chevron and the LS Contributing Entities). On September 14, 2006, Greenhill delivered its oral opinion to the Dynegy Board, subsequently confirmed in writing, that, as of that date and based upon and subject to the limitations and assumptions stated in its opinion, the Dynegy Merger Consideration, after giving effect to the acquisition of the Contributed Entities and the issuance and payment of the LS Consideration, was fair, from a financial point of view, to the holders of Dynegy s common stock (other than Chevron and the LS Contributing Entities).

Greenhill s opinion was directed to, and provided for the use and benefit of, the Dynegy Board in connection with its consideration of the Merger. Greenhill s opinion to the Dynegy Board was one of the factors taken into consideration by the Dynegy Board in making its determination to approve the Merger Agreement. Greenhill did not recommend to Dynegy any specific amount or form of consideration or advise Dynegy that the amount or form of consideration provided in the Merger Agreement constituted the only appropriate amount or form of consideration for the proposed Merger Agreement Transactions.

The full text of Greenhill s written opinion, dated September 14, 2006, is attached as Annex H hereto and incorporated herein by reference. The summary of Greenhill s opinion that follows is qualified in its entirety by reference to the full text of the opinion. You are urged to read the opinion carefully and in its entirety to learn about the assumptions made, general procedures followed, matters considered and limits on the scope of the review undertaken by Greenhill in rendering its opinion.

In arriving at its opinion, Greenhill, among other things:

- reviewed the drafts of the Merger Agreement and certain related documents dated as of September 14, 2006;
- discussed past and current operations, financial conditions and prospects of the Contributed Entities with senior executives at the LS Contributing Entities and Dynegy;
- reviewed certain publicly available financial statements of Dynegy;
- reviewed certain other publicly available business and financial information relating to Dynegy and the Contributed Entities that Greenhill deemed relevant;
- reviewed certain information, including financial forecasts and other financial and operating data concerning Dynegy and the Contributed Entities, prepared by management of Dynegy and the LS Contributing Entities, respectively, as well as the variations on such projections prepared by Dynegy;
- discussed the information regarding the strategic, financial and operational benefits anticipated from the Merger and the acquisition of the Contributed Entities and the prospects of Dynegy (with and without the Merger and the acquisition of the Contributed Entities) prepared by management of Dynegy;
- performed a discounted cash flow valuation of the Contributed Entities;
- performed a discounted cash flow valuation of Dynegy;

reviewed the historical market prices and trading activity for Dynegy s common stock and analyzed its implied valuation multiples;

compared the value of the consideration furnished by the LS Contributing Entities with the trading valuations of certain publicly traded companies that they deemed relevant to an analysis of the Contributed Entities collectively;

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participated in discussions and negotiations among representatives of Dynegy and its legal advisors and the LS Contributing Entities and its legal and financial advisors; and

performed such other analyses and considered such other factors as Greenhill deemed appropriate.

Greenhill also held discussions with the Dynegy Board and Dynegy s legal counsel to discuss the Merger, the acquisition of the Contributed Entities, the LS Consideration and the results of Greenhill s analysis and examination, and considered such other matters that it deemed relevant to its inquiry.

At the instruction of Dynegy, in conducting its review and analysis and rendering its opinion, Greenhill assumed and relied upon, without independent verification, the accuracy and completeness of the information supplied or otherwise made available to it by the respective representatives and management of Dynegy and the LS Contributing Entities for the purposes of its opinion and further relied upon the assurances of the representatives and management of Dynegy and the LS Contributing Entities that they were not aware of any facts or circumstances that would make this information inaccurate or misleading. With respect to the respective financial projections of Dynegy and the LS Contributing Entities and other data with respect to Dynegy and the LS Contributing Entities that were furnished or otherwise provided to it, Greenhill assumed that these projections, estimates and data were reasonably prepared on a basis reflecting the best currently available estimates and good faith judgments of the respective managements of Dynegy and the LS Contributing Entities as to those matters. At the instruction of Dynegy, Greenhill relied upon financial forecasts, projections and valuations of those assets to be contributed to the Development LLC (as contemplated in the Merger Agreement) prepared by Dynegy s management (which Greenhill also assumed was reasonably prepared on a basis reflecting the best currently available estimates and good faith judgments of the management of Dynegy). Greenhill expressed no opinion with respect to these projections and data or the assumptions upon which they were based. In addition, Greenhill did not make any independent valuation or appraisal of the assets or liabilities of Dynegy or the LS Contributing Entities, nor was Greenhill furnished with any such valuations or appraisals.

Greenhill assumed that the Merger Agreement Transactions would be completed without waiver of any material terms or conditions set forth in the Merger Agreement. Greenhill assumed that none of the Merger Agreement Transactions that may occur following the completion of the Merger will have any impact on the value of the merger consideration. Greenhill assumed that all material governmental, regulatory or other consents and approvals necessary for the completion of the Merger and the other Merger Agreement Transactions will be obtained without any effect on Dynegy or the LS Contributing Entities or on the contemplated benefits of the transactions in any way materially adverse to Greenhill s analysis.

Greenhill s opinion was necessarily based on financial, economic, market and other conditions as in effect on, and the information made available to Greenhill as of, the date of its opinion. Greenhill s opinion noted that subsequent developments may affect its opinion and Greenhill does not have any obligation to update, revise or reaffirm its opinion. With respect to the quantitative information, to the extent that it is based on market data, such information is based on market data as it existed on or before September 14, 2006, and is not necessarily indicative of current market conditions.

Greenhill was not requested to opine as to, and its opinion does not in any manner address, the underlying business decision to proceed with or effect the Merger Agreement Transactions. Greenhill was also not requested to opine as to, and its opinion does not in any manner address, the relative merits of those transactions in comparison to any other business strategies or transactions that may be available to Dynegy or in which Dynegy might engage or as to whether any transaction might be more favorable to Dynegy as an alternative to those transactions. Greenhill did not express any opinion as to any aspect of the Merger Agreement Transactions, other than the fairness, as of the date of its opinion, of the Dynegy Merger Consideration to be received by holders of Dynegy s common stock pursuant to the Merger Agreement and after giving effect to the Contributions of the Contributed Entities and the issuance and payment of the LS Consideration, from a financial point of view to those holders (other than Chevron and the LS Contributing Entities). Greenhill s opinion does not address the

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reincorporation, as a result of the Merger Agreement Transactions, of Dynegy from Illinois to Delaware or any resultant change in the rights of a shareholder under Illinois law relative to Delaware law by virtue thereof or the terms and conditions of the Shareholder Agreement to be entered into by New Dynegy and the LS Contributing Entities and to become effective on the closing of the Merger, except to the extent, in each case, those matters affected as expressly stated in its opinion.

In connection with its review and analysis and rendering its opinion, Greenhill performed a number of analyses, including a stand-alone valuation analysis of Dynegy, a stand-alone valuation analysis of the Contributed Entities and a pro forma combined company (*i.e.,* New Dynegy) valuation. Set forth below is a summary of the material financial analyses performed and material factors considered by Greenhill to arrive at its opinion. Greenhill performed certain procedures, including each of the financial analyses described below, and reviewed with the Dynegy Board and senior management the assumptions upon which these analyses were based, as well as other factors. Although this summary describes the material analyses made by Greenhill in arriving at its opinion, it does not purport to describe all of the analyses performed or factors considered by Greenhill in this regard.

In connection with certain of the analyses discussed below, Greenhill selected a separate group of publicly traded companies that focus primarily in the merchant power generation sector, for each of Dynegy and the Contributed Entities, that engage in businesses reasonably comparable to those of Dynegy and the Contributed Entities, respectively. None of the selected companies is identical to Dynegy or the Contributed Entities. Accordingly, Greenhill s analysis of the selected companies necessarily involved complex considerations and judgments concerning the differences in financial and operating characteristics and other factors that would necessarily affect the analysis of the operating statistics, trading multiples and other financial ratios and valuations of the selected companies. In evaluating the comparable merchant power generation companies, Greenhill made judgments and assumptions concerning industry performance, general business, economic, market and financial conditions and other matters. Greenhill also made judgments as to the relative comparability of these companies to Dynegy and the Contributed Entities and judgments as to the relative comparability of the various valuation parameters with respect to the companies.

The preparation of an opinion regarding fairness is a complex analytic process involving various determinations as to the most appropriate and relevant methods of financial analysis and the application of those methods to the particular circumstances, and, therefore, a fairness opinion is not readily susceptible to partial analysis or summary description. The preparation of an opinion regarding fairness does not involve a mathematical evaluation or weighing of the results of the individual analyses performed, but requires Greenhill to exercise its professional judgment, based on its experience and expertise, in considering a wide variety of analyses taken as a whole. Each of the analyses conducted by Greenhill was carried out in order to provide a different perspective on the financial terms of the proposed merger and add to the total mix of information available. Greenhill did not form a conclusion as to whether any individual analysis, considered in isolation, supported or failed to support an opinion about the fairness of the Dynegy Merger Consideration to the holders of Dynegy s common stock (other than Chevron and the LS Contributing Entities). Rather, in reaching its conclusion, Greenhill considered the results of the analyses in light of each other and ultimately reached its opinion based on the results of all analyses taken as a whole. Greenhill did not place particular reliance or weight on any particular analysis (and the order of analyses described below does not represent their relative importance or weight), but instead concluded that its analyses, taken as a whole, provided the basis for its determination. Accordingly, notwithstanding the separate factors summarized below, Greenhill believes that its analyses must be considered as a whole and that selecting portions of its analyses and the factors considered by it, without considering all analyses and factors, would create an incomplete view of the evaluation process underlying its opinion. No company or transaction used in the below analyses as a comparison is directly comparable to the Contributed Entities or Dynegy. In performing its analyses, Greenhill made numerous assumptions with respect to industry performance, business and economic conditions and other matters. Because the analyses performed by Greenhill are inherently subject to uncertainty, and are based upon numerous factors or events beyond the control of the parties or their respective advisors, these analyses are not necessarily indicative of future actual

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values or results, which may be significantly more or less favorable than suggested by these analyses. Consequently, none of Dynegy, the Contributed Entities, Greenhill or any other person assumes responsibility if future results are materially different from those suggested by these analyses. The analyses do not purport to be appraisals or to reflect the prices at which Dynegy could be sold in another transaction.

The financial analyses summarized below include information presented in tabular format. In order to fully understand Greenhill s financial analyses, the tables must be read together with the text of each summary. The tables alone do not constitute a complete description of the financial analyses. Considering the data in the tables below without considering the full narrative description of the financial analyses, including the methodologies and assumptions underlying the analyses, could create a misleading or incomplete view of Greenhill s financial analyses.

Stand Alone Valuation of Dynegy

Dynegy Comparable Company Analysis. Greenhill reviewed enterprise value (a company s equity market value plus the value of its debt obligations net of its cash and cash equivalents) as multiples of estimated EBITDA, commonly referred to as EBITDA trading multiples, of Dynegy and the merchant power generation companies listed below. The companies chosen by Greenhill were:

- AES Corporation;
- Mirant Corp.;
- NRG Energy Inc.;
- Reliant Energy Inc.; and
- TransAlta Corporation.

Greenhill chose to evaluate the EBITDA trading multiples of these companies because the EBITDA trading multiple of a merchant power generation company is among the most widely accepted metrics for the valuation of such an enterprise. Although no company is directly comparable to Dynegy, Greenhill selected these companies because it believed that they had characteristics that were instructive for purposes of its analysis. This analysis indicated the following mean and median trading multiples for the selected companies:

Mean and Median Enterprise Value/EBITDA		
2006E	**2007E**	**2008E**
Mean 8.9x	Mean 9.2x	Mean 8.7x
Median 8.8x	Median 9.7x	Median 8.3x

Greenhill reviewed the trading multiples for the selected companies. Greenhill then applied a range of selected multiples derived from the selected companies to corresponding financial data of Dynegy for the corresponding periods. In the case of management estimates, Greenhill made adjustments to the EBITDA estimates and to Dynegy s total debt balance to reflect the treatment of operating leases on certain facilities as long term debt. This analysis indicated the following enterprise valuation range and value per share for Dynegy:

Statistic	Implied Enterprise Value of Dynegy	Implied Equity Value of Dynegy s Common Stock Per Share

Consensus EBITDA Forecast	$	4,460 million	$6,682 million	$ 3.34	$7.76
Management Estimates	$	4,997 million	$7,928 million	$ 2.83	$8.66

As of September 14, 2006, the last trading day prior to the announcement of the execution of the Merger Agreement, the closing price of Dynegy s Class A common stock on the NYSE was $5.76 per share. For the purposes of preparing its fairness opinion, Greenhill used the price of $5.91, the closing price of Dynegy s Class A common stock as of September 12, 2006.

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Research Analysts Price Targets Analysis. Greenhill reviewed and analyzed, and the table below presents, future public market trading price targets for Dynegy during the period between May 9, 2004 and September 7, 2006. These targets reflect each analyst s estimate of the future public market trading price of Dynegy s common stock at the end of the 12-month period beginning the date of each of the respective research reports and the current recommendation given for Dynegy s common stock.

Research Firm	Date	Recommendation	Target Share Price
Dahlman Rose & Co.	September 7, 2006	Buy	$ 7.00
Banc of America	September 1, 2006	Neutral	$ 6.00
Calyon Securities	August 31, 2006	Neutral	$ 7.00
Matrix USA	August 18, 2006	Buy	
Lehman Brothers	August 16, 2006	Equal Weight/ Neutral	$ 6.00
BroadWall Capital	August 11, 2006	Hold	$ 5.50
RBC Capital Markets	August 10, 2006	Outperform	$ 7.00
JPMorgan	July 26, 2006	Overweight	
Davenport & Co.	June 7, 2006	Neutral	
Citigroup	May 16, 2006	Hold	
Natexis Bleichroeder	May 9, 2006	N/A	$ 6.00
First Global	September 29, 2004	Buy	

Seven of the 12 equity analysts that cover Dynegy have price targets which range from $5.50 $7.00 per share.

Stand-Alone Valuations of the LS Contributing Entities

The LS Contributing Entities Comparable Company Analysis. Greenhill reviewed enterprise value as multiples of estimated EBITDA, commonly referred to as trading multiples, of the LS Contributing Entities and merchant power generation companies listed below. The companies chosen by Greenhill were:

- AES Corporation;
- Dynegy;
- Mirant Corp.;
- NRG Energy Inc.;
- Reliant Energy Inc.; and
- TransAlta Corporation.

Greenhill chose to evaluate the EBITDA trading multiples of these companies because the EBITDA trading multiple of a merchant power generation company is among the most widely accepted metrics for the valuation of such an enterprise.

Although no company is directly comparable to the LS Contributing Entities, Greenhill selected these companies because it believed that they had characteristics that were instructive for purposes of its analysis. This analysis indicated the following mean and median trading multiples for the selected companies:

Mean and Median Enterprise Value/EBITDA 2007E	**Mean and Median Enterprise Value/EBITDA 2008E**
Mean 9.0x	Mean 8.7x
Median 8.9x	Median 8.6x

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Greenhill reviewed the trading multiples for the selected companies. Greenhill then applied a range of selected multiples derived from the selected companies to corresponding financial data of the LS Contributing Entities for the corresponding periods. This analysis indicated the following valuation range of the equity value for the LS Contributing Entities:

Comparable Market EBITDA Multiples
$1,052 million $1,762 million

The LS Contributing Entities Discounted Cash Flow. A discounted cash flow analysis is a traditional method of evaluating the value of an asset using estimates of the future cash flows of the asset and taking into consideration the time value of money with respect to those future cash flows by calculating their present value. Present value refers to the current value of one or more future cash payments from the asset, which we refer to as that asset s cash flows, and is obtained by discounting those future cash flows or amounts by a discount rate that takes into account macro-economic assumptions and estimates of risk, the opportunity cost of capital, expected returns and other appropriate factors. Other financial terms used below include weighted average cost of capital , which refers to an average which represents the estimated expected return on all of a company s securities. Using discounted cash flow methodology, Greenhill calculated the present values of the estimated future cash flows for the LS Contributing Entities. In this analysis, Greenhill assumed a weighted average cost of capital of 7.5% and 8.5% and EBITDA terminal multiples of 9.5x and 8.5x, respectively, for high and low valuations of the operating portfolio of the LS Contributing Entities. This analysis indicated the following implied base case and downside case discounted cash flow valuations:

Discounted Cash Flow Valuation Summary	
Base Case DCF Equity Value	Downside Case DCF Equity Value
$1,987 million $2,477 million	$1,854 million $2,341 million

Selected Precedent Transactions Analysis. Greenhill reviewed publicly available financial information relating to the following two transactions in the merchant power generation sector:

Completion Date	Acquirer	Target
December 2004	A private equity consortium (including Blackstone, Hellman & Friedman, KKR and Texas Pacific Group)	Texas Genco (assets held by CenterPoint Energy Inc.)
October 2005	NRG Energy Inc.	Texas Genco (assets held by a private equity consortium including Blackstone, Hellman & Friedman, KKR and Texas Pacific Group)

Greenhill determined that given the limited comparability of the selected precedent transactions in the merchant power generation sector, the precedent transactions would be of limited assistance in any comparative analysis with the LS Contributing Entities.

The majority of other transactions involving unregulated power plants have been done on an asset basis. As such, traditional financial results, such as earnings and EBITDA, are typically unavailable. In addition, no asset involved in such transactions is identical to the LS Contributing Entities or its business. Greenhill noted the complex considerations and judgments concerning differences in financial and operating characteristics and other factors that could affect the values of these assets, and determined that these precedent transactions would be of limited assistance in any comparative analysis with the LS Contributing Entities.

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Pro Forma Combined Company Valuation

Greenhill analyzed certain financial data on a pro forma basis for Dynegy and the LS Contributing Entities as a combined company following the Merger and the acquisition of the Contributed Entities. Greenhill used the forecasts for Dynegy and the LS Contributing Entities provided by Dynegy s executive management team to construct a financial model that examines the impact of the combination on Dynegy s financial condition. Specifically, Greenhill examined the impact of the combination on Dynegy s free cash flow per share and credit ratios. Free cash flow refers to the amount of cash a company has left over after it has paid all of its expenses and funded its capital expenditures.

Free Cash Flow Accretion Analysis

Free Cash Flow Accretion/(Dilution) Analysis Base Case (per share)

	2007	2008	2009	2010	2011	2012	2013	2014	2015
Dynegy Standalone	$ 0.37	$ 0.32	$ 0.14	$ 0.48	$ 0.72	$ 0.37	$ 0.53	$ 0.26	$ 0.06
Pro Forma	$ 0.42	$ 0.33	$ 0.35	$ 0.51	$ 0.49	$ 0.50	$ 0.58	$ 0.42	$ 0.34

Free Cash Flow Accretion/(Dilution) Analysis Downside Case (per share)

	2007	2008	2009	2010	2011	2012	2013	2014	2015
Dynegy Standalone	($ 0.15)	($ 0.25)	($ 0.58)	($ 0.38)	$ 0.15	$ 0.26	$ 0.40	$ 0.11	($ 0.11)
Pro Forma	$ 0.09	($ 0.05)	($ 0.15)	($ 0.05)	$ 0.30	$ 0.49	$ 0.60	$ 0.44	$ 0.20

Greenhill determined that the transaction is accretive to Dynegy s shareholders on a free cash flow per share basis in both the base case model and downside case model.

Pro Forma Credit Impact. Credit impact refers to an effect on a company s overall capacity to meet its financial obligations. Based on the analysis performed, and the assumptions and qualifications underlying such analysis, Greenhill determined that under the base case model, the credit impact of the transaction is roughly neutral, and that enhanced cash flow certainty may result in the credit profile being considered stronger overall.

Based on the analysis performed, and the assumptions and qualifications underlying such analysis, Greenhill determined that under the downside case model, the credit impact for Dynegy is significantly positive.

Contribution Analysis. Greenhill reviewed estimated future operating and financial data, including, among other things, EBITDA, free cash flow (FCF), discounted cash flow equity value and net MW of generation capacity for Dynegy and the LS Contributing Entities. Greenhill then performed a contribution analysis, calculating the percentage of the estimated EBITDA (for 2007 and 2008), free cash flow (for 2007 and 2008), discounted cash flow equity value (at both low and high ends of the range determined appropriate by Greenhill) and net MW of generation capacity that would be contributed by each of Dynegy and the LS Contributing Entities to New Dynegy. The following table sets forth the results of this analysis:

Pro Forma Contribution Analysis Base Case

	Dynegy	LS Contributing Entities
2007E EBITDA	71%	29%
2008E EBITDA	70%	30%
2007E FCF	57%	43%
2008E FCF	56%	44%
DCF Equity Value (High)	45%	55%
DCF Equity Value (Low)	41%	59%

Net Generation (MW)	60%	40%

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Pro Forma Contribution Analysis Downside Case

	Dynegy	LS Contributing Entities
2007E EBITDA	64%	36%
2008E EBITDA	65%	35%
2007E FCF	*	*
2008E FCF	*	*
DCF Equity Value (High)	15%	85%
DCF Equity Value (Low)	*	*
Net Generation (MW)	60%	40%

* LS Contributing Entities account for more than 100% of the specified metric.

Greenhill noted that following the Merger Agreement Transactions, the LS Contributing Entities will own 40% of New Dynegy s outstanding shares. Greenhill also noted that inclusive of the $375 million cash and debt consideration, the LS Contributing Entities will receive approximately 45% of the value of the Merger Agreement Transactions.

Engagement of Greenhill

Dynegy hired Greenhill based on its qualifications and expertise in providing financial advice to companies and on its reputation as a nationally recognized investment banking firm. Greenhill had no prior material relationship with Dynegy or the LS Contributing Entities within the past two years. Pursuant to the engagement letter between Dynegy and Greenhill, Greenhill will receive a fee of up to $8 million from Dynegy. A portion of this fee is contingent on (i) the signing of the Merger Agreement (20%), (ii) the adoption of the Merger Agreement and the approval of the Merger by Dynegy s shareholders (20%) and (iii) the completion of the Merger and the acquisition of the Contributed Entities. To date, Greenhill has received 20% of its fee (*i.e.*, the portion contingent on the signing of the Merger Agreement).

Material U.S. Federal Income Tax Consequences to Dynegy s Shareholders

The following summary discusses the anticipated material U.S. federal income tax consequences of the Merger Agreement Transactions to Dynegy s shareholders and of holding or disposing of New Dynegy s Class A common stock that will be received by Dynegy s shareholders in the Merger Agreement Transactions, provided in both cases that such shareholders hold their shares of Dynegy common stock as capital assets. This summary is the opinion of Dynegy s counsel as to the anticipated U.S. federal income tax consequences of the Merger to Dynegy s shareholders. This summary does not deal with special situations. For example, the summary does not address:

- tax consequences to holders who may be subject to special tax treatment, such as expatriates, brokers and dealers in securities or currencies, financial institutions, mutual funds, tax-exempt entities, traders in securities that elect to use a mark-to-market method of accounting for their securities holdings, and insurance companies;

- tax consequences to Dynegy s shareholders who acquired their shares of Dynegy common stock pursuant to the exercise of employee stock options or warrants or otherwise as compensation;

- tax consequences to persons holding Dynegy common stock as part of a hedging, integrated, constructive sale or conversion transaction, a straddle or other risk reduction transaction;

- tax consequences to holders of outstanding Dynegy stock options;

tax consequences to U.S. holders, as defined below, of Dynegy common stock whose functional currency is not the U.S. dollar;

tax consequences to certain non-U.S. holders, as defined below, subject to special rules such as controlled foreign corporations, passive foreign investment companies and foreign personal holding companies;

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- alternative minimum tax consequences, if any; and
- any state, local, foreign or other tax consequences.

If a partnership holds Dynegy common stock, the tax treatment of a partner in the partnership generally will depend upon the status of the partner and the activities of the partnership. If you are a partner in a partnership holding Dynegy common stock, you are strongly encouraged to consult your own tax advisor as to your tax treatment as a partner.

This summary is based on the Code, its legislative history, Treasury Department regulations, IRS rulings, and judicial decisions, all as of the date hereof. Any of these authorities may be changed, possibly retroactively, so as to result in U.S. federal income tax consequences different from those discussed below.

This summary is not binding on the IRS and no ruling will be sought from the IRS as to the tax consequences of the Merger Agreement Transactions. This summary is not a complete analysis or description of all potential U.S. federal income tax consequences of the Merger Agreement Transactions. There can be no assurance that the IRS or the courts will agree with the statements and conclusions in the summary. **Accordingly, you are strongly encouraged to consult your own tax advisor concerning the specific U.S. federal income and estate tax consequences to you of the Merger Agreement Transactions relating to your own personal tax situation and any consequences arising under the laws of any state, local, foreign or other taxing jurisdiction.**

Considerations for U.S. Holders of Dynegy Common Stock

The following is a summary of the material U.S. federal income tax consequences if you are a U.S. holder of Dynegy common stock. Certain considerations for non-U.S. holders of Dynegy common stock are described under Considerations for Non-U.S. Holders of Dynegy Common Stock below. U.S. holder means a beneficial owner of Dynegy common stock that is for U.S. federal income tax purposes:

- a citizen or resident of the United States;
- a corporation, or a partnership or other entity treated as a corporation for U.S. federal income tax purposes, created or organized under the laws of the United States or any political subdivision of the United States;
- an estate the income of which is subject to U.S. federal income taxation regardless of its source; or
- a trust if (i) it is subject to the primary supervision of a court within the United States and one or more U.S. persons have the authority to control all substantial decisions of the trust, or (ii) it has a valid election in effect under applicable U.S. Treasury regulations to be treated as a U.S. person.

You will not recognize gain or loss on the exchange of your Dynegy common stock for New Dynegy Class A common stock pursuant to the Merger. Your tax basis in New Dynegy s Class A common stock received in the Merger will be the same as your basis in Dynegy s common stock exchanged in the Merger. Your holding period for New Dynegy s Class A common stock received in the Merger will include the period for which you held Dynegy s common stock exchanged in the Merger.

Distributions, if any, on New Dynegy Class A common stock will constitute dividends for U.S. federal income tax purposes to the extent of New Dynegy s current or accumulated earnings and profits as determined under U.S. federal income tax principles. To the extent that a U.S. holder receives a distribution on common stock that exceeds New Dynegy s current and accumulated earnings and profits, the distribution will be treated first as a non-taxable return of capital reducing the holder s tax basis in New Dynegy s Class A common stock. Any distribution in excess of the U.S. holder s tax basis in the common stock will be treated as capital gain. Dividends paid to an individual U.S. holder in taxable years beginning before 2009 that constitute qualified dividend income generally will be taxable at a preferential rate of 15%.

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A U.S. holder of New Dynegy s Class A common stock will generally recognize gain or loss upon the sale, exchange, redemption or other taxable disposition of such common stock measured by the difference between:

- the amount of cash and the fair market value of any property received; and
- the U.S. holder s tax basis in such stock.

Gain or loss on the disposition of New Dynegy s Class A common stock will be capital gain or loss and will be long-term capital gain or loss if the holding period of the common stock disposed of exceeded one year. Net long-term capital gain recognized by non-corporate U.S. holders prior to 2011 is generally taxable at a maximum rate of 15%. The deductibility of net capital losses is subject to limitations.

Considerations for Non-U.S. Holders of Dynegy Common Stock

The following is a summary of the material U.S. federal income tax consequences if you are a non-U.S. holder of Dynegy common stock. Non-U.S. holder means a beneficial owner of a share of common stock that is not a U.S. holder. Special rules may apply to certain non-U.S. holders such as controlled foreign corporations, passive foreign investment companies, and foreign personal holding companies. All non-U.S. holders are strongly urged to consult their own tax advisors to determine the U.S. federal, state, local, and other tax consequences that may be relevant to them.

You will not recognize gain or loss on the exchange of your Dynegy s common stock for New Dynegy Class A common stock pursuant to the Merger. Your tax basis in New Dynegy s Class A common stock received in the Merger will be the same as your basis in Dynegy s common stock exchanged in the Merger. Your holding period for New Dynegy s Class A common stock received in the Merger will include the period for which you held Dynegy s common stock exchanged in the Merger.

Any dividends paid to you with respect to your shares of New Dynegy s Class A common stock generally will be subject to U.S. federal withholding tax at a 30% rate or such lower rate as may be specified by an applicable treaty. However, dividends that are effectively connected with the conduct of a trade or business within the United States or, where an applicable tax treaty so provides, are attributable to a U.S. permanent establishment, generally are not subject to the withholding tax, but instead are subject to U.S. federal income tax on a net income basis at applicable graduated individual or corporate rates. Certain certification and disclosure requirements must be complied with for effectively connected income to be exempt from withholding. Any such effectively connected dividends received by a foreign corporation may, under certain circumstances, be subject to an additional branch profits tax at a 30% rate or such lower rate as may be specified by an applicable treaty.

A non-U.S. holder of shares of New Dynegy Class A common stock that wishes to claim the benefit of an applicable treaty rate is required to satisfy applicable certification and other requirements. If you are eligible for a reduced rate of U.S. withholding tax under an income tax treaty, you may obtain a refund of any excess amounts withheld by filing an appropriate claim for refund with the IRS.

Gain on Disposition of Dynegy Common Stock

Generally, the exchange of stock in a United States real property holding corporation by a non-U.S. holder for stock in another United States real property holding corporation in a tax-free exchange like the Merger will not be treated as a disposition for U.S. federal income tax purposes. However, the exchange of stock in a United States real property holding corporation by a non-U.S. holder for stock in a U.S. corporation that is not a United States real property holding corporation, even in a tax-free exchange like the Merger, may be subject to U.S. federal income taxation on any gain realized subject to the exceptions described below. A non-U.S. holder of stock in a U.S. corporation generally will not be subject to U.S. federal income tax on any gain realized on a disposition of such stock, provided that (i) the gain is not otherwise effectively connected with a trade or business conducted by the non-U.S. holder in the U.S. (and, in the case of an applicable treaty, is not attributable to a

permanent establishment maintained by the non-U.S. holder in the U.S.), (ii) in the case of a non-U.S. holder who is an individual and who holds the common stock as a capital asset, such holder is present in the U.S. for less than 183 days in the taxable year of the sale or other disposition and certain other conditions are met and (iii) in the case of a corporation that is a United States real property holding corporation, such stock is considered to be regularly traded on an established securities market, within the meaning of Section 897 of the Code and the applicable Treasury Regulations, at any time during the calendar year in which the sale or other disposition occurs, and the non-U.S. holder does not actually or constructively own, at any time during the five-year period ending on the date of the sale or other disposition, more than 5% of such stock. Dynegy believes that it might be, and that New Dynegy might be, a United States real property holding corporation for U.S. federal income tax purposes. It is likely that Dynegy s common stock will be considered regularly traded on an established securities market.

Information Reporting and Backup Withholding

Generally, the amount of dividends paid to you and the amount of tax, if any, withheld from those payments must be reported to the IRS and to you in information returns. If the provisions of certain income tax treaties apply to dividend payments made to you, copies of those information returns may be made available to the tax authorities of the country where you reside.

In general, if you are not a U.S. person you will not be subject to backup withholding with respect to payments that are made to you provided that:

- there is no actual knowledge or reason to know that you are a U.S. person, as defined under the Code, that is not an exempt recipient; and

- you have provided your name and address, and certified under penalties of perjury, that you are not a U.S. person, which certification may be made on the appropriate IRS Form W-8BEN; W-8ECI, W-8EXP or W-8IMY or substitute IRS Form W-8BEN, W-8ECI, W-8EXP or W-8IMY.

If you are a U.S. person, you generally will not be subject to backup withholding if you provide a taxpayer identification number and other information, certified under penalties of perjury, or otherwise establish, in the manner prescribed by law, an exemption from backup withholding.

Information reporting and, depending on the circumstances, backup withholding at a rate of 28%, subject to future adjustment under applicable law, will apply with respect to the proceeds of the sale or other disposition of New Dynegy Class A common stock within the United States or conducted through certain U.S.-related financial intermediaries, unless:

- the payor of the proceeds receives the statement described above and does not have actual knowledge or reason to know that you are a U.S. person, as defined under the Code, that is not an exempt recipient;

- you provide the payor with a taxpayer identification number and other information, certified under penalties of perjury; or

- you otherwise establish, in the manner prescribed by law, an exemption from backup withholding.

Backup withholding is not an additional income tax. Any amounts withheld from a payment to a holder under the backup withholding rules will be allowed as a credit against the holder s U.S. federal income tax liability and may entitle the holder to a refund, provided that the required information is furnished to the IRS.

This summary is not a complete analysis or description of all potential U.S. federal income tax consequences of the Merger Agreement Transactions. This summary does not address tax consequences that may vary with, or are contingent on, individual circumstances. In addition it does not address any non-income tax or any foreign, state or local tax consequences of the Merger Agreement Transactions. **Accordingly, you**

are strongly encouraged to consult your own tax advisor concerning the specific U.S. federal income and estate tax consequences to you of the Merger Agreement Transactions relating to your personal tax situation and any consequences arising under the laws of any state, local, foreign or other taxing jurisdiction.

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Accounting Treatment

New Dynegy will account for the Merger Agreement Transactions using the purchase method of accounting in accordance with generally accepted accounting principles in the United States (GAAP), with Dynegy being treated as the accounting acquiror. The purchase price will include the New Dynegy Class B common stock to be issued to the LS Contributing Entities in connection with the Merger Agreement Transactions, the amount of net cash consideration paid, the New Dynegy Notes and the amount of direct transaction costs of the Merger Agreement Transactions. For accounting purposes, the value of the New Dynegy Class B common stock to be issued to the LS Contributing Entities will be $5.98 per share, the average closing price of Dynegy s Class A common stock during the five-day period beginning two days before and ending two days after the public announcement of the Merger Agreement Transactions. This purchase price will be allocated to the individual tangible and intangible assets acquired and liabilities assumed from the LS Contributing Entities based on their fair market values at the date of the completion of the Merger Agreement Transactions. Any excess of the purchase price over these fair market values will be treated as goodwill. The acquired assets, liabilities and results of operations will be consolidated into the assets, liabilities and results of operations of New Dynegy on a prospective basis after the completion of the Merger Agreement Transactions.

Regulatory Approvals

In order to complete the Merger Agreement Transactions or, if the Merger Agreement Transactions are not completed, the transactions contemplated by the Kendall Agreement (as defined and described beginning on page 187), Dynegy and the LS Contributing Entities were required to submit filings with, and obtain certain orders or approvals from, a number of United States federal and state regulatory authorities. The material United States federal and state approvals and filings are described below. Dynegy and the LS Contributing Entities are not aware of any other material approvals or filings that are required before completing the Merger Agreement Transactions or the Kendall Agreement.

Department of Justice

The Merger Agreement and the Kendall Agreement were subject to the requirements of the HSR Act and the rules and regulations promulgated thereunder. On October 26, 2006, Dynegy and the LS Contributing Entities submitted their required filings to the Department of Justice. The mandatory HSR Act waiting period expired on November 27, 2006.

Federal Power Act

Section 203

The Merger Agreement and the Kendall Agreement required prior authorization from the FERC under Section 203 of the Federal Power Act of 1935, as amended (the FPA), and the rules and regulations promulgated thereunder. The Section 203 application, which Dynegy and the LS Contributing Entities submitted on October 26, 2006, addressed the effect of the Merger Agreement Transactions and the transactions contemplated by the Kendall Agreement on competition, rates and regulation and addresses cross subsidization issues. Two parties filed motions to intervene in the Section 203 application, but no party filed a protest. The FERC issued an order approving the Merger Agreement and Kendall Agreement transactions on December 21, 2006, which became final on January 23, 2007.

Section 205

Various subsidiaries of Dynegy and the LS Contributing Entities are FERC-jurisdictional public utilities that have been granted authorization by the FERC to sell electric power at wholesale at market-based rates. Market-based rates are determined in an open market system of supply and demand under which the price is set solely by agreement as to what a buyer will pay and a seller will accept. The FERC requires entities with market-based rates to submit a notice, pursuant to Section 205 of the FPA, informing the FERC when there has been a change in status of the characteristics it relied on when it granted market-based rate authority. The Merger Agreement Transactions or the transactions contemplated by the Kendall Agreement (whichever is completed) would result in such a change in status.

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On November 2, 2006, Dynegy and the LS Contributing Entities submitted a notice of non-material change in status to the FERC. In reviewing the notice, the FERC considered certain factors, including any change in generation market power, transmission market power, ability to erect barriers to entry and ability to engage in affiliate abuse resulting from the Merger Agreement Transactions or the transactions contemplated by the Kendall Agreement. No motions to intervene or protests were filed. The FERC issued an order accepting the notice of change in status on December 21, 2006, which became final on January 23, 2007.

Federal Communications Commission

Under Section 310(d) of the Communications Act of 1934, as amended, an entity holding radio station authorizations must obtain the consent of the Federal Communications Commission (the FCC) before there is a transfer of control of the entity holding such licenses or an assignment of those licenses. Both Dynegy and the LS Contributing Entities hold certain FCC radio station licenses and, thus, must obtain prior FCC consent to assign these licenses or to a transfer of control. The LS Contributing Entities and Dynegy each submitted applications to the FCC for the FCC s consent to the transfer of control to New Dynegy. The FCC provided its consent to the applications on November 10, 2006, November 17, 2006 and December 9, 2006. The FCC issued its public notices announcing the grant of its consents on November 15, 2006, November 22, 2006 and December 13, 2006, respectively. The FCC consents for the transfer of control applications are now final.

State Regulatory Approvals

California. The California Public Utilities Commission (CPUC) requires a generating asset owner to notify the CPUC and the control area operator in writing at least 90 days prior to any change in ownership of a generating asset. Notice was submitted to the CPUC on October 12, 2006, and the 90 day waiting period expired on January 10, 2007. A control area is comprised of one or several contiguous utilities, and its primary responsibility is to ensure that power generation and loads are always in balance.

New York. On October 24, 2006, Dynegy and the LS Contributing Entities submitted a joint petition for a declaratory ruling under New York Public Service Law (PSL) Sections 70 and 83 with the New York State Public Service Commission (NYPSC). On December 20, 2006, the NYPSC issued an order declaring that no further review of the Merger under Sections 70 and 83 of the PSL will be conducted.

Federal Securities Laws Consequences; Stock Transfer Restrictions

If the Merger is completed, Dynegy will delist its Class A common stock from the NYSE and will deregister its Class A common stock under the Exchange Act, as a result of which Dynegy will no longer be required to file annual, quarterly, current and other reports with the SEC. The shareholders of Dynegy will become stockholders of New Dynegy and their rights as stockholders will be governed by Delaware law and by New Dynegy s Certificate of Incorporation and New Dynegy s Bylaws. See Comparison of Rights of Dynegy s Shareholders and New Dynegy s Stockholders.

All shares of New Dynegy s common stock received by Dynegy s shareholders in the Merger will be freely transferable, except that shares of New Dynegy s common stock received by persons who are deemed to be affiliates of New Dynegy under the Securities Act of 1933, as amended (the Securities Act), at the time of the special meeting may be resold by them only in transactions permitted by Rule 145 or as otherwise permitted under the Securities Act. Persons who may be deemed to be affiliates of New Dynegy for such purposes generally include individuals or entities that control, or are controlled by or are under common control with, New Dynegy and may include certain officers, directors and significant stockholders of New Dynegy, such as Chevron.

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Interests of Dynegy s Directors and Executive Officers in the Merger

In considering the recommendation of the Dynegy Board with respect to the Merger Agreement and the Merger, Dynegy s shareholders should be aware that some of Dynegy s executive officers and directors have interests in the Merger and have arrangements that are different from, or in addition to, those of Dynegy s shareholders generally. The Dynegy Board was aware of these interests and considered them, among other matters, in reaching its decisions to approve and adopt the Merger Agreement and the Merger and to recommend that Dynegy s shareholders vote in favor of adopting the Merger Agreement and approving the Merger.

Equity Compensation Awards. The Merger Agreement provides that upon completion of the Merger, each Dynegy stock option, including those held by executive officers and directors of Dynegy, will be converted into an option to purchase New Dynegy stock on a one-for-one basis. In addition, the Merger Agreement provides that, upon completion of the Merger, each share of restricted stock or performance unit and other equity awards based upon shares of Dynegy s common stock, including those held by executive officers and directors of Dynegy, will be converted into equity-based awards with respect to New Dynegy s common stock on a one-for-one basis. In accordance with Dynegy s change in control severance plans and equity-based award plans (or the individual award agreements thereunder), all outstanding stock options, restricted stock and performance units that have been granted to employees and directors of Dynegy will immediately vest upon the completion of the Merger.

Continuing Executive Positions. All of Dynegy s executive officers have been proposed to serve as executive officers of New Dynegy upon completion of the Merger. Bruce A. Williamson will serve as Chairman and Chief Executive Officer, Stephen A. Furbacher will serve as President and Chief Operating Officer, Holli C. Nichols will serve as Executive Vice President and Chief Financial Officer, J. Kevin Blodgett will serve as General Counsel, Executive Vice President Administration and Secretary and Lynn A. Lednicky will serve as Executive Vice President. In addition, it is expected that Jason Hochberg, a current executive with the LS Power Group, will serve as an Executive Vice President of New Dynegy.

Continuing Board Positions. New Dynegy s board of directors will consist initially of 11 directors, three of whom will be designated by the LS Contributing Entities. Dynegy intends to nominate the following current members of its board of directors to the board of directors of New Dynegy: Bruce A. Williamson, David W. Biegler, Thomas D. Clark, Jr., Victor E. Grijalva, Patricia A. Hammick, George L. Mazanec, Robert C. Oelkers and William L. Trubeck.

The LS Contributing Entities intend to nominate Mikhail Segal, Frank Hardenbergh and James Bartlett to the board of directors of New Dynegy.

Post-Closing Contracts, Arrangements, etc. Between New Dynegy and the LS Contributing Entities

Development Services LLC Agreement

In connection with the contribution of development projects by LS Associates and New Dynegy to the Development LLC upon and after the completion of the Merger, LS Associates and New Dynegy intend to enter into the Development Services LLC Agreement to establish a second limited liability company which will provide services and management to the Development LLC and its subsidiaries. Each of LS Associates and New Dynegy will own 50% of the membership interests in such limited liability company.

Transition Services Agreement

For a period not to exceed one year following the completion of the Merger and the Contributions, the LS Contributing Entities will provide to New Dynegy and its subsidiaries, upon request and on mutually agreeable and reasonable terms, certain services formerly provided by the LS Contributing Entities or their affiliates to the Contributed Entities.

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Possible Future Contracts

In addition to the Development Services LLC Agreement and Transition Services Agreement described above, the LS Contributing Entities or their affiliates, on the one hand, and New Dynegy or its subsidiaries, on the other hand, may from time to time enter into other contracts or arrangements. All such contracts and arrangements will be approved by the parties in the appropriate manner, considering any applicable related party transaction approval policies, and in accordance with applicable law.

Certain arrangements between New Dynegy and the LS Contributing Entities after the completion of the Merger are described in, among others, New Dynegy s Certificate of Incorporation, New Dynegy s Bylaws, the Shareholder Agreement, the Corporate Opportunity Agreement (as defined on page 177) and the LS Registration Rights Agreement (as defined on page 180). For a detailed discussion of these agreements, please see Other Agreements and Documents.

Rights of Dynegy s Shareholders Dissenting from the Merger Agreement and Merger Proposal

Dynegy s shareholders who do not vote to adopt the Merger Agreement and approve the Merger and who follow certain other procedures summarized below shall have the right to dissent from the Merger and obtain payment for their shares in the form of cash in the event of the completion of the Merger. The following is a summary of the provisions of the IBCA which specify the procedures which must be followed by any shareholder who wishes to dissent and obtain payment for his or her shares in the event of the completion of the Merger. Such provisions of the IBCA are set forth in their entirety in Annex F hereto, and this summary is qualified by reference to the provisions thereof. If you are considering exercising your dissenters rights, you should carefully review the following discussion and Annex F. Because of the complexity of the procedure established for exercising dissenters rights, New Dynegy encourages you to consult an attorney before electing or attempting to exercise these rights.

Under the IBCA, all shareholders entitled to dissenters rights must be notified of that fact and the procedure to dissent in the meeting notice relating to the transaction with respect to which they are entitled to assert dissenters rights. This proxy statement/prospectus constitutes that notice. Because Dynegy has furnished to shareholders in this proxy statement/prospectus material information with respect to the Merger Agreement and Merger proposal that will objectively enable a shareholder to evaluate the Merger Agreement and Merger proposal, to vote on the proposal and to determine whether or not to exercise dissenters rights, a shareholder may assert these rights only if (i) prior to the vote on the Merger Agreement and the Merger at the special meeting, the shareholder delivers to Dynegy a written demand for payment for his or her shares in the event the Merger is completed, and (ii) the shareholder does not vote in favor of the Merger Agreement and Merger proposal. If a shareholder votes in favor of the Merger Agreement and Merger proposal, the shareholder will not be entitled to dissent and obtain payment for his or her shares, and a vote against the Merger Agreement and Merger proposal will not satisfy the above requirement that a written demand for payment be delivered to Dynegy. Failure to vote against the adoption of the Merger Agreement and approval of the Merger will not waive a shareholder s dissenters rights, provided that the shareholder has not voted in favor of the adoption of the Merger Agreement and approval of the Merger and provided further that the shareholder has complied in all other respects with the IBCA in preserving the shareholder s dissenters rights.

Within the later of (i) 10 days after the Merger is completed or (ii) 30 days after the shareholder delivers to Dynegy his or her written demand for payment, Dynegy will send to each shareholder delivering such a written demand (a dissenting shareholder) a statement setting forth Dynegy s opinion as to the estimated fair value of such shareholder s shares (a statement of value), Dynegy s balance sheet as of the end of its fiscal year ended December 31, 2005, its income statement for its fiscal year ended December 31, 2005, and its latest interim financial statements, together with either a commitment to pay for the shares of the dissenting shareholder at the estimated fair value thereof upon transmittal to Dynegy of the certificate or certificates or other evidence of ownership with respect to such shares, or an instruction to the dissenting shareholder to sell his or her shares within

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ten days after delivery of Dynegy s statement to the shareholder. Dynegy may instruct the shareholder to sell only if there is a public market for the shares at which the shares may be readily sold. Since the shares of Dynegy s common stock are traded on the NYSE, Dynegy anticipates that there will be such a public market for the shares of New Dynegy s common stock, which are expected to be listed on the NYSE. If the dissenting shareholder does not sell his or her shares within such 10 day period after being so instructed by Dynegy, he or she shall be deemed to have sold these shares at the average closing price of such shares on the NYSE during such 10 day period.

A shareholder who makes such written demand for payment retains all other rights of a shareholder until those rights are cancelled or modified by the completion of the Merger. Upon completion of the Merger, Dynegy will pay each dissenting shareholder who transmits to the corporation the certificate or other evidence of ownership of the shares the amount Dynegy estimates to be the fair value of such shares, plus accrued interest, accompanied by a written explanation of how such interest was calculated.

If the dissenting shareholder does not agree with Dynegy s opinion regarding the estimated fair value of the shares or the amount of interest due and wishes to preserve dissenters rights, the dissenting shareholder shall, within 30 days from Dynegy s delivery to the dissenting shareholder of the statement of value, notify Dynegy of the dissenting shareholder s estimate of fair value and amount of interest due and demand payment for the difference between the dissenting shareholder s estimate of fair value and interest due and the amount of the payment by Dynegy or the proceeds of sale by the dissenting shareholder, whichever amount is applicable.

If Dynegy and the dissenting shareholder are unable to agree on the fair value and interest due with respect to the shares within 60 days of delivery to Dynegy of the shareholder s notice of estimated fair value and interest due, Dynegy shall either pay the difference in value demanded by the dissenting shareholder, with interest, or file a petition in the Circuit Court of Cook County, State of Illinois, or the appropriate state courts of Harris County, State of Texas, requesting the court to determine the fair value of the shares and interest due. Dynegy shall make all dissenters, whether or not residents of Illinois, whose demands remain unsettled, parties to the proceeding as an action against their shares, and shall serve all parties with a copy of the petition. Nonresidents may be served by registered or certified mail or by publication as required by law. If Dynegy does not commence such an action, dissenting shareholders can commence an action as otherwise permitted by law.

The jurisdiction of the court in which the proceeding is commenced under the foregoing paragraph by a corporation is plenary and exclusive. The court may appoint one or more persons as appraisers to receive evidence and recommend decision on the question of fair value. Fair value means the value of the shares immediately before the Merger is completed, excluding any appreciation or depreciation in anticipation of the Merger unless such exclusion would be inequitable. The appraisers have the power described in the order appointing them, or in any amendment to it.

Each dissenting shareholder made a party to the proceeding is entitled to judgment for the amount, if any, by which the court determines that the fair value of his or her shares, plus interest, exceeds the amount paid by Dynegy or the proceeds of sale by the shareholder, whichever amount is applicable.

The court, in such a proceeding, shall determine all costs of the proceeding, including the reasonable compensation and expenses of the appraisers, if any, appointed by the court, but shall exclude the fees and expenses of counsel and experts for the respective parties. If the fair value of the shares as determined by the court materially exceeds the amount which Dynegy offered to pay for those shares, or if no offer was made, then all or any part of such expenses may be assessed against Dynegy. If the amount which any dissenting shareholder estimated to be the fair value of the shares materially exceeds the fair value of the shares as determined by the court, then all or any part of the costs may be assessed against that dissenting shareholder. The court may also assess the fees and expenses of counsel and experts for the respective parties in amounts the court finds equitable. If the court finds that the services of counsel for any dissenting shareholder were of substantial benefit to other dissenting shareholders similarly situated and that the fees for those services should not be assessed against Dynegy, the court may award reasonable fees to that counsel to be paid out of the amounts awarded to the benefited dissenting shareholders.

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MARKET PRICE AND DIVIDEND INFORMATION

Price Range of Dynegy s Common Stock

Dynegy s Class A common stock is listed on the NYSE under the symbol DYN. Dynegy s Class B common stock, all of the outstanding shares of which are held by Chevron, is not listed on any securities exchange or traded in any trading market.

The following table shows the high and low closing prices per share of Dynegy s Class A common stock for the periods indicated, as reported on the NYSE composite transaction tape. On February 7, 2007, the last reported sale price of Dynegy s Class A common stock was $7.24 per share. As of January 31, 2007, Dynegy s Class A common stock was held by 30,757 holders of record and, as of January 31, 2007, the number of outstanding shares of Dynegy s Class A common stock was 401,365,976.

	Price range	
Period	**High**	**Low**
2007		
First Quarter (through February 7, 2007)	$ 7.25	$ 6.47
2006		
Fourth Quarter	$ 7.32	$ 5.35
Third Quarter	6.34	5.09
Second Quarter	5.47	4.68
First Quarter	5.72	4.72
2005		
Fourth Quarter	$ 5.07	$ 4.15
Third Quarter	5.63	4.35
Second Quarter	5.10	3.23
First Quarter	4.75	3.62
2004		
Fourth Quarter	$ 5.86	$ 4.27
Third Quarter	4.99	3.93
Second Quarter	4.44	3.75
First Quarter	5.15	3.46
2003		
Fourth Quarter	$ 4.35	$ 3.45
Third Quarter	4.65	2.85
Second Quarter	5.23	2.54
First Quarter	2.63	1.29

Recent Closing Prices

The closing prices of Dynegy s Class A common stock as reported on the NYSE on September 14, 2006, the last full trading day prior to the public announcement of the proposed Merger, and on February 7, 2007, the last full trading day for which the closing price was available prior to the filing of this proxy statement/prospectus, were as follows:

Date	Price
September 14, 2006	$ 5.76
February 7, 2007	$ 7.24

You are urged to obtain current market information regarding Dynegy s Class A common stock. You cannot be assured that the market price for Dynegy s Class A common stock or New Dynegy s Class A common stock will not be different in the future, including on the date of the special meeting or following the completion of the Merger.

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New Dynegy s Class A common stock will not be issued until completion of the Merger, which cannot occur prior to the time Dynegy s shareholders vote to adopt the Merger Agreement and approve the Merger and the satisfaction or waiver of the other conditions to the completion of the Merger Agreement Transactions. As a result, market prices for New Dynegy s Class A common stock will not be available at or prior to the time of the special meeting.

Dividend Policy

Dividend payments on Dynegy s Class A common stock are at the discretion of the Dynegy Board. Dynegy has not paid a dividend on its Class A common stock since 2002, and Dynegy does not foresee a declaration of dividends on its Class A common stock in the near term, particularly given the dividend restrictions contained in Dynegy s current financing agreements. Specifically, Dynegy has agreed not to pay any dividends on its common stock under the terms of the credit agreement (consisting of a $470 million revolving credit facility, $200 million term letter of credit facility and $150 million term loan facility) under which Dynegy is a guarantor and Dynegy s wholly owned subsidiary, DHI, is the borrower. Dynegy has, however, continued to make the required dividend payments on its outstanding trust preferred securities.

Likewise, dividend payments on New Dynegy s Class A common stock will be at the discretion of New Dynegy s board of directors. The financing agreements under which certain of New Dynegy s subsidiaries will be borrowers and New Dynegy will be a guarantor will contain certain restrictions on the payment of dividends on New Dynegy s Class A common stock. In addition, New Dynegy s Bylaws provide that, so long as the holders of New Dynegy s Class B common stock own greater than 15% of the total combined voting power of New Dynegy, New Dynegy shall not make dividend payments or similar distributions or change policies regarding dividends or similar distributions if all Class B Directors present at the meeting at which such action is considered vote against such action, other than dividends or distributions made in the form of (i) cash, provided that at the time of declaration of such dividend, New Dynegy has received indicative ratings that, after giving effect to such cash dividend, its senior unsecured credit ratings would be BB- (with stable outlook) or better from S&P and Ba3 (with stable outlook) or better from Moody s, or (ii) New Dynegy s common stock. See Comparison of Rights of Dynegy s Shareholders and New Dynegy s Stockholders Blocking Rights.

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UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION

The following unaudited pro forma condensed combined statements of operations of New Dynegy for the year ended December 31, 2005 and for the nine months ended September 30, 2006 give effect to the Merger Agreement Transactions as if the transactions had been completed on January 1, 2005. The following unaudited pro forma condensed combined balance sheet of New Dynegy as of September 30, 2006 gives effect to the Merger Agreement Transactions as if the transactions had been completed on September 30, 2006.

The unaudited pro forma condensed combined financial information of New Dynegy, which has been prepared using the purchase method of accounting for business combinations with Dynegy as the acquirer and is based upon the historical financial statements of Dynegy and the Power Generation Business of LS Power Development, LLC and Affiliates, does not reflect any of the synergies and cost reductions that may result from the Merger Agreement Transactions. The combined financial data and financial statements of the Power Generation Business of LS Power Development, LLC and Affiliates reflects the financial condition, results of operations and cash flows of the Contributed Entities as described therein. In addition, this unaudited pro forma condensed combined financial information of New Dynegy does not include any transition costs, restructuring costs or recognition of compensation expenses or other one-time charges that may be incurred in connection with integrating the operations of Dynegy and the Contributed Entities.

The unaudited pro forma condensed combined financial statements of New Dynegy for the year ended December 31, 2005 and as of and for the nine months ended September 30, 2006 are based on certain assumptions and adjustments by the management of Dynegy as discussed in the accompanying Notes to Unaudited Pro Forma Condensed Combined Statements of Operations and accompanying Notes to Unaudited Pro Forma Condensed Combined Balance Sheet and do not purport to reflect what New Dynegy s actual results of operations and financial position would have been had each such transaction in fact occurred (i) as of January 1, 2005 (in the case of the unaudited pro forma condensed combined statements of operations for the year ended December 31, 2005 and the nine months ended September 30, 2006) or (ii) as of September 30, 2006 (in the case of the unaudited pro forma condensed combined balance sheet as of September 30, 2006), nor are they necessarily indicative of the results of operations that New Dynegy may achieve in the future.

The unaudited pro forma condensed combined financial information of New Dynegy set forth below should be read in conjunction with Dynegy s Management s Discussion and Analysis of Financial Condition and Results of Operations and the financial statements and the notes thereto included in Dynegy s Annual Report on Form 10-K for the fiscal year ended December 31, 2005, as amended, and in Dynegy s Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2006, each incorporated by reference herein. The pro forma financial information included herein does not include adjustments for any transactions other than the transactions contemplated by the Merger Agreement Transactions. During 2006, Dynegy executed various debt and equity transactions which are more fully described in Management s Discussion and Analysis of Financial Condition and Results of Operations in Dynegy s Quarterly Report on Form 10-Q for the period ended September 30, 2006.

The unaudited pro forma condensed combined financial information of New Dynegy set forth below should also be read in conjunction with Summary Historical and Unaudited Pro Forma Condensed Consolidated/Combined Financial Data, the historical financial statements of the Power Generation Business of LS Power Development, LLC and Affiliates and Management s Discussion and Analysis of Financial Condition and Results of Operations of the Contributed Entities included herein. Because of the timing of acquisitions, period-to-period comparisons and analyses of financial condition and results of operations of the Power Generation Business of LS Power Development, LLC and Affiliates may not be helpful for understanding the financial and operational performance of the Contributed Entities as a whole. The financial condition, results of operations and cash flows of Ontelaunee and the LS Generation Facilities (as defined on page 116) have not been

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included in the combined financial statements of the Power Generation Business of LS Power Development, LLC and Affiliates as of any dates or for any periods prior to their acquisition by the LS Power Group.

The historical results of Dynegy and the Power Generation Business of LS Power Development, LLC and Affiliates are not necessarily indicative of the results that may be expected for New Dynegy for any future period.

In creating the unaudited pro forma condensed combined financial statements, the primary adjustments to the historical financial statements of Dynegy and the Power Generation Business of LS Power Development, LLC and Affiliates were purchase accounting adjustments which include adjustments necessary to (i) allocate the purchase price to the tangible and intangible assets and liabilities of the Power Generation Business of LS Power Development, LLC and Affiliates based on their estimated fair values; (ii) adjust the amounts related to the Development Assets that will be contributed to the Development LLC, of which New Dynegy will own 50%; and (iii) conform the accounting policies of the LS Contributing Entities to those of Dynegy.

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New Dynegy

Unaudited Pro Forma Condensed Combined Statement of Operations

For the Year Ended December 31, 2005

(in millions, except per share data)

	(a) Dynegy Historical	(b) Contributed Entities Historical	Pro Forma Adjustments	New Dynegy Pro Forma
Revenues	$ 2,313	$ 66	$ (34)(c)	$ 2,345
Cost of sales, exclusive of depreciation shown separately below	(2,416)	(44)	46 (d)	(2,414)
Depreciation and amortization expense	(220)	(7)	(57)(e)	(284)
Project development expenses		(16)	16 (f)	
Impairment and other charges	(46)			(46)
Loss on sale of assets, net	(1)			(1)
General and administrative expenses	(468)	(5)		(473)
Operating loss	(838)	(6)	(29)	(873)
Earnings (losses) from unconsolidated investments	2		(8)(f)	(6)
Interest expense	(389)	(57)	(32)(g)	(478)
Other income and expense, net	26	14	(4)(h)	36
Loss from continuing operations before income taxes	(1,199)	(49)	(73)	(1,321)
Income tax benefit	395		27 (i)	422
Loss from continuing operations	(804)	(49)	(46)	(899)
Less: preferred stock dividends	22			22
Loss from continuing operations available for common stockholders	$ (826)	$ (49)	$ (46)	$ (921)
Basic shares outstanding	387			727 (j)
Diluted shares outstanding	513			853 (j)
Basic loss from continuing operations	$ (2.13)			$ (1.27)
Diluted loss from continuing operations (k)	$ (2.13)			$ (1.27)

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New Dynegy

Unaudited Pro Forma Condensed Combined Statement of Operations

For the Nine Months Ended September 30, 2006

(in millions, except per share data)

	(a) Dynegy Historical	(b) Contributed Entities Historical	Pro Forma Adjustments	New Dynegy Pro Forma
Revenues	$ 1,620	$ 665	$ (21)(c)	$ 2,264
Cost of sales, exclusive of depreciation shown separately below	(1,103)	(507)	38 (d)	(1,572)
Depreciation and amortization expense	(174)	(33)	(43)(e)	(250)
Project development expenses		(14)	14 (f)	
Impairment and other charges	(107)			(107)
Gain on sale of assets, net	3			3
General and administrative expenses	(160)	(18)		(178)
Operating income	79	93	(12)	160
Earnings (losses) from unconsolidated investments	6		(7)(f)	(1)
Interest expense	(310)	(105)	(25)(g)	(440)
Debt conversion costs	(249)			(249)
Other income and expense, net	41	55	(4)(h)	92
Income (loss) from continuing operations before income taxes	(433)	43	(48)	(438)
Income tax benefit (expense)	154	(3)	18 (i)	169
Income (loss) from continuing operations	(279)	40	(30)	(269)
Less: preferred stock dividends	9			9
Income (loss) from continuing operations available for common stockholders	$ (288)	$ 40	$ (30)	$ (278)
Basic shares outstanding	446			786 (j)
Diluted shares outstanding	512			852 (j)
Basic loss from continuing operations	$ (0.65)			$ (0.35)
Diluted loss from continuing operations (k)	$ (0.65)			$ (0.35)

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Notes to New Dynegy Unaudited Pro Forma Condensed Combined Statements of Operations

(a) *Dynegy Historical Presentation* represents Dynegy Inc. s historical audited consolidated financial statements derived from its Form 10-K, as amended, for the year ended December 31, 2005 and Dynegy Inc. s historical unaudited condensed consolidated financial information derived from its Form 10-Q for the nine months ended September 30, 2006.

(b) *Contributed Entities Historical Presentation* represents the historical audited and unaudited condensed combined financial statements of the Power Generation Business of LS Power Development, LLC and Affiliates for the year ended December 31, 2005 and the nine months ended September 30, 2006, respectively, included elsewhere in this proxy statement/prospectus. The combined financial data and financial statements of the Power Generation Business of LS Power Development, LLC and Affiliates reflects the financial condition, results of operations and cash flow of the Contributed Entities as described therein. Certain reclassifications have been made to the historical presentation in order to conform to Dynegy s historical presentation.

(c) *Revenues* represents the pro forma adjustments required to eliminate revenue of $43 million and $33 million included in the Contributed Entities historical statements of operations for the year ended December 31, 2005 and the nine months ended September 30, 2006, respectively. The underlying amounts in these adjustments relate primarily to a tolling agreement between the companies. The pro forma adjustment also reflects a net decrease to revenue of $3 million and $2 million for the year ended December 31, 2005 and nine months ended September 30, 2006, respectively, for the amortization of the intangible contracts resulting from the Merger (see Note (g) of the Notes to New Dynegy Unaudited Pro Forma Condensed Combined Balance Sheet). Additionally, the pro forma adjustment reflects the elimination of amortization expense of $12 million and $14 million for the year ended December 31, 2005 and nine months ended September 30, 2006, respectively, previously included in the Contributed Entities historical statements of operations.

(d) *Cost of Sales* represents the pro forma adjustments required to eliminate cost of sales of $43 million and $33 million included in Dynegy s historical statements of operations for the year ended December 31, 2005 and the nine months ended September 30, 2006, respectively. The underlying amounts in these adjustments relate primarily to a tolling agreement between the companies. The pro forma adjustment also includes a reduction of $3 million and $5 million for the year ended December 31, 2005 and nine months ended September 30, 2006, respectively, for costs associated with major maintenance that were expensed in the Contributed Entities financial statements. It is Dynegy s policy to capitalize major maintenance expenditures and amortize these costs over the period benefited.

(e) *Depreciation and Amortization Expense* represents the pro forma adjustments required to reflect (i) the net incremental depreciation and amortization expense of $1 million for both the year ended December 31, 2005 and the nine months ended September 30, 2006 resulting from the capitalization of the previously expensed major maintenance costs; and (ii) the net incremental depreciation and amortization expense of $56 million and $42 million for the year ended December 31, 2005 and nine months ended September 30, 2006, respectively, resulting from the increase in property, plant and equipment to reflect the fair value of the Contributed Entities power generation assets. As discussed in note (d) of the Notes to New Dynegy Unaudited Pro Forma Condensed Combined Balance Sheet, the amount of this adjustment is based on a preliminary estimate of the fair values of the power generation assets.

(f) *Project Development Expenses* and *Earnings (Losses) from Unconsolidated Investments* represents the pro forma adjustments to eliminate 100% of the Contributed Entities project development expenses and record New Dynegy s 50% share of the losses recognized by the Contributed Entities interest in various development assets to be owned by the Development LLC (see note (e) of the Notes to New Dynegy Unaudited Pro Forma Condensed Combined Balance Sheet).

(g) *Interest Expense* represents the pro forma adjustments to interest expense of $26 million and $20 million for the year ended December 31, 2005 and the nine months ended September 30, 2006, respectively, associated with the issuance of the New Dynegy Notes (see note (l) of the Notes to New Dynegy Unaudited Pro Forma Condensed Combined Balance Sheet). The pro forma adjustment also includes interest

expense of $4 million

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for both the year ended December 31, 2005 and the nine months ended September 30, 2006, associated with the issuance of the $70 million Griffith senior secured term loan. Additionally, the pro forma adjustment reflects interest expense of $2 million and $1 million for the year ended December 31, 2005 and nine months ended September 30, 2006, respectively, resulting from the increase in debt to reflect the fair value of the Contributed Entities third-party debt. The final fair value determination of the third-party debt will be based on prevailing market interest rates at the completion of the Merger Agreement Transactions and the necessary adjustment will be amortized as a reduction (in the case of a premium to book value) or an increase (in the case of a discount to book value) to interest expense over the remaining life of the individual debt issues. The effect on net income of a one-eighth percent variance in the interest rate on the Griffith Term Loan is immaterial.

(h) *Other Income and Expense, Net* represents the pro forma adjustments required to reflect lower interest income due to the cash consideration payment of $100 million to the LS Power Group pursuant to the Merger Agreement Transactions (see note (c) of the Notes to New Dynegy Unaudited Pro Forma Condensed Combined Balance Sheet).

(i) *Income Tax Benefit* represents the pro forma tax effect of the above adjustments based on an estimated prospective statutory rate of approximately 37%.

(j) *Basic* and *Diluted Shares Outstanding* reflects the pro forma effect of the issuance of 340 million shares of New Dynegy Class B common stock to the LS Contributing Entities pursuant to the Merger Agreement Transactions and the exchange of existing Dynegy common stock for New Dynegy common stock.

(k) *Diluted Loss Per Share* When an entity has a net loss from continuing operations, SFAS No. 128, Earnings per Share, prohibits the inclusion of potential common shares in the computation of diluted per-share amounts. Accordingly, the basic shares outstanding amount has been used to calculate both basic and diluted loss per share for the year ended December 31, 2005 and nine months ended September 30, 2006.

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New Dynegy

Unaudited Pro Forma Condensed Combined Balance Sheet

As of September 30, 2006

(in millions)

	(a) Dynegy Historical	(b) Contributed Entities Historical	Pro Forma Adjustments	New Dynegy Pro Forma
ASSETS				
Current Assets				
Cash and cash equivalents	$ 388	$ 49	$ (100)(c)	$ 337
Restricted cash	277	213		490
Accounts receivable, net of allowance for doubtful accounts	284	44		328
Accounts receivable, affiliates	1			1
Accounts receivable, other		2		2
Inventory	197	36		233
Assets from risk-management activities	343	51	(38)(d)	356
Deferred income taxes	26			26
Prepayments and other current assets	99	11		110
Assets held for sale	1			1
Total Current Assets	1,616	406	(138)	1,884
Property, Plant and Equipment	6,422	2,185	1,692 (e)	10,299
Accumulated depreciation	(1,417)	(40)	40 (e)	(1,417)
Property, Plant and Equipment, net	5,005	2,145	1,732	8,882
Other Assets				
Unconsolidated investments	7		81 (f)	88
Restricted investments	82	288		370
Assets from risk-management activities	103	13	19 (d)	135
Intangible assets	362	274	(263)(g)	373
Goodwill		6	839 (h)	845
Deferred income taxes	3	3		6
Deferred financing costs, net		65	(65)(i)	
Other long-term assets	135	72	(4)(j)	203
Assets held for sale	194			194
Total Assets	$ 7,507	$ 3,272	$ 2,201	$ 12,980
LIABILITIES AND STOCKHOLDERS EQUITY				
Current Liabilities				
Accounts payable	$ 215	$ 17	$	$ 232
Accrued interest	91	1		92
Accrued liabilities and other current liabilities	194	62	45 (k)	301
Deferred revenue		9		9
Liabilities from risk-management activities	339			339
Liabilities held for sale	1			1
Notes payables-affiliate, including accrued interest		1		1
Notes payable and current portion of long-term debt	48	31		79
Total Current Liabilities	888	121	45	1,054

Long-term debt	3,162	2,172	358 (l)	5,692
Bonds payable		100		100
Long-term debt, affiliates	200			200
Long-Term Debt	3,362	2,272	358	5,992
Other Liabilities				
Notes payables-affiliate, including accrued interest		2		2
Liabilities from risk-management activities	112	63	13 (d)	188
Deferred income taxes	440		490 (m)	930
Other long-term liabilities	391	60	5 (n)	456
Total Liabilities	5,193	2,518	911	8,622
Commitments and Contingencies				
Minority Interest		5		5
Stockholders Equity				
Class A Common Stock	3,366		(3,361)(o)	5
Class B Common Stock	1,006		(1,003)(o)(p)	3
Additional paid-in capital	37	792	5,605 (p)(q)	6,434
Subscriptions receivable	(8)			(8)
Accumulated other comprehensive income, net of tax	59	(8)	8 (q)	59
Accumulated deficit	(2,077)	(35)	41 (r)	(2,071)
Treasury stock, at cost	(69)			(69)
Total Stockholders Equity	2,314	749	1,290	4,353
Total Liabilities and Stockholders Equity	$ 7,507	$ 3,272	$ 2,201	$ 12,980

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Notes to New Dynegy Unaudited Pro Forma Condensed Combined Balance Sheet

(a) *Dynegy Historical Presentation* represents Dynegy Inc. s historical unaudited condensed consolidated financial information derived from its 2006 Form 10-Q as of September 30, 2006.

(b) *Contributed Entities Historical Presentation* represents the historical unaudited condensed combined financial statements of the Power Generation Business of LS Power Development, LLC and Affiliates as of September 30, 2006 included elsewhere in this proxy statement/prospectus. The combined financial data and financial statements of the Power Generation Business of LS Power Development, LLC and Affiliates reflects the financial condition, results of operations and cash flows of the Contributed Entities as described therein. Certain reclassifications have been made to the historical presentation in order to conform to Dynegy s historical presentation.

(c) *Cash and Cash Equivalents* represents the pro forma adjustments required to reflect the cash consideration paid to the LS Contributing Entities pursuant to the Merger Agreement Transactions.

(d) *Assets/Liabilities from Risk-Management Activities* represents the pro forma adjustments required to reflect the mark-to-market value of the assets from risk-management activities and liabilities from risk management activities held by the LS Contributing Entities using Dynegy s estimate of such values based on Dynegy s view of the forward market curves for energy prices. These adjustments could be materially affected by changes in prices of power, coal and natural gas and changes in existing contract terms or the Contributed Entities entering into new contracts prior to the closing of the Merger Agreement Transactions.

(e) *Property, Plant and Equipment* represents the pro forma adjustments required to record the Contributed Entities power generating assets at their estimated fair value and eliminate the historical accumulated depreciation in accordance with purchase accounting guidelines. This adjustment was determined using Dynegy s estimate of fair value based on discounted cash flows. This estimate is significantly affected by assumptions regarding environmental regulation, operating costs and the expected market prices for electricity, fuel and emission allowances and is subject to change based on the final purchase price allocation. This adjustment will be depreciated over the estimated remaining useful lives of the underlying assets, and could be materially affected by changes in fair value prior to the closing of the Merger Agreement Transactions.

(f) *Unconsolidated Investments* represents the pro forma adjustments required to record the fair value of New Dynegy s interest in the Development LLC pursuant to the Merger Agreement Transactions. The fair value of New Dynegy s interest is preliminary and subject to adjustment. Prior to the closing of the Merger Agreement Transactions, the fair value and related pro forma adjustments may be affected by actions taken by the LS Contributing Entities in connection with further development of the Development LLC s projects, or by other factors, such as regulatory developments or changes in energy prices.

(g) *Intangible Assets* represents the pro forma adjustments required to record the Contributed Entities energy contracts that do not qualify as derivatives or are accounted for as normal purchase, normal sale transactions under SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities , as amended, at their estimated fair value. These adjustments will be amortized to earnings over the remaining lives of the underlying contracts. These adjustments were determined based on market information, where available, as well as Dynegy s view of the forward market curves for energy prices. These adjustments could be materially affected by changes in prices of power, coal and natural gas and changes in existing contract terms or the Contributed Entities entering into new contracts prior to the closing of the Merger Agreement Transactions.

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(h) *Goodwill* represents the excess of the purchase price over the fair values of the assets acquired and liabilities assumed. The estimated total purchase price is calculated in part on the average per share price of Dynegy common stock during the five-day period beginning two days before and ending two days after September 15, 2006, the date of the public announcement of the Merger Agreement Transactions. The per share price of Dynegy s common stock was used to value the Class B shares that will be issued to the LS Contributing Entities upon the closing of the Merger Agreement Transactions as Dynegy considers the value of its common stock to be an appropriate proxy. See The Merger Background of the Merger Agreement Transactions. The following table summarizes the purchase price calculation (in millions):

Value of Dynegy stock issued	$ 2,033
Cash consideration	100
Dynegy subordinated note	275
Estimated transaction costs	45
Total estimated purchase price	$ 2,453

Under the purchase method of accounting, the total estimated purchase price, as shown in the table above, is allocated to the tangible and identifiable intangible assets acquired and liabilities assumed based on their fair values on the date the transaction closes (for purpose of these pro forma financial statements, that date has been assumed to be September 30, 2006). The fair value of these assets and liabilities is preliminary and is subject to change pending additional information that may come to the knowledge of Dynegy and restructuring decisions made prior to or upon completion of the Merger. Further, upon completion of the Merger or shortly thereafter, New Dynegy will obtain a third-party valuation of the Contributed Entities assets and liabilities in order to develop a definitive allocation of the purchase price. The following table summarizes the calculation of goodwill (in millions):

Purchase price	$ 2,453
Less net assets acquired	(1,608)
Goodwill	$ 845

This amount is impacted by changes in the fair value of the assets and liabilities acquired, and therefore could change materially based upon the factors discussed above, particularly those identified in footnotes (d), (e) and (f).

Pursuant to SFAS No. 142, Goodwill and Other Intangible Assets, goodwill is not amortized; rather, impairment tests are performed at least annually or more frequently if circumstances indicate an impairment may have occurred. If an impairment exists, the goodwill is immediately written down to its fair value through a current charge to earnings. Accordingly, the goodwill arising from the Merger will be subject to an impairment test at least annually.

(i) *Deferred Financing Costs* represents the pro forma adjustments required to eliminate the Contributed Entities deferred financing costs.

(j) *Other Long-Term Assets* represents the pro forma adjustments required to eliminate the Contributed Entities book value associated with various development assets. New Dynegy will acquire a 50% interest in the Development LLC, which will acquire these development assets (see note (f)) pursuant to the Merger Agreement Transactions.

(k) *Accrued Liabilities and Other Current Liabilities* represents the pro forma adjustments required to reflect the accrual of approximately $45 million of costs expected to be incurred by New Dynegy that are directly attributable to the Merger Agreement Transactions.

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(l) *Long-Term Debt* represents the issuance of the New Dynegy Notes pursuant to the Merger Agreement Transactions as well as the issuance of the $70 million Griffith senior secured term loan. The pro forma adjustment also reflects a $13 million adjustment required to adjust the Contributed Entities third-party debt to its estimated fair value at close. The increase in the fair value of the debt will be amortized through interest expense over the remaining life of the debt. The final fair value determination will be based on prevailing market interest rates, adjusted for estimated issuance costs, at the completion of the Merger and the necessary adjustment will be amortized as a reduction (in the case of a premium to book value) or an increase (in the case of a discount to book value) to interest expense over the remaining life of the individual debt issues.

(m) *Deferred Income Taxes* represents the pro forma adjustments required to (i) record the estimated difference between the tax basis and the book basis of current assets and liabilities subsequent to the purchase price allocation and (ii) record the estimated difference between the tax basis and the book basis of non-current assets and liabilities subsequent to the purchase price allocation. These estimates are based on an estimated prospective statutory tax rate of approximately 37% and could change based on changes in the applicable tax rates and finalization of the combined company s tax structure.

(n) *Other Long-Term Liabilities* represents the pro forma adjustments required to record the fair value of out-of-the money energy contracts held by the Contributed Entities. These adjustments will be amortized to earnings over the remaining lives of the underlying contracts. These adjustments were determined based on market information, where available, as well as Dynegy s view of the forward market curves for energy prices. These adjustments could be materially affected by changes in prices of power, coal and natural gas and changes in existing contract terms or the Contributed Entities entering into new contracts prior to the closing of the Merger Agreement Transactions.

(o) *Dynegy Class B Common Stock* represents the pro forma adjustments required to convert Dynegy s current Class B common stock to New Dynegy Class A common stock at par value of $0.01.

(p) *New Dynegy Class B Common Stock* represents the pro forma adjustments required for the issuance of 340 million shares of New Dynegy Class B common stock to the LS Contributing Entities at par value of $0.01 pursuant to the Merger Agreement Transactions.

(q) *Common Stockholders Equity* represents the pro forma adjustments required to eliminate the historical equity of the Contributed Entities.

(r) *Accumulated Deficit* includes $6 million of income associated with the extinguishment of the remaining value of the Dynegy-Kendall tolling arrangement as required by EITF 04-01, Accounting for Pre-existing Contractual Relationships between the Parties to a Purchase Business Combination.

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MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Dynegy

Please see Dynegy s annual report on Form 10-K for the fiscal year ended December 31, 2005, as amended, and its quarterly report on Form 10-Q for the quarterly period ended September 30, 2006, each as filed with the SEC, for Dynegy s historical consolidated financial data as of December 31, 2005 and 2004 and September 30, 2006 and for each of the years in the three-year period ended December 31, 2005 and for each of the nine-month periods ended September 30, 2006 and 2005, and for management s discussion and analysis of Dynegy s consolidated financial condition and results of operations as of such dates and for such periods, which are incorporated by reference herein.

Please also see Summary Historical and Unaudited Pro Forma Condensed Consolidated/Combined Financial Data Summary Historical Consolidated Financial Data of Dynegy.

The Contributed Entities

The following discussion should be read together with the Combined Financial Statements of the Power Generation Business of LS Power Development, LLC and Affiliates, including the notes thereto, starting on page F-2 of this proxy statement/prospectus. The combined financial data and financial statements of the Power Generation Business of LS Power Development, LLC and Affiliates reflects the financial condition, results of operations and cash flows of the Contributed Entities.

Overview

The LS Power Group is a group of private companies focusing on investing in, developing and managing power generation assets. The Contributed Entities, which form parts of the LS Power Group, currently hold controlling ownership interests in entities that own 11 power generation projects (including ten operating facilities and one facility currently under construction) located across six states and five power markets in the United States, representing approximately 8,000 MW in total generation capacity. The Contributed Entities also are currently developing several other coal and gas-fired power generation facilities throughout the United States.

The LS Power Group acquired the operating assets of the Contributed Entities through three separate acquisitions. As described in more detail below, the acquisitions of the operating assets occurred in different fiscal years, and each set of assets is reflected in the combined financial statements for the respective dates and periods in which they were owned by the LS Contributing Entities. As a result, period-to-period comparisons and analyses of the financial condition and results of operations of the Power Generation Business of LS Power Development, LLC and Affiliates may not be helpful to understanding the financial and operational performance of the Contributed Entities as a whole. You are urged to carefully read the discussion that follows to understand which assets are included in the combined financial statements as of each date and for each period presented.

Kendall Acquisition. On December 1, 2004, LSP Kendall Holding, LLC, a Contributed Entity formed by the LS Power Group, acquired from a subsidiary of NRG Energy, Inc. all of the outstanding membership interest of LSP-Kendall Energy, LLC, which owns the Kendall power generation facility (Kendall) and LSP Equipment, LLC, an affiliated entity. The acquisition of Kendall and LSP Equipment, LLC was accounted for by the LS Power Group under the purchase method of accounting. As a result, the Combined Financial Statements of the Power Generation Business of LS Power Development, LLC and Affiliates begin on December 1, 2004. For all periods prior to December 1, 2004, the combined financial statements presented in this proxy statement/prospectus are the predecessor financial statements of LSP-Kendall Energy, LLC and LSP Equipment, LLC.

Ontelaunee Acquisition. On October 6, 2005, LSP Ontelaunee Holding, LLC, a Contributed Entity formed by the LS Power Group, acquired from a subsidiary of Calpine Corporation all of the

outstanding membership interest of Ontelaunee Power Operating Company, LLC, which owns the Ontelaunee power generation facility (Ontelaunee). The acquisition was accounted for by the LS Power Group under the purchase method of accounting, and the financial condition, results of operations and cash flows of LSP Ontelaunee Holding, LLC have been included in the Combined Financial Statements of the Power Generation Business of LS Power Development, LLC and Affiliates since October 6, 2005. The financial condition, results of operations and cash flows of Ontelaunee Power Operating Company, LLC have not been included in the combined financial statements as of any dates or for any periods prior to its acquisition by the LS Power Group on October 6, 2005.

Acquisition of the LS Generation Facilities. On May 4, 2006, LS Power Generation, LLC, a Contributed Entity formed by the LS Power Group, acquired from subsidiaries of Duke Energy, Inc. (Duke) all of the ownership interests Duke held in entities that own seven power generation facilities, and lease one power generation facility, in the western and northeastern United States. As part of this acquisition, LS Power Generation, LLC acquired 50% of the ownership interest of the Griffith power generation facility (Griffith), with the remaining 50% of the ownership interest in Griffith subsequently being acquired by a wholly owned subsidiary of LS Power Generation, LLC from a subsidiary of PPL Corporation (PPL) on June 30, 2006. The acquisition of the LS Generation Facilities (as defined on page 116) was accounted for by the LS Power Group under the purchase method of accounting, and the financial condition, results of operations and cash flows of LS Power Generation, LLC have been included in the Combined Financial Statements of the Power Generation Business of LS Power Development, LLC and Affiliates since May 4, 2006. The financial condition, results of operations and cash flows of the LS Generation Facilities have not been included in the combined financial statements as of any dates or for any periods prior to its acquisition by the LS Power Group.

For more detail on the operational and related data of these power generation facilities, see Business of the Contributed Entities Operating Assets Discussion.

In addition, the Development Assets (as defined on page 117) are included in the Combined Financial Statements of the Power Generation Business of LS Power Development, LLC and Affiliates only from and after December 1, 2004. Although the Development Assets were owned by the Contributed Entities prior to December 1, 2004, the financial condition, results of operations and cash flows of the Development Assets were not material prior to such date and were therefore excluded from the combined financial statements for periods prior to such date.

The following discussion summarizes the dates, periods and assets that are included in the financial statements, included in this proxy statement/prospectus:

Predecessor Combined Financial Statements. The predecessor combined financial statements include only the accounts of LSP-Kendall Energy, LLC and LSP Equipment, LLC and reflect results of operations and cash flows attained by Kendall s and LSP Equipment, LLC s prior owner. They are included for the following periods:

- as of December 5, 2003 and for the period from January 1, 2003 to December 5, 2003;
- as of December 31, 2003 and for the period from December 6, 2003 to December 31, 2003; and
- as of November 30, 2004 and for the period from January 1, 2004 to November 30, 2004.

Combined Financial Statements of the Power Generation Business of LS Power Development, LLC and Affiliates.

December 1, 2004 December 31, 2004. The combined financial statements as of, and for the month ended, December 31, 2004 present the financial condition, results of operations and cash flows of Kendall, LSP Equipment, LLC and the

Development Assets for and as of those periods.

January 1, 2005 December 31, 2005. The combined balance sheet as of December 31, 2005 presents the financial condition of Kendall, Ontelaunee, LSP Equipment, LLC and the Development

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Assets as of December 31, 2005. The combined statement of operations and combined statement of cash flows for the year ended December 31, 2005 presents the results of operations and cash flows of Kendall, LSP Equipment, LLC and the Development Assets for the year ended December 31, 2005, and Ontelaunee for the period from October 6, 2005 to December 31, 2005.

Combined Interim Financial Statements of the Power Generation Business of LS Power Development, LLC and Affiliates

January 1, 2005 September 30, 2005. The combined balance sheet as of December 31, 2005 presents the financial condition of Kendall, LSP Equipment, LLC and the Development Assets. The combined statement of operations and combined statement of cash flows for the nine months ended September 30, 2005 presents the results of operations and cash flows of Kendall, LSP Equipment, LLC and the Development Assets.

January 1, 2006 September 30, 2006. The combined balance sheet as of September 30, 2006 presents the financial condition of Kendall, Ontelaunee, LSP Equipment, LLC, the LS Generation Facilities and the Development Assets. The combined statement of operations and combined statement of cash flows for the nine months ended September 30, 2006 presents the results of operations and cash flows of Kendall, Ontelaunee, LSP Equipment, LLC and the Development Assets for the nine months ended September 30, 2006, and the LS Generation Facilities for the period from May 4, 2006 to September 30, 2006.

Because the power generation facilities owned by the Contributed Entities were not all acquired in the same period, period-to-period comparisons and analyses of the combined financial condition and results of operations of the Contributed Entities may not be helpful to understanding the financial and operational performance of the Contributed Entities as a whole. Specifically:

A comparison of the financial condition and results of operations of the Contributed Entities as of, and for the years ended, December 31, 2004 and 2003 should take into account that the LS Power Group acquired Kendall and LSP Equipment, LLC on December 1, 2004. Prior to being acquired by the LS Power Group, Kendall was managed and operated by its prior owner under policies and directions different from those being pursued by the LS Power Group subsequent to its acquisition of Kendall. As a result, the financial condition and results of operations of the Contributed Entities as of dates and for periods prior to December 1, 2004 may not be comparable to the financial condition and results of operations of the Contributed Entities as of dates and for periods when Kendall and LSP Equipment, LLC were under the ownership of the LS Power Group.

A comparison of the financial condition and results of operations of the Contributed Entities as of and for the twelve months ended December 31, 2005 and 2004 should, in addition to the Kendall acquisition described above, also take into account that the LS Power Group acquired Ontelaunee on October 6, 2005 and that the financial condition and results of operations of Ontelaunee have not been included in the combined financial statements as of or for any dates or periods prior to such date. As a result, the financial condition and results of operations of the Contributed Entities as of dates and for periods prior to October 6, 2005 may not be comparable to the financial condition and results of operations of the Contributed Entities as of dates and for periods when Ontelaunee was under the ownership of the LS Power Group.

A comparison of the financial condition and results of operations of the Contributed Entities as of September 30, 2006 and December 31, 2005 and for the nine months ended September 30, 2006 and 2005 should take into account that the LS Power Group acquired Ontelaunee on October 6, 2005 (subsequent to the nine-month period ended September 30, 2005) and acquired the LS Generation Facilities on May 4, 2006 (with the exception of 50% of the ownership interests in Griffith, which were acquired on June 30, 2006) and that the financial condition and results of operations of the Ontelaunee and LS Generation Facilities have not been included in the combined financial statements as of any

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dates or for any periods prior to their respective dates of acquisition by the LS Power Group. As a result, the financial condition and results of operations of the Contributed Entities as of dates and for periods prior to October 6, 2005 and May 4, 2006 may not be comparable to the financial condition and results of operations of the Contributed Entities as of dates and for periods when Ontelaunee and the LS Generation Facilities, respectively, were under the ownership of the LS Power Group.

Liquidity and Capital Resources

The liquidity and capital requirements of the Contributed Entities are primarily a function of debt maturities and debt service requirements, collateral requirements, other contractual obligations, capital expenditures and working capital needs. Examples of working capital needs include prepayments or collateral associated with purchases of commodities (particularly natural gas) and power sales agreements, as well as payments of facility operating and maintenance costs and other overhead costs. The liquidity and capital resources of the Contributed Entities are primarily derived from cash flows from operations, cash on hand, credit support arrangements and borrowings under various financing agreements. The management of the Contributed Entities believes that their current sources of liquidity and capital resources are sufficient to finance the Contributed Entities operations and necessary capital expenditures for the near future. The types of capital resources available to the Contributed Entities and their relative availability and cost are not expected to change materially in the near term, unless New Dynegy elects to implement an alternative capital structure following the completion of the Merger Agreement Transactions. In addition, the capital requirements of the development activities will need to be financed based on the attributes of each development project.

Debt Obligations

The Contributed Entities primary debt obligations as of September 30, 2006 consist of the outstanding debt under the various credit facilities that are secured by the operating assets and assets under construction of the Contributed Entities. These credit facilities include:

- Senior secured credit facilities of LSP-Kendall Energy, LLC, as borrower, in connection with Kendall;
- Senior secured credit facilities of Ontelaunee Power Operating Company, LLC, as borrower, in connection with Ontelaunee;
- Senior secured credit facilities of LSP Gen Finance Co, LLC, as borrower, in connection with the LS Generation Facilities; and
- Senior secured credit facilities of Plum Point Energy Associates, LLC (PPEA), as borrower, in connection with the Plum Point development project that is currently under construction.

The debt maturity profile of the Contributed Entities, as of September 30, 2006 and based on minimum scheduled principal payments is set forth below:

Maturity Year	Approximate Amount Due
2006	$ 3.5 million
2007	$ 14 million
2008	$ 14 million
2009	$ 164 million
2010	$ 16 million
2011	$ 18 million
Thereafter	$2,100 million

For more information, please see Note 8 to the Unaudited Combined Financial Statements of the Power Generation Business of LS Power Development, LLC and Affiliates as of September 30, 2006.

In connection with the Merger Agreement Transactions, Dynegy is exploring a number of options to ensure an appropriate capital structure for New Dynegy. Considerations include refinancing certain of the project

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financings of the Contributed Entities, changes to the existing DHI bank debt arrangements, including a larger revolving credit facility, and increasing the capacity of existing letter of credit facilities to support New Dynegy s liquidity and collateral needs. As a result of Dynegy s review and discussions with potential lenders to New Dynegy, Dynegy may elect to pursue alternative capital structures to be implemented in connection with the Merger Agreement Transactions. Dynegy s review is on-going and the ultimate capital structure to be established by New Dynegy will depend on financial market conditions relating to the availability of capital, the interest rate environment and other factors that are beyond its control. Such alternative capital structures, if they are implemented, could affect New Dynegy s earnings and cash flows in 2007 and beyond.

Kendall Credit Facilities

On October 7, 2005, LSP-Kendall Energy, LLC, as borrower, entered into an eight-year $422 million senior secured term loan facility and a six-year $10 million senior secured liquidity facility, which are referred to collectively as the Kendall credit facilities. As of September 30, 2006, approximately $405 million was outstanding under the term loan facility and no amounts were outstanding under the liquidity facility.

Interest accrues on the term loan and borrowings under the liquidity facility at the rate of the London Interbank Offered Rate (LIBOR) plus 2.00% per annum or the alternate base rate (which is equal to the greater of the federal funds effective rate plus 0.50% and the prime rate of Credit Suisse, as administrative agent) plus 1.00% per annum, payable on a quarterly basis. A commitment fee of 0.50% per annum is payable on the average daily unused amount of the liquidity facility. Principal payments on the term loan are payable quarterly at the rate of 1.00% per annum of the original $422 million principal amount of the term loan plus a percentage of excess cash flow, if any, with the balance of the term loan due at maturity. The term loan matures in October 2013 and the liquidity facility matures in October 2011.

For more information on the Kendall credit facilities, please see please see Note 8 to the Unaudited Combined Financial Statements of the Power Generation Business of LS Power Development, LLC and Affiliates as of September 30, 2006.

Ontelaunee Credit Facilities

On May 5, 2006, Ontelaunee Power Operating Company, LLC, as borrower, entered into a $100 million first lien senior secured term loan facility and a $50 million second lien senior secured term loan facility, which are referred to collectively as the Ontelaunee credit facilities. As of September 30, 2006, there was $150 million outstanding under the Ontelaunee credit facilities.

Interest accrues on borrowings under the first lien term loan facility at LIBOR plus 2.00% per annum or at the alternate base rate (which is equal to the greater of the publicly quoted base rate and the federal funds effective rate plus 0.50%) plus 1.00% per annum. Interest accrues on borrowings under the second lien term loan facility at LIBOR plus 4.00% per annum or at the alternate base rate plus 3.00% per annum. The Ontelaunee credit facilities mature, and repayment of the entire original principal amount of the term loans is due, on May 5, 2009.

For more information on the Ontelaunee credit facilities, please see please see Note 8 to the Unaudited Combined Financial Statements of the Power Generation Business of LS Power Development, LLC and Affiliates as of September 30, 2006.

LSP Gen Finance Credit Facilities

On May 4, 2006, LSP Gen Finance Co, LLC, as borrower, entered into a $100 million five-year first lien revolving and letter of credit facility (the working capital facility), a $950 million seven-year first lien term loan, a $40 million seven-year first lien delayed draw term loan, a $150 million eight-year second lien term loan and a $500 million seven-year first lien senior secured special letter of credit facility (the special letter of credit facility). On August 3, 2006, LSP Gen Finance Co, LLC, as borrower, entered into a $150 million five-year first

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lien senior secured letter of credit facility (the five-year letter of credit facility). As of September 30, 2006, approximately $13.9 million in letters of credit was outstanding under the working capital facility, approximately $965 million was outstanding under the first lien term loan (including the delayed draw term loan), approximately $150 million was outstanding under the second lien term loan, approximately $470.3 million in letters of credit was outstanding under special letter of credit facility and approximately $30 million in letters of credit was outstanding under the five-year letter of credit facility.

Interest accrues on borrowings under the first lien credit facilities at the rate of LIBOR plus 1.75% per annum or the base rate (which is equal to the greater of the federal funds effective rate plus 0.50% and the prime rate of the administrative agent under the applicable facility) plus 0.75% per annum, payable quarterly. Interest accrues on the second lien term loan at the rate of LIBOR plus 3.50% per annum or the base rate plus 2.50% per annum, payable quarterly. The first lien term loan and the first lien delay draw term loan amortize on a quarterly basis at the rate of 0.25% of the aggregate amount of the applicable loan on the date of funding. A commitment fee of 0.50% per annum accrues on the daily unused balance of the working capital facility. The five-year letter of credit facility requires a 0.50% per annum commitment fee on the daily unused balance and a 1.75% per annum issuance fee on the aggregate face amount of the letters of credit issued thereunder. The special letter of credit facility requires a 0.875% per annum commitment fee on the daily unused balance and a 0.875% per annum issuance fee on the aggregate amount of letters of credit issued thereunder. Under the five-year letter of credit facility and the special letter of credit facility, any drawn letters of credit may be converted into term loans, at the borrower s option, at a rate of LIBOR plus 1.75% per annum.

For more information on the LSP Gen Finance credit facilities, please see Note 8 to the Unaudited Combined Financial Statements of the Power Generation Business of LS Power Development, LLC and Affiliates as of September 30, 2006.

Plum Point Credit Facilities

On March 14, 2006, PPEA, as borrower, entered into a $423 million eight-year senior secured first lien term loan facility, a $50 million six-year senior secured first lien revolving credit facility and a $102 million eight-year senior secured first lien funded letter of credit facility that is utilized to back-stop certain tax-exempt bonds. It has also obtained a $175 million 8 1/2-year second lien term loan facility. As of September 30, 2006, approximately $376 million was outstanding under the first lien term loan facility, no amounts were outstanding under the first lien revolving credit facility and approximately $157 million was outstanding under the second lien term loan facility. In addition, letters of credit in the aggregate amount of approximately $101.5 million were outstanding under the first lien funded letter of credit facility.

Borrowings under the first lien term loan facility and the revolving credit facility, and any funds drawn on letters of credit outstanding under the first lien letter of credit facility, bear interest at the rate of LIBOR plus 3.25% per annum or the alternate base rate (which is equal to the greater of the federal funds effective rate plus 0.50% and the prime rate of Credit Suisse, as administrative agent) plus 2.25% per annum. The borrower must also pay a commitment fee equal to 0.50% per annum of the undrawn amount of the revolving credit facility. The first lien term loan facility and first lien letter of credit facility mature in March 2014, and the revolving credit facility matures in March 2012. The first lien term loan amortizes at the rate of 1.00% per annum, payable in quarterly installments of 0.25% of the original aggregate principal amount of the first lien term loan and with payments beginning in the first quarter following the date that the Plum Point power plant enters operation. The balance of the principal amount of the first lien term loan will be payable at maturity. The undrawn amount under the funded letter of credit facility bears interest at a rate of 3.25% per annum, plus any difference between LIBOR and the rate realized on the funded amount on deposit under the facility, which is typically in the range of 0.12% to 0.25% per annum.

Borrowings under the second lien term loan facility bear interest at the rate of LIBOR plus 3.25% per annum or the alternate base rate plus 2.25% per annum, in either case plus an additional 2.00% per annum of interest that is capitalized into the unpaid principal amount of the second lien term loan at the applicable interest

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payment date. The second lien credit facility matures in September 2014. The second lien term loan does not amortize, and the entire principal amount of the second lien term loan will be payable at maturity.

For more information on the Plum Point credit facilities, please see Note 8 to the Unaudited Combined Financial Statements of the Power Generation Business of LS Power Development, LLC and Affiliates as of September 30, 2006.

Covenants

The applicable Contributed Entities under the credit facilities described above are subject to certain covenants pursuant to the terms of the credit facilities. Those Contributed Entities are currently in compliance with these covenants. If any of the Contributed Entities were to fail to comply with its applicable covenants, however, the financial condition, results of operations and cash flows of the Contributed Entities could be materially adversely affected.

Interest Rate Swaps

The applicable Contributed Entities have entered into certain interest rate swap agreements with investment-grade counterparties to reduce their exposure to the risks of changing interest rates under the credit facilities described above. Under these interest rate swap agreements, the floating interest rate components of a portion of the obligations under the credit facilities have been converted to fixed rates. As of September 30, 2006, the interest rate swap agreements consisted of the following:

Contributed Entity	Notional Amount (in millions)	Fair Value (in millions)	Average Fixed Rate	Termination Date
Plum Point Energy Associates, LLC	$ 123	$ (3.66)	5.15%	March 2014
LSP Gen Finance Co, LLC	$ 1,002	$ (7.67)	5.19%	March 2016
LSP-Kendall Energy, LLC	$ 386	$ 3.54	4.80%	September 2015

In a rising interest rate environment, such as during 2005 and the first half of 2006, these floating-to-fixed interest rate swaps mitigate a significant portion of the Contributed Entities exposure to interest rate risks under their credit facilities. The Contributed Entities expect $1.9 million of deferred net gains on interest rate swaps accumulated in other comprehensive income to be recognized in earnings in the next twelve months from September 30, 2006. While changes in interest rates are dependent on macroeconomic factors that are beyond the Contributed Entities control, these interest rate swaps will reduce the direct impact of such changes on the Contributed Entities interest costs and cash interest expense. For more information, please see Note 8 to the Unaudited Combined Financial Statements of the Power Generation Business of LS Power Development, LLC and Affiliates as of September 30, 2006.

Collateral Postings

The Contributed Entities use a significant portion of their capital resources, primarily in the form of letters of credit, to satisfy collateral demands of counterparties to certain contracts. These counterparty collateral demands reflect counterparties views of the relevant Contributed Entities financial condition and ability to satisfy their performance obligations under such contracts, as well as market conditions and other factors (such as commodity prices). The consolidated collateral postings of the Contributed Entities to third parties were $797.4 million and $38.2 million at September 30, 2006 and December 31, 2005, respectively.

The counterparties future collateral demands are expected to continue to reflect changes in commodity prices, including seasonal changes in weather-related demand, changes in number and nature of power sale agreements, as well as the counterparties views of the creditworthiness of the relevant Contributed Entities. Considering these and other relevant factors and the structures of the existing agreements, the Contributed Entities combined collateral postings to third parties at September 30, 2007 are not expected to be materially different from their combined collateral postings to third parties at September 30, 2006. Therefore, absent the

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implementation of an alternative capital structure, or the execution of additional material tolling and hedging transactions, by New Dynegy following the completion of the Merger Agreement Transactions, a significant portion of the Contributed Entities capital resources will continue to be used to satisfy counterparty collateral demands. It is expected that the Contributed Entities will maintain sufficient capital resources to satisfy such counterparty collateral demands for at least the next twelve months.

Disclosure of Contractual Obligations and Contingent Financial Commitments

The Contributed Entities incur contractual obligations and financial commitments in the normal course of their operations and financing activities. Contractual obligations include future cash payments required under existing contracts. These obligations may result from both general financing activities and from commercial arrangements that are directly supported by related operating activities. Financial commitments represent contingent obligations that become payable only if specified events occur. Details on these obligations are set forth below:

Contractual Obligations

The following table summarizes the contractual obligations of the Contributed Entities, as of September 30, 2006. Cash obligations reflected are not discounted and do not include related interest, accretion or dividends.

	Payments Due by Period (in millions)						
	Total	**2007**	**2008**	**2009**	**2010**	**2011**	**Thereafter**
Long-term debt (including Current Portion)	$ 2,302.5	$ 14.1	$ 14.1	$ 164.1	$ 16.2	$ 18.4	$ 2,075.6
Interest payments (1)	1,279.5	186.5	181.9	169.9	164.2	162.2	414.8
Other contractual obligations (2)	693.8	48.3	44.6	34.5	57.5	93.8	415.1
Total contractual obligations	$ 4,275.8	$ 248.9	$ 240.6	$ 368.5	$ 237.9	$ 274.4	$ 2,905.5

(1) Interest payments were calculated based on the outstanding long-term debt balance as of September 30, 2006, future minimum mandatory principal repayments and interest rate swap agreements, and include letter of credit fees.

(2) This amount excludes an obligation under lease arrangements related to the South Bay facility that have been fully defeased. Fixed costs under long-term service agreements are included, but variable costs, the precise timing and magnitude of which cannot be predicted, are not included. Such variable costs are reflected in historical results included elsewhere in this proxy statement/prospectus. The amount also excludes obligations of approximately $439.4 million under a construction contract related to Plum Point. Construction is expected to be completed in 2010.

Long-Term Debt

Total long-term debt as of September 30, 2006 is included in the Unaudited Combined Financial Statements of the Power Generation Business of LS Power Development, LLC and Affiliates. For additional information relating to the Contributed Entities, long-term debt obligations, please see Note 8 to the Unaudited Combined Financial Statements of the Power Generation Business of LS Power Development, LLC and Affiliates as of September 30, 2006.

Other Contractual Obligations

Other contractual obligations include amounts related to various interconnection agreements, gas transportation agreements, energy and fuel services agreements, operations and maintenance agreements, long-term service agreements and other contracts relating to the operations of the power generation facilities owned by the Contributed Entities. The term interconnection refers to facilities that create a direct connection between two utilities, systems or control areas. Please see Notes 7 and 8 to the Unaudited Combined Financial Statements of the Power Generation Business of LS Power Development, LLC and Affiliates as of September 30, 2006.

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Contingent Financial Obligations

The following table provides a summary of the contingent financial obligations of the Contributed Entities as of September 30, 2006 on an undiscounted basis. These obligations represent contingent obligations that may require a payment of cash upon the occurrence of specified events.

	Expiration by Period				
	Total	Less than 1 Year	1 3 Years	3 5 Years	More than 5 Years
	(in millions)				
Letters of Credit (1)	$ 797.4	$ 171.7	$ 356.0	$ 269.7	$
Reserve accounts	6.5	6.5			
Asset retirement obligations	31.4			26.6	4.8
Total financial commitments	$ 835.3	$ 178.2	$ 356.0	$ 296.3	$ 4.8

(1) These letters of credit support in part obligations to Duke under the purchase and sale agreement with Duke for the LS Generation Facilities, pursuant to which Duke guarantees uncapped obligations of various LS Generation Facilities to third parties.

Off-Balance Sheet Arrangements

The Contributed Entities provided letters of credit to support certain of their performance obligations to Duke under the purchase and sale agreement with Duke for the LS Generation Facilities.

South Bay is party to a Lease Agreement (the South Bay Lease) with the San Diego Unified Port District (SDUPD) pursuant to which South Bay is currently leasing the existing South Bay facility from the SDUPD. The South Bay Lease will terminate on the later of February 1, 2010 and the date on which South Bay is no longer subject to a reliability must-run contract with the California Independent System Operator (CAISO). Upon termination of the South Bay Lease, South Bay will be obligated, at its sole cost and expense, to decommission, dismantle and remove the existing power plant facility. In addition, pursuant to a separate Environmental Remediation Agreement (the ERA) between South Bay and the SDUPD, South Bay is responsible for remediation of any contamination that may have been released at the existing South Bay facility site after commencement of the lease, as well as remediation of certain parcels in the vicinity of the South Bay facility site. Pursuant to the asset purchase agreement under which the SDUPD purchased the South Bay facility and related properties from San Diego Gas and Electric (SDG&E), SDG&E indemnified the SDUPD for certain types of pre-existing contamination, including certain types of pre-closing contamination at the South Bay facility, and South Bay is a beneficiary of these SDG&E indemnities.

South Bay s decommissioning, dismantling and removal obligations under the South Bay Lease, as well as its environmental cleanup obligations under the related ERA, are guaranteed by Duke Capital, LLC (Duke Capital). In the event Duke Capital was required to perform under such guaranties, Duke Capital would be permitted to draw upon letters of credit issued to Duke Capital by LSP Gen Finance Co, LLC pursuant to the LSP Gen Finance credit facilities totaling $38 million. In addition, LSP Gen Finance Co, LLC has agreed to indemnify Duke Capital for any losses Duke Capital may incur as a result of the existing guaranties. As of September 30, 2006, the Contributed Entities had recorded a $22.5 million liability for their decommissioning, dismantling and removal obligations.

Each of the Morro Bay, Moss Landing and Oakland facilities were purchased from Pacific Gas and Electric Company (PG&E) in 1997. Each of the current owners of these plants agreed under the purchase and sale agreements with PG&E to indemnify PG&E for liabilities arising out of post-closing environmental contamination and certain other types of claims caused by the current owners. These entities obligations under the purchase and sale agreements, including such indemnification obligations, are guaranteed by Duke Capital. In the event Duke Capital were required to perform under such guaranties, Duke Capital would be permitted to draw upon letters of credit issued to Duke Capital by LSP Gen Finance Co, LLC pursuant to the LSP Gen

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Finance credit facilities totaling $15 million (capped at $5 million per project). In addition, LSP Gen Finance Co, LLC has agreed to indemnify Duke Capital for any losses Duke Capital may incur as a result of the existing guaranties. The current owners of the Morro Bay, Moss Landing and Oakland facilities are also beneficiaries of indemnities provided by PG&E for certain matters, including certain types of pre-existing environmental contamination. The Contributed Entities do not expect to incur material costs in connection with such agreements.

Capital Expenditures and Construction in Progress

The Contributed Entities had approximately $1.3 million in capital expenditures and construction in progress during 2005 and approximately $72.7 million in capital expenditures during the nine-month period ended September 30, 2006. The expected capital expenditures for the years ended 2006 and 2007 are approximately $100.0 million and $183.0 million, respectively. The increase is due to the construction of the Plum Point project, which is expected to be completed in 2010. A substantial portion of the costs associated with the construction of the Plum Point project is fixed under an engineering, procurement and construction contract and is expected to remain stable. However, if any of the other power generation development projects controlled by the Development LLC enters into the construction phase, New Dynegy could be required to seek additional capital in the future to support the construction of these projects.

Financing Trigger Events

The debt instruments and other financial obligations of the Contributed Entities include provisions which, if not met, could require early payment, additional collateral support or similar actions. These trigger events include leverage ratios, interest coverage ratios and other financial covenants, insolvency events, defaults on scheduled principal or interest payments, acceleration of other financial obligations and change of control provisions.

Commitments and Contingencies

For additional discussion of the Contributed Entities commitments and contingencies, please read Note 14 to the Unaudited Combined Financial Statements of the Power Generation Business of LS Power Development, LLC and Affiliates as of September 30, 2006.

Liquidity Sources

The primary liquidity sources for the Contributed Entities are capacity under the credit facilities described above, cash flows from operations and cash on hand.

Credit Facilities. As of September 30, 2006, LSP-Kendall Energy, LLC had revolver capacity of approximately $10 million under the Kendall credit facilities. As of September 30, 2006, LSP Gen Finance Co., LLC had approximately $149.7 million of letter of credit capacity, and approximately $86.1 million of revolver capacity, under the LSP Gen Finance credit facilities. As of September 30, 2006, PPEA had approximately $50 million of revolver capacity under the Plum Point credit facilities.

Cash Flows from Operations. The Contributed Entities had operating cash flows of approximately $1.3 million for the year ended December 31, 2005 and approximately $37 million for the nine-month period ended September 30, 2006. The increase is due to the inclusion of operating cash flows from Ontelaunee from October 6, 2005 and operating cash flows from the LS Generation Facilities from May 4, 2006.

Over the longer term, the operating cash flows of the Contributed Entities will be impacted by, among other things, management of operating costs, including costs for fuel and maintenance, as well as demand for electricity, fluctuating commodity prices, plant reliability and the power sale, tolling and financial call-option agreements entered into from time to time. Please see Historical Cash Flows below for additional discussion on the Contributed Entities operating cash flows.

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Cash on Hand. As of September 30, 2006 and December 31, 2005, the Contributed Entities had cash on hand of approximately $550.3 million and $33.6 million, including restricted cash of $500.9 million and $29.8 million respectively. The increase in cash on hand at September 30, 2006 as compared to December 31, 2005 is attributable to an increase in restricted cash balance of approximately $471.2 million and an increase in cash and cash equivalents of $45.5 million. The increase in restricted cash in 2006 was primarily attributable to the remaining proceeds of $490.4 million from the issuance of term loans and tax-exempt bonds which are being used for the Plum Point construction in progress offset by a reduction of $19.1 million in the restricted cash balance of Ontelaunee. The increase in cash and cash equivalents in 2006 was primarily attributable to capital contributions of approximately $35 million received from the current owners of the Contributed Entities and retained cash flow of approximately $5 million generated by Ontelaunee. As the construction of the Plum Point project progresses, it is expected that the amount of restricted cash on hand of the Contributed Entities will gradually decrease as the portion of restricted cash attributable to proceeds from the term loans and tax-exempt bonds issued to support Plum Point s construction are used for such purpose.

The Contributed Entities expect to maintain sufficient liquidity, through their credit facilities, operating cash flows and cash on hand, to satisfy their debt and other capital requirements.

Historical Cash Flows

The Contributed Entities obtain cash from operations as well as proceeds from investment and financing activities related to the acquisitions and operations of the power generation facilities that they own. The following table summarizes the various types of cash flows received by the Contributed Entities for their fiscal years 2005, 2004 and 2003 and for the nine months ended September 30, 2006 and 2005.

	Predecessor Company	Predecessor Reorganized Company	Predecessor Reorganized Company			Nine months ended September 30,	
	January 1, 2003 to	December 6, 2003 to	Eleven Months Ended	One Month Ended	Year Ended		
(in thousands)	December 5, 2003 (unaudited)	December 31, 2003 (unaudited)	November 30, 2004 (unaudited)	December 31, 2004 (unaudited)	December 31, 2005	2005 (unaudited)	2006 (unaudited)
Cash provided by (used in) operating activities	$ 15,916	$ (668)	$ 16,786	$ (4,138)	$ 1,320	$ 9,586	$ 36,980
Cash provided by (used in) investing activities	(10,285)	2,853	(18,124)	4,099	(207,183)	$ 7,832	$ (2,226,725)
Cash provided by (used in) financing activities	(5,631)	(2,185)	1,338	39	209,635	$ (17,212)	$ 2,235,212
Increase in cash and cash equivalents	$	$	$	$	$ 3,772	$ 206	$ 45,467

Operating Cash Flows. For the nine-months ended September 30, 2006, the Contributed Entities had operating cash flows of approximately $37 million, based on an operating net income of approximately $40 million. For the year ended December 31, 2005, the operating cash flows of the Contributed Entities totaled approximately $1.3 million, based on an operating net loss of $49.2 million that was offset primarily by depreciation and amortization amounts related to the Kendall acquisition in December 2004 and the related financing arrangement. For the year ended December 31, 2004, the operating cash flows of the Contributed Entities totaled approximately $12.6 million, based on an operating net loss of approximately $23.1 million that was offset primarily by impairment charges associated with a write-down of property, plant and equipment incurred by the predecessor entity. For the year ended December 31, 2003, the Contributed Entities had operating cash flows of approximately $15.2 million, based on an operating net loss of $231.3 million that was offset primarily by impairment charges incurred by the predecessor entity.

Cash Flows from Investment Activities. For the nine months ended September 30, 2006, the Contributed Entities had negative cash flows from investment activities of approximately $2.2 billion, which is primarily attributable to the acquisition of the LS Generation Facilities in May 2006 and the related assumption of liabilities, as well as an increase in restricted cash related to the financing for the construction of the Plum Point project. For the year ended December 31, 2005, the Contributed Entities had negative cash flows from investment activities of approximately $207.2 million, which is primarily attributable to the acquisition of Ontelaunee in October 2005 and the related assumption of liabilities. For the year ended December 31, 2004, the Contributed Entities had negative cash flows from investment activities of approximately $14.0 million, which is primarily due to a change in restricted cash attributable to Kendall. For the year ended December 31, 2003, the Contributed Entities had negative cash flows from investment activities of approximately $7.4 million, which is primarily due to a change in restricted cash attributable to activities at the predecessor entity.

Cash Flows from Financing Activities. For the nine months ended September 30, 2006, cash flows from financing activities for the Contributed Entities totaled approximately $2.2 billion, which is attributable primarily to proceeds from capital contributions and long-term debt related to the acquisition of the LS Generation Facilities and the construction of the Plum Point project. For the year ended December 31, 2005, cash flows from financing activities for the Contributed Entities totaled approximately $209.6 million, which is attributable primarily to the repayment of existing debt being offset by the proceeds from capital contributions and term loans associated with the Kendall and Ontelaunee credit facilities. For the year ended December 31, 2004, cash flows from financing activities for the Contributed Entities totaled approximately $1.4 million, which is attributable primarily to capital contributions offset by principal payments on long-term debt. Cash used in financing activities by the Contributed Entities for the year ended December 31, 2003 totaled approximately $7.8 million, representing primarily repayment of long-term debt by the predecessor entity.

Conclusion. As described in Overview, because the various power generation facilities owned by the Contributed Entities were not all acquired in the same period, quantitative and qualitative period-to-period comparisons of the Contributed Entities income and cash flows may not be helpful to understand the financial and operational performance of the Contributed Entities as a whole. The acquisition of the various power generation facilities at different times not only affected the operating cash flows of the Contributed Entities, but the financing arrangements related thereto also affected cash flows from investment and financing activities. As a result, the historical cash flow amounts presented in this section may not be indicative of how the Contributed Entities will perform in the future.

In general, earnings and cash flows of the Contributed Entities are affected by factors such as changes in energy prices, weather conditions, availability and price of underlying fuel sources and other general economic conditions. They are also subject to seasonal fluctuation due to greater demand for energy and volatility of energy prices during the summer months. Most of these factors are outside of the Contributed Entities control, and it is uncertain how any of these factors may impact the income or cash flows of the Contributed Entities in the future.

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Results of Operations

The following discusses the results of operations of the Contributed Entities for their fiscal years ended December 31, 2005, 2004 and 2003 and for the nine months ended September 30, 2006 and 2005. As discussed above under Overview, the results of operations of the Contributed Entities were significantly affected by the acquisitions of the various Contributed Entities at different times during these periods. Furthermore, the prior owners of the Contributed Entities no longer manage them, and the policies and strategies of the LS Power Group, who currently manages the Contributed Entities, may differ significantly from the policies and strategies of the parties that formerly owned and managed the Contributed Entities. As a result, a comparison of the results of operations of the Contributed Entities for the periods indicated above must take into account that the results of operations of the Contributed Entities prior to the acquisition of a particular power generation facility may not be comparable to the results of operations of the Contributed Entities following such acquisition.

The Combined Financial Statements of the Power Generation Business of LS Power Development, LLC and Affiliates include combined statements of operations for the year ended December 31, 2005 and combined statements of operations for the month ended December 31, 2004. The results of operations for the year ended December 31, 2003 and for the eleven-month period ended November 30, 2004 are derived from the predecessor financial statements of LSP-Kendall Energy, LLC and LSP Equipment, LLC included elsewhere in this proxy statement/prospectus. No predecessor financial statements have been included for any other Contributed Entities or for any other periods. For more information on how the nature and timing of the acquisitions of the various Contributed Entities by the LS Power Group may affect the comparability of the Contributed Entities results of operations for different periods, see Overview.

Summary Financial Information

The following table presents summary financial information on the results of operations of the Contributed Entities for their fiscal years 2005, 2004 and 2003 and for the nine months ended September 30, 2006 and 2005.

	Predecessor Company January 1, 2003 to December 5,	Predecessor Reorganized Company December 6, 2003 to December 31,	Predecessor Reorganized Company Eleven Months Ended November 30,	One Month Ended December 31,	Year Ended December 31,	Nine months ended September 30,	
(in thousands)	**2003 (1) (unaudited)**	**2003 (1) (unaudited)**	**2004 (2) (unaudited)**	**2004 (2) (unaudited)**	**2005**	**2005 (unaudited)**	**2006 (unaudited)**
Revenues:							
Energy and capacity revenues	$ 60,662	$ 4,518	$ 73,446	$ 2,680	$ 65,537	$ 53,658	$ 650,825
Ancillary revenues					373		14,421
Total revenues	60,662	4,518	73,446	2,680	65,910	53,658	665,246
Expenses:							
Fuel and operations and maintenance expenses	22,435	729	22,260	1,396	43,985	34,625	506,686
Depreciation	23,056	1,161	13,721	387	6,573	3,512	33,062
Project development expenses				1,171	16,097	9,269	14,090
General and administrative expenses	2,483	362	5,601	161	5,215	2,040	17,919
Fresh start reporting adjustments (3)	222,811						

Impairment charge (3)			28,947				
Total expenses	270,785	2,252	70,529	3,115	71,870	49,446	571,757
Income (loss) from operations	(210,123)	2,266	2,917	(435)	(5,960)	4,212	93,489
Interest expense and amortization of deferred financing costs	(21,441)	(1,962)	(33,634)	(3,828)	(57,160)	(33,725)	(105,027)
Interest income	200		347	87	1,121	693	15,003
Other income (expense), net	(210)	17	9,098	2,375	12,786	12,119	33,830
Minority interest							5,969
Net income (loss) before income taxes	(231,574)	321	(21,272)	(1,801)	(49,213)	(16,701)	43,264
Income tax expense							(3,618)
Net income (loss)	$ (231,574)	$ 321	$ (21,272)	$ (1,801)	$ (49,213)	$ (16,701)	$ 39,646

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(1) The combined summary results of operations for the Contributed Entities for the year ended December 31, 2003 have been derived from the combined unaudited statements of operations of LSP-Kendall Energy, LLC and LSP Equipment, LLC and do not include the results of operations of any other Contributed Entities. The combined unaudited predecessor financial statements of LSP-Kendall Energy, LLC and LSP Equipment, LLC have been included elsewhere in this proxy statement/prospectus. None of the Contributed Entities was owned or managed by the LS Power Group at any time during the year ended December 31, 2003.

(2) The combined summary results of operations for the Contributed Entities for the year ended December 31, 2004 have been derived from the combined unaudited statements of operations of the Contributed Entities for the month ended December 31, 2004 and from the combined unaudited predecessor financial statements of LSP-Kendall Energy, LLC and LSP Equipment, LLC for the eleven months ended November 30, 2004 and do not include the results of operations of any other Contributed Entities (except, in the case of the month ended December 31, 2004, for the results of operations of LSP Kendall Holding, LLC and the Development Assets). The combined unaudited predecessor financial statements of LSP-Kendall Energy, LLC and LSP Equipment, LLC have been included elsewhere in this proxy statement/prospectus. None of the Contributed Entities was owned or managed by the LS Power Group at any time prior to December 1, 2004. Although the Development Assets were owned by the Contributed Entities prior to December 1, 2004, the financial condition and results of operations of the Development Assets were not material prior to such date and were therefore excluded from the combined financial statements for periods prior to such date.

(3) In connection with NRG Energy, Inc. s emergence from bankruptcy, LSP-Kendall Energy, LLC adopted fresh start accounting (Fresh Start) in accordance with the requirements of AICPA Statement of Position 90-7, Financial Reporting by Entities in Reorganization Under the Bankruptcy Code (SOP 90-7). The application of SOP 90-7 resulted in the creation of a new reporting entity. Consequently, the financial statements of the Predecessor Reorganized Company and the Predecessor Company are separated by a black line to indicate that the assets, liabilities and equity as well as the results of operations are not comparable between periods. Under the requirements of Fresh Start, LSP-Kendall Energy, LLC had adjusted its assets and liabilities to their estimated fair values as of December 5, 2003. The net effect of all Fresh Start adjustments resulted in a loss of $222.8 million, which is reflected in the Predecessor Company s results for the period from January 1, 2003 to December 5, 2003. In anticipation of the sale of its interests in Kendall, the carrying value of Kendall was compared to its estimated fair value and an impairment charge totaling $28.9 million was recorded for the period from January 1, 2004 to November 30, 2004.

Nine Months Ended September 30, 2006 Compared to Nine Months Ended September 30, 2005

Energy and Capacity Revenues

Combined energy and capacity revenues for the Contributed Entities for the nine months ended September 30, 2006 were approximately $650.1 million, compared to approximately $53.7 million for the nine months ended September 30, 2005. The difference was primarily related to the impact of the acquisitions of the LS Generation Facilities and Ontelaunee of $606.4 million, including $8.3 million of revenues due to changes in the fair value of heat rate call options, and a reduction in Kendall s unit 4 merchant energy and capacity revenues of approximately $10 million as a result of reduced generation and lower average energy prices. The term heat rate refers to a measure of generating thermal efficiency, generally expressed in Btu per kilowatt-hour (kWh).

Ancillary Revenues

Combined ancillary revenues for the Contributed Entities for the nine months ended September 30, 2006 were approximately $14.4 million. There were no combined ancillary revenues for the Contributed Entities for the nine months ended September 30, 2005. The increase in combined ancillary revenues from the nine-month period ended September 30, 2005 to the nine-month period ended September 30, 2006 was the result of the acquisition of Ontelaunee and the LS Generation Facilities. Ancillary revenues are earned from the sale of ancillary services, which are the products of a generation facility that support the transmission grid operation, allow generation to follow real-time changes in load and provide emergency reserves for major changes to the balance of generation and load.

Fuel and Operations and Maintenance Expenses

Combined fuel and operations and maintenance expenses for the Contributed Entities for the nine months ended September 30, 2006 were approximately $506.7 million. Combined fuel and operations and maintenance expenses for the Contributed Entities for the nine months ended September 30, 2005 were approximately $34.6 million. The difference was primarily related to the impact of the acquisitions of the LS Generation Facilities and Ontelaunee of approximately $489.5 million, a reduction in Kendall s unit 4 fuel expense in 2006 of approximately $9.0 million as a result of reduced energy and capacity revenues and a reduction in Kendall s

property tax expense of approximately $3.5 million and a reversal of approximately $4.3 million of accrued expenses due to a favorable decision in the Kendall property tax appeal that resulted in a reduction in Kendall s property tax assessment. For more information, please see Note 14 to the Unaudited Combined Financial Statements of the Power Generation Business of LS Power Development, LLC and Affiliates as of September 30, 2006.

Depreciation

Combined depreciation for the Contributed Entities for the nine months ended September 30, 2006 was approximately $33.1 million. Combined depreciation for the Contributed Entities for the nine months ended September 30, 2005 was approximately $3.5 million. The increase in combined depreciation was due to the impact of the acquisitions of the LS Generation Facilities and Ontelaunee of approximately $29.5 million.

Project Development Expenses

Combined project development expenses for the Contributed Entities for the nine months ended September 30, 2006 were approximately $14.1 million. Combined project development expenses for the Contributed Entities for the nine months ended September 30, 2005 were approximately $9.3 million. The increase in combined project development expenses from the nine-month period ended September 30, 2005 to the nine-month period ended September 30, 2006 was primarily due to the increased pursuit of new and existing greenfield development projects. Increased costs for such efforts related primarily to additional personnel costs and related overhead and travel costs of approximately $2.0 million and land options, permitting and legal costs related to these activities of approximately $2.7 million.

General and Administrative Expenses

Combined general and administrative expenses for the Contributed Entities for the nine months ended September 30, 2006 were approximately $17.9 million. Combined general and administrative expenses for the Contributed Entities for the nine months ended September 30, 2005 were approximately $2.0 million. In addition to the impact of the acquisitions of the LS Generation Facilities and Ontelaunee of approximately $13.5 million, there was an increase in Kendall s bad debt expense of $2.0 million resulting from an arbitration settlement agreement whereby the claims and counterclaims of the parties were dismissed without prejudice. For more information, please see Note 14 to the Unaudited Combined Financial Statements of the Power Generation Business of LS Power Development, LLC and Affiliates as of September 30, 2006.

Interest Expense and Amortization of Deferred Financing Costs

Combined interest expense and amortization of deferred financing costs for the Contributed Entities for the nine months ended September 30, 2006 was approximately $105.0 million. Combined interest expense and amortization of deferred financing costs for the Contributed Entities for the nine months ended September 30, 2005 was approximately $33.7 million. In addition to the impact of the acquisitions of the LS Generation Facilities and Ontelaunee of approximately $54.7 million, there was also interest expense in the 2006 period of approximately $27.6 million on the outstanding debt incurred in connection with construction of the Plum Point project. Additionally, in 2005, Kendall had amortized to interest expense approximately $12.0 million of debt discount. Such debt discount had been recorded in purchase accounting in December 2004. The remainder of such discount was charged to expense in October 2005 in connection with Kendall s debt refinancing.

Interest Income

Combined interest income for the Contributed Entities for the nine months ended September 30, 2006 was approximately $15.0 million. Combined interest income for the Contributed Entities for the nine months ended September 30, 2005 was approximately $0.7 million. In addition to the impact of the acquisitions of the LS

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Generation Facilities and Ontelaunee of approximately $1.8 million, the increase in combined interest income from the nine-month period ended September 30, 2005 to the nine-month period ended September 30, 2006 was also impacted primarily by interest income of approximately $12.5 million on the remaining cash balance from the issuance of term loans being used for construction of the Plum Point project beginning in March 2006.

Other Income, Net

Combined other income, net, for the Contributed Entities for the nine months ended September 30, 2006 was approximately $33.8 million. Combined other income, net for the Contributed Entities for the nine months ended September 30, 2005 was approximately $12.1 million. The increase in combined other income, net, from the nine-month period ended September 30, 2005 to the nine-month period ended September 30, 2006 was primarily due to a $35.3 million gain recognized on sales of a portion of PPEA s undivided interests in the Plum Point project in 2006 offset by a loss of $4.7 million on the sale of a portion of a gas option agreement in 2006 and approximately $8 million of income recorded in 2005 due to changes in the fair value of interest rate swap agreements that were not classified as cash flow hedges. Such interest rate swap agreements were terminated in October 2005 in connection with the refinancing of the existing debt relating to Kendall.

Income tax expenses

Combined income tax provision for the Contributed Entities for the nine months ended September 30, 2006 was approximately $3.6 million. At September 30, 2006, the Contributed Entities established a $3.6 million valuation allowance for a portion of the federal and state net operating losses due to the uncertainty of future earnings of certain entities included in the combined financial statements and the Contributed Entities management s inability to effect a tax planning strategy to use such net operating losses due to the planned Merger Agreement Transactions with Dynegy. Combined income tax provision for the Contributed Entities for the nine months ended September 30, 2005 was zero. The entities included in the 2005 combined financial statements were organized as either limited liability companies or limited partnerships, which are pass-through entities for income tax purposes. Therefore, federal and state income taxes are assessed at the owner level. Accordingly, no provision was made for federal or state income taxes in the accompanying September 30, 2005 combined financial statements.

Year Ended 2005 Compared to Year Ended 2004

Energy and Capacity Revenues

Combined energy and capacity revenues for the Contributed Entities for fiscal year 2005 were approximately $65.5 million. Combined energy and capacity revenues for the Contributed Entities for fiscal year 2004 were approximately $76.1 million, consisting of approximately $2.7 million for the month ended December 31, 2004 and approximately $73.4 million for the eleven months ended November 30, 2004. The decrease in combined energy and capacity revenues from 2004 to 2005 was primarily due to the amortization of approximately $29.9 million in 2005 relating to the above-market portion of two power purchase agreements recorded as a reduction to energy and capacity revenues offset by higher Kendall unit 4 merchant energy and capacity revenues of approximately $15.8 million as result of increased generation for 2005 as compared to 2004. Kendall recorded the fair value of the power purchase agreements as intangible assets when acquired on December 1, 2004. Such agreements are being amortized over the life of the contract, resulting in a reduction to revenues.

Ancillary Revenues

Combined ancillary revenues for the Contributed Entities for fiscal year 2005 were approximately $0.4 million. There were no combined ancillary revenues in 2004. The increase in combined ancillary revenues from 2004 to 2005 was due to the acquisition of Ontelaunee.

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Fuel and Operations and Maintenance Expenses

Combined fuel and operations and maintenance expenses for the Contributed Entities for fiscal year 2005 were approximately $44.0 million. Combined fuel and operations and maintenance expenses for the Contributed Entities for fiscal year 2004 were approximately $23.7 million, consisting of approximately $1.4 million for the month ended December 31, 2004 and approximately $22.3 million for the eleven months ended November 30, 2004. In addition to the impact of the acquisition of Ontelaunee of approximately $1.9 million, the increase in combined fuel and operations and maintenance expenses from 2004 to 2005 was also impacted primarily by an increase of approximately $15.2 million in Kendall s unit 4 fuel costs related to the increase in energy and capacity revenues, an increase of approximately $1.3 million in maintenance parts and services and an increase of approximately $1.2 million in property taxes.

Depreciation

Combined depreciation for the Contributed Entities for fiscal year 2005 was approximately $6.6 million. Combined depreciation for the Contributed Entities for fiscal year 2004 was approximately $14.1 million, consisting of approximately $0.4 million for the month ended December 31, 2004 and approximately $13.7 million for the eleven months ended November 30, 2004. Offsetting the increase of approximately $1.8 million related to the acquisition of Ontelaunee was a decrease in combined depreciation from 2004 to 2005 of approximately $12.4 million due to purchase price adjustments made in connection with the Kendall acquisition in December 2004. A significant portion of the purchase price was assigned to acquired power purchase agreements as opposed to property, plant and equipment.

Project Development Expenses

Combined project development expenses for the Contributed Entities for fiscal year 2005 were approximately $16.1 million. Combined project development expenses for the Contributed Entities for fiscal year 2004 were approximately $1.2 million, consisting of approximately $1.2 million for the month ended December 31, 2004 and zero for the eleven months ended November 30, 2004. The increase in combined project development expenses from 2004 to 2005 was primarily due to the inclusion of only one month of activity in the 2004 combined financial statements. For periods prior to December 1, 2004 the combined financial statements included in this proxy statement/prospectus are predecessor combined financial statements of LSP-Kendall Energy, LLC and LSP Equipment, LLC and do not include the Development Assets.

General and Administrative Expenses

Combined general and administrative expenses for the Contributed Entities for fiscal year 2005 were approximately $5.2 million. Combined general and administrative expenses for the Contributed Entities for fiscal year 2004 were approximately $5.8 million, consisting of approximately $0.2 million for the month ended December 31, 2004 and approximately $5.6 million for the eleven months ended November 30, 2004. Offsetting the impact of the acquisition of Ontelaunee of approximately $1.2 million was a decrease in combined general and administrative expenses from 2004 to 2005 due primarily to lower third party operator fees in the amount of approximately $0.5 million as a result of an amendment of the Kendall operations and maintenance agreement in May 2005 and higher predecessor corporate overhead expenses in 2004.

Interest Expense and Amortization of Deferred Financing Costs

Combined interest expense and amortization of deferred financing costs for the Contributed Entities for fiscal year 2005 was approximately $57.2 million. Combined interest expense and amortization of deferred financing costs for the Contributed Entities for fiscal year 2004 was approximately $37.4 million, consisting of approximately $3.8 million for the month ended December 31, 2004 and approximately $33.6 million for the eleven months ended November 30, 2004. In addition to the impact of the acquisition of Ontelaunee of approximately $0.7 million, the increase in combined interest expense and amortization of deferred financing

costs from 2004 to 2005 was also impacted primarily by the write-off of the remaining Kendall debt discount balance of approximately $15.0 million in connection with Kendall s debt refinancing in October 2005.

Interest Income

Combined interest income for the Contributed Entities for fiscal year 2005 was approximately $1.1 million. Combined interest income for the Contributed Entities for fiscal year 2004 was approximately $0.4 million, consisting of approximately $0.1 million for the month ended December 31, 2004 and approximately $0.3 million for the eleven months ended November 30, 2004. In addition to the impact of the acquisition of Ontelaunee of approximately $0.1 million, the increase in combined interest income from 2004 to 2005 was also impacted by higher interest rates on investments of restricted cash during 2005.

Other Income, Net

Combined other income, net for the Contributed Entities for fiscal year 2005 was approximately $12.8 million. Combined other income, net for the Contributed Entities for fiscal year 2004 was approximately $11.5 million, consisting of approximately $2.4 million for the month ended December 31, 2004 and approximately $9.1 million for the eleven months ended November 30, 2004. The increase in combined other income, net from 2004 to 2005 was primarily due to a $4.1 million consent fee received in 2005 in connection with the assignment of a power purchase agreement, which was partially offset by lower gains related to changes in the market value of interest rate swaps not designated as cash flow hedges of approximately $3.5 million.

Year Ended 2004 Compared to Year Ended 2003

Energy and Capacity Revenues

Combined energy and capacity revenues for the Contributed Entities for fiscal year 2004 were approximately $76.1 million, consisting of approximately $2.7 million for the month ended December 31, 2004 and approximately $73.4 million for the eleven months ended November 30, 2004. Combined energy and capacity revenues for the Contributed Entities for fiscal year 2003 were approximately $65.2 million, consisting of approximately $60.7 million for the period January 1, 2003 to December 5, 2003 and approximately $4.5 million for the period December 6, 2003 to December 31, 2003. The increase in combined energy and capacity revenues from 2003 to 2004 of $10.9 million was primarily due to higher Kendall unit 4 merchant revenues and power purchase agreement revenues in the amounts of approximately $8.4 million and approximately $1.4 million, respectively.

Fuel and Operations and Maintenance Expenses

Combined fuel and operations and maintenance expenses for the Contributed Entities for fiscal year 2004 were approximately $23.7 million, consisting of approximately $1.4 million for the month ended December 31, 2004 and approximately $22.3 million for the eleven months ended November 30, 2004. Combined fuel and operations and maintenance expenses for the Contributed Entities for fiscal year 2003 were approximately $23.2 million, consisting of approximately $22.4 million for the period January 1, 2003 to December 5, 2003 and approximately $0.8 million for the period December 6, 2003 to December 31, 2003. There were no significant variations in combined fuel and operations and maintenance expenses from 2003 to 2004.

Depreciation

Combined depreciation for the Contributed Entities for fiscal year 2004 was approximately $14.1 million, consisting of approximately $0.4 million for the month ended December 31, 2004 and approximately $13.7 million for the eleven months ended November 30, 2004. Combined depreciation for the Contributed Entities for fiscal year 2003 was approximately $24.2 million, consisting of approximately $23.1 million for the period January 1, 2003 to December 5, 2003 and approximately $1.1 million for the period December 6, 2003 to

December 31, 2003. The decrease in combined depreciation from 2003 to 2004 was primarily due to the write-down of property, plant and equipment as a result of Kendall s adoption of Fresh Start accounting in December 2003.

Project Development Expenses

Combined project development expenses for the Contributed Entities for fiscal year 2004 were approximately $1.2 million, consisting of approximately $1.2 million for the month ended December 31, 2004 and zero for the eleven months ended November 30, 2004. There were no combined project development expenses included in the combined financial statements for periods prior to December 31, 2004. For periods prior to December 1, 2004 the combined financial statements included in this proxy statement/prospectus are predecessor combined financial statements of LSP-Kendall Energy, LLC and LSP Equipment, LLC and do not include the Development Assets.

General and Administrative Expenses

Combined general and administrative expenses for the Contributed Entities for fiscal year 2004 were approximately $5.8 million, consisting of approximately $0.2 million for the month ended December 31, 2004 and approximately $5.6 million for the eleven months ended November 30, 2004. Combined general and administrative expenses for the Contributed Entities for fiscal year 2003 were approximately $2.8 million, consisting of approximately $2.5 million for the period January 1, 2003 to December 5, 2003 and approximately $0.3 million for the period December 6, 2003 to December 31, 2003. The increase in combined general and administrative expenses from 2003 to 2004 was primarily due to higher predecessor corporate overhead expenses.

Fresh Start Reporting Adjustments

Combined fresh start reporting adjustments for the Contributed Entities for fiscal year 2003 were approximately $222.8 million, consisting of approximately $222.8 million for the period January 1, 2003 to December 5, 2003 and zero for the period December 6, 2003 to December 31, 2003. Such adjustments were due to Kendall adopting the requirements of AICPA Statement of Position 90-7, Financial Reporting by Entities in Reorganization Under the Bankruptcy Code (SOP 90-7). The application of SOP 90-7 resulted in the creation of a new reporting entity. Under the requirements of Fresh Start, Kendall adjusted its assets and liabilities to their estimated fair values as of December 5, 2003. The net effect of all Fresh Start adjustments resulted in a loss of $222.8 million, which is reflected in the predecessor company s results for the period from January 1, 2003 to December 5, 2003.

Impairment charge

Combined impairment charge for the Contributed Entities for fiscal year 2004 were approximately $28.9 million, consisting of approximately $28.9 million for the period January 1, 2004 to November 30, 2004 and zero for the period December 1, 2004 to December 31, 2004. Such charges represent a write-down of property, plant and equipment as a result of the planned sale of Kendall to the LSP Kendall Holding, LLC, which was finalized in December 2004.

Interest Expense and Amortization of Deferred Financing Costs

Combined interest expense and amortization of deferred financing costs for the Contributed Entities for fiscal year 2004 was approximately $37.4 million, consisting of approximately $3.8 million for the month ended December 31, 2004 and approximately $33.6 million for the eleven months ended November 30, 2004. Combined interest expense and amortization of deferred financing costs for the Contributed Entities for fiscal year 2003 was approximately $23.2 million, consisting of approximately $21.2 million for the period January 1,

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2003 to December 5, 2003 and approximately $2.0 million for the period December 6, 2003 to December 31, 2003. The increase in combined interest expense and amortization of deferred financing costs from 2003 to 2004 was primarily due to the amortization of debt discount. A debt discount was recorded by Kendall as a result of adopting Fresh Start accounting in December 2003.

Interest Income

Combined interest income for the Contributed Entities for fiscal year 2004 was approximately $0.4 million, consisting of approximately $0.1 million for the month ended December 31, 2004 and approximately $0.3 million for the eleven months ended November 30, 2004. Combined interest income for the Contributed Entities for fiscal year 2003 was approximately $0.2 million. The increase in combined interest income from 2003 to 2004 was primarily due to higher interest rates on investments of restricted cash during 2004.

Other Income, Net

Combined other income, net for the Contributed Entities for fiscal year 2004 was approximately $11.5 million, consisting of approximately $2.4 million for the month ended December 31, 2004 and approximately $9.1 million for the eleven months ended November 30, 2004. Combined other income, net for the Contributed Entities for fiscal year 2003 was approximately $(0.2) million, consisting of approximately $(0.2) million for the period January 1, 2003 to December 5, 2003 and zero for the period December 6, 2003 to December 31, 2003. The increase in combined other income, net from 2003 to 2004 of $12.5 million was primarily due to fluctuations in the market value of interest rate swap agreements.

Outlook

The operations and performance of the Contributed Entities generally reflect a variety of key economic and industry-wide factors, such as market prices for energy and capacity, underlying fuel (particularly natural gas) prices, weather conditions and competition within a given regional market, and changes in regulatory environment. Although the Contributed Entities have mitigated a substantial portion of the risks and volatility associated with power and fuel prices through the use of forward power sale agreements, financial heat rate call option agreements and other arrangements, adverse developments in any of the key factors could impact the Contributed Entities operating performance and financial results.

In the near term, the implementation of various power sale agreements and heat rate call option arrangements, as well as the availability of long-term fuel transportation agreements and other ancillary operating arrangements, are expected to support stable operations and financial performance for the Contributed Entities. If these agreements are not replaced as they expire over time, however, the Contributed Entities could become increasingly subject to short-term volatility in market conditions.

Recent Regulatory Developments. On September 21, 2006, the FERC conditionally accepted the CAISO s Market Redesign and Technology Upgrade, or MRTU, proposal, which is currently scheduled to become effective in November 2007. Significant components of MRTU include, among other things, a revised congestion management system, a day-ahead market for trading and scheduling energy, a transparent pricing system reflecting locational market prices and revised market power mitigation measures. The FERC also recently approved a mechanism to provide financial protection to existing transmission rights holders against any congestion charges that may arise under the CAISO s Locational Marginal Price market design. It is uncertain how these developments may affect the operations and performance of the Contributed Entities facilities located in the CAISO area. California has also recently commenced a requirement for load serving entities to procure adequate resources to serve their load obligations. These Resource Adequacy Requirements (RAR) should benefit the Contributed Entities California projects, as the RAR should provide generators with additional revenues for owning installed capacity within California.

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In September 2006, the California legislature enacted the California Global Warming Solutions Act (AB 32), requiring the California Air Resources Board to institute a system for emissions reporting and to adopt regulations that will result in reductions of greenhouse gas emissions by 2020. AB 32 does not specify the mechanisms by which these reductions will be achieved. Therefore, the impact, positive or negative, of the legislation on the business of the Contributed Entities is unknown at this time. It is possible, however, that the regulations that implement the objectives of AB 32 will require emissions reduction measures at the California facilities, which may have a material effect on the business of the Contributed Entities.

On June 16, 2006, the FERC issued an order approving a proposed settlement that provides for interim capacity transition payments for all generators in New England for the period starting December 1, 2006 through May 31, 2010, and the establishment of a Forward Capacity Market, or FCM, commencing May 31, 2010. The FCM to be established by the settlement will use an annual descending clock forward capacity auction, by which load serving entities in the region can obtain their installed capacity requirements. The auctions are expected to take place three years in advance. However, on December 28, 2006 the Connecticut Attorney General filed an appeal of the FERC approval with the U.S. Court of Appeals for the DC Circuit. It is expected that both Casco Bay and Bridgeport, when its RMR contract is terminated, should benefit from the implementation of the FCM program by the ISO New England (ISO-NE), which is expected to improve capacity payments to generators in the region, with higher payments in subregions, such as Southwest Connecticut, with disproportionate demand for electricity relative to its supply.

In an order issued on December 22, 2006, the FERC approved with certain conditions the reliability pricing model, or RPM, settlement filed by the PJM Interconnection (PJM) and various market participants. RPM includes a market for locational, deliverable capacity, a three-year forward capacity auction starting in April 2007, with pricing based, in part, on PJM s installed reserve margin and the cost of new entry, a price guaranty for certain new entrants and protection against buyers potential exercise of market power when sellers that are net buyers attempt to depress prices artificially. RPM requires PJM to evaluate reliability on a locational basis. There must be sufficient generation in each locational delivery area, or LDA, to serve the load in such LDA. PJM will start with four LDAs at the inception of RPM and will phase in 23 LDAs over a four-year period. Load may acquire reliability services by purchasing generation capacity, transmission or demand response services. Resources clearing in the auction will be committed for a one year period, three years in advance of such delivery year. It is expected that both Kendall and Ontelaunee would benefit from implementation of RPM as a result of more transparent and predictable market prices for capacity.

The Environmental Protection Agency (EPA) recently issued a rule under Section 316(b) of the Clean Water Act requiring existing electric generation facilities with once-through cooling water intake structures to determine and implement the best available technology to minimize adverse effects to fish and shellfish from these systems. Under Phase II of the rule, four of the operating facilities, Moss Landing, Morro Bay, South Bay and Bridgeport, have been required to conduct Comprehensive Demonstration Studies to determine what, if any, facility-specific modifications, operational measures or restoration measures are necessary to meet new impingement, mortality and/or entrainment reduction requirements. The total cost of implementing any required solutions can not yet be determined, but the Contributed Entities may incur significant capital expenditures and compliance costs at some of the Operating Assets.

For a further discussion of regulatory and environmental matters, see Business of the Contributed Entities Regulatory and Environmental Matters.

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Critical Accounting Policies

The Combined Financial Statements of the Power Generation Business of LS Power Development, LLC and Affiliates were prepared in accordance with GAAP. The process of preparing combined financial statements in accordance with GAAP requires the management of the Contributed Entities to make estimates and judgments. It is possible that materially different amounts could be recorded if these estimates and judgments change or prove to be inaccurate in any way. The management of the Contributed Entities has identified the following accounting policies as critical in that they require a significant amount of estimation and judgment and are important to the portrayal of the combined financial statements of the Contributed Entities:

- Revenue Recognition;
- Valuation of Long-Lived Assets and Intangible Assets;
- Accounting for Estimated Useful Lives and Asset Retirement Obligations;
- Accounting for Acquisitions;
- Accounting for Contingencies, Guarantees and Indemnifications;
- Income Taxes; and
- Derivative Financial Instruments.

Revenue Recognition

The Contributed Entities earn revenue from their facilities in three ways: (1) from the sale of energy generated by the facilities; (2) from the sale of energy generation capacity of the facilities; and (3) from the sale of ancillary services, which are the products of a generation facility that support the transmission grid operation, allow generation to follow real-time changes in load and provide emergency reserves for major changes to the balance of generation and load. The Contributed Entities recognize revenue from sales of electricity upon delivery to customers based upon the output delivered and capacity provided at the lesser of amounts billable under the power purchase agreements, or the average estimated contract rates over the initial term of the power purchase agreements. Revenues from sales of electricity not covered under power purchase agreements are recorded as delivered at current market prices.

Valuation of Long-Lived Assets and Intangible Assets

Management of the Contributed Entities evaluates long-lived assets, such as property, plant and equipment, and intangible assets and goodwill, when events or changes in circumstances lead to a reduction in the estimated useful lives or estimated future cash flows necessary to recover the carrying value of such assets. Factors that could trigger an impairment analysis, include, among others:

- significant underperformance relative to historical or projected future operating results;

- significant changes in the manner of use of the assets or the strategy for the Contributed Entities overall business; and

- significant negative industry or economic trends.

Management of the Contributed Entities assesses the carrying value of property, plant and equipment in accordance with Statement of Financial Accounting Standards (SFAS) No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of the assets to the future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets and would be charged to earnings. Intangible assets with determinable lives are amortized over their respective useful lives. Assets to be disposed of are reported at the lower of the carrying amount or fair value less the costs to sell.

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Assessments by the management of the Contributed Entities regarding the valuation of tangible and intangible assets require the use of estimates and judgments. Market conditions, energy prices, estimated useful lives of the assets, discount rate assumptions and legal factors impacting the business of the Contributed Entities may have a significant effect on these estimates and judgments. If different judgments were applied, estimates could differ significantly. Actual results could vary materially from these estimates.

Accounting for Estimated Useful Lives and Asset Retirement Obligations

The estimated useful lives of the Contributed Entities long-lived assets are used to compute depreciation expense and future asset retirement obligations and are also used in impairment testing. Depreciation is computed on a straight line basis over the estimated remaining useful lives of individual assets or classes of assets. The useful lives for office equipment and furniture and fixtures are seven years, software is three years, computer hardware is five years and plant and equipment is 30-35 years except with respect to South Bay, the useful life of which is four years. Estimated useful lives are based on, among other things, the assumption that appropriate maintenance capital expenditures are made while the assets are still in operation. Without these continued maintenance capital expenditures, the useful lives of these assets could decrease significantly. Estimated useful lives could also be impacted by such factors as future energy prices, environmental regulations, various legal factors and competition. If the useful lives of these assets were found to be shorter than originally estimated, depreciation expense may increase, liabilities for future asset retirement obligations may be insufficient and impairments in the carrying values of long-lived assets and intangible assets may result.

The fair value of the liability for an asset retirement obligation is recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The present value of the liability is added to the carrying amount of the associated asset and this additional carrying amount is depreciated over the life of the assets. The liability is accreted through charges to operating expenses. If the obligation is settled for other than the carrying amount of the liability, a gain or loss is recognized on settlement.

Under the provisions of SFAS No. 143, *Asset Retirement Obligations*, and FASB Interpretation (FIN) No. 47, *Accounting for Conditional Asset Retirements*, management of the Contributed Entities is required to record as liabilities certain legal obligations, such as proper decommissioning under environmental regulations associated with the retirement of tangible, long-lived assets on the Contributed Entities balance sheet. These liabilities are recorded at a discount, when the liability is incurred. Significant judgment is involved in estimating future cash flows associated with such obligations, as well as the ultimate timing of the cash flows. If estimates of the amount or timing of the cash flows change, the change may have a material impact on the Contributed Entities results of operations.

Accounting for Acquisitions

The Contributed Entities account for acquired businesses using the purchase method of accounting, which requires that assets acquired and liabilities assumed be recorded at the date of acquisition at their respective fair values. The combined financial statements reflect the results of operations and cash flows of an acquired business after completion of the acquisition. The cost to acquire a business, including transaction costs, is allocated to the underlying assets of the acquired business in proportion to their respective fair values. Any excess purchase price over estimated fair values of the net assets acquired is recorded as goodwill. The judgements made in determining the estimated fair value assigned to each class of assets acquired and liabilities assumed can materially impact results of operations. Accordingly, for significant items, management typically obtains assistance from third party valuation specialists.

Accounting for Contingencies, Guarantees and Indemnifications

Management of the Contributed Entities follows the guidance of FIN No. 45, *Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*, for

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disclosure and accounting of various guarantees and indemnifications entered into during the course of business. When a guarantee or indemnification subject to FIN No. 45 is entered into, an estimated fair value of the guarantee or indemnification is assessed. Some guarantees and indemnifications could have significant financial impact under certain circumstances. Management of the Contributed Entities considers the probability of such circumstances occurring when estimating the fair value.

Income Taxes

The majority of the Contributed Entities have been organized as limited liability companies or limited partnerships. Federal and state taxes on income earned by such entities are assessed at the member or partner level. The following Contributed Entities are corporations: LSP-Moss Blocker, Inc.; LSP-Morro Blocker, Inc.; LSP-Oakland Blocker, Inc.; LSP-SB Blocker, Inc.; LSP-Arlington Blocker, Inc.; LSP-Griffith Blocker, Inc.; LSP-Bridgeport Blocker, Inc.; LSP-Casco Blocker, Inc.; LSP-Plum Point Blocker, Inc.; LSP-Kendall Blocker, Inc.; and LSP-ONT Blocker, Inc.

The Contributed Entities follows the guidance in SFAS No. 109, *Accounting for Income Taxes*, which requires it to use the asset and liability method of accounting for deferred income taxes and provide deferred income taxes for all significant temporary differences. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of the existing assets and liabilities and their respective tax bases and operating loss carryforwards. A valuation allowance is provided when it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are measured using enacted tax rates expected to be applied to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that included the enactment date.

Management of the Contributed Entities is required to estimate income taxes in each of the jurisdictions in which the Contributed Entities operate. This process involves estimating actual current tax payable and related tax expense together with assessing temporary differences resulting from differing treatment of certain items, such as depreciation, for tax and accounting purposes. These differences can result in deferred tax assets and liabilities, which are included within the combined balance sheets.

The likelihood that deferred tax assets will be recovered from future taxable income must be assessed and, to the extent that it is more likely than not (a likelihood of more than 50%) that some portion or all of the deferred tax assets will not be realized, a valuation allowance must be established. All available evidence is considered, both positive and negative, to determine whether, based on the weight of the evidence, a valuation allowance is needed. Evidence used includes information about the Contributed Entities current financial condition and results of operations for the current and preceding years, as well as all currently available information about future years, including anticipated future performance, the reversal of deferred tax liabilities and tax planning strategies. Any change in the valuation allowance would impact the income tax provision and net income in the period in which such a determination is made.

Derivative Financial Instruments

The Contributed Entities enter into interest rate swaps and other contracts to reduce their exposure to market risks from changing interest, commodity and energy rates. In accordance with SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended, all derivative instruments are recorded on the combined balance sheet as either assets or liabilities and are measured at fair value regardless of the purpose or intent for holding them. On the date a derivative contract is entered into, management of the Contributed Entities may designate hedging relationships. Derivative instruments consist of a combination of energy-related derivative contracts and interest rate swap agreements. While some of these agreements represent instruments for which prices are available from external sources, certain contracts are not actively traded and are valued using

modeling techniques. Fair values are determined through a combination of management estimates and information obtained from third parties using the latest available market data. However, future market prices may vary from those used in determining the fair value of the derivative instruments, and it is possible that such variations could be material.

The interest rate swap agreements are used to convert the floating interest rate component of a portion of long-term debt obligations to fixed rates. In addition, the Contributed Entities have sold heat-rate call option contracts on generating capacity at a number of their electric generation facilities, including Ontelaunee, Moss Landing 1&2, Arlington Valley, Griffith and Casco Bay.

The Contributed Entities enter into interest rate swaps and heat rate option contracts with either major financial institutions or investment grade counterparties and make reasonable attempts to diversify transactions among counterparties, thereby limiting exposure to credit and performance related risks.

The Contributed Entities management documents all relationships between hedging instruments and hedged items, as well as their risk management objective and strategy. This process includes linking all derivatives that are designated as hedges to specific assets or liabilities on the combined balance sheets or to forecasted transactions. Management also assesses, both at the hedge s inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows of the hedged items. When it is determined that a derivative is not highly effective as a hedge or that it has ceased to be a highly effective hedge, management discontinues hedge accounting prospectively. This could occur when (1) it is determined that a derivative is no longer effective in offsetting changes in the cash flows of a hedged item; (2) the derivative expires or is sold, terminated or exercised; or (3) the derivative is discontinued as a hedging instrument because it is unlikely that a forecasted transaction will occur. When hedge accounting is discontinued because it is determined that the derivative no longer qualifies as an effective hedge of the cash flows, the derivative will continue to be carried at fair value in the statement of financial position, and gains and losses that were accumulated in other comprehensive income are either recognized immediately or over the remaining term of the forecasted transaction.

Changes in the fair value of derivative instruments are either recognized in income or owners equity as a component of accumulated other comprehensive income or loss (AOCI), depending upon their use and designation. Gains and losses related to transactions that qualify for hedge accounting are recorded in AOCI and reflected in income in the period the hedged items affect earnings. Otherwise any gains and losses resulting from changes in the market value of the contracts are recorded in income in the current period.

As of September 30, 2006 and December 31, 2005, the fair value of derivative instruments totaled approximately $0.5 million and a liability of approximately $95,000, respectively.

Recent Accounting Pronouncements

In June 2006, the the Financial Accounting Standards Board (FASB) issued FIN No. 48, *Accounting for Uncertainty in Income Taxes*. The Interpretation clarifies the accounting for uncertainty in income taxes recognized in a company s financial statements in accordance with SFAS 109, *Accounting for Income Taxes*. The Interpretation prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The Interpretation also provides guidance on the related de recognition, classification, interest and penalties, accounting for interim periods, disclosure and transition of uncertain tax positions. The Interpretation is effective for fiscal years beginning after December 15, 2006, with the cumulative effect of the change in accounting principle recorded as an adjustment to opening retained earnings. The Contributed Entities do not expect the impact of this pronouncement to have a material impact on its combined financial statements.

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In February 2006, the FASB issued SFAS 155, *Accounting for Certain Hybrid Financial Instruments, an amendment of FASB Statements No. 133 and 140*. Among other items, SFAS 155 addresses certain accounting issues surrounding securitized financial assets and hybrid financial instruments with embedded derivatives that require bifurcation. The Contributed Entities must adopt SFAS 155 no later than January 1, 2007. The Contributed Entities are in the processes of assessing the impact of SFAS 155.

In September 2006, the FASB issued SFAS 157, *Fair Value Measurements*. SFAS 157 provides a definition of fair value as well as a framework for measuring fair value. In addition, SFAS 157 expands the fair value measurement disclosure requirements of other accounting pronouncements to require, among other things, disclosure of the methods and assumptions used to measure fair value as well as the earnings impact of certain fair value measurement techniques. SFAS 157 does not expand the use of fair value in existing accounting pronouncements. The Contributed Entities will adopt the provisions of SFAS 157 prospectively and must adopt SFAS 157 no later than January 1, 2008. The potential impact of adoption is not yet determinable.

Market Risk

The Contributed Entities are exposed to market risks associated with derivative instruments, such as heat rate call option agreements and interest rate swaps, that have been entered into as part of their business and asset financing activities, as well as changes in interest rates. As most of the relevant derivative instruments were entered into by the Contributed Entities in 2006, they have not been material to the historical financial conditions and results of operations of the Contributed Entities. As of September 30, 2006, the Contributed Entities had indebtedness of $791.3 million subject to interest rate risk, primarily in the form of variable interest rate loans, not subject to interest rate swap agreements, under the various credit facilities of the Contributed Entities. A 1% change in interest rate level would have a $7.9 million impact on interest expense.

Credit Risk

Credit risk relates to the risk of loss resulting from non-performance or non-payment by counterparties pursuant to the terms of their contractual obligations. The Contributed Entities manage credit risk by entering into contracts with either major financial institutions or other investment grade counterparties, diversifying transactions among various counterparties and through payment netting agreements. Risks surrounding counterparty performance and credit could ultimately impact the amount and timing of expected cash flows.

Commodity Price Risk

Commodity price risks result from exposures to changes in spot prices, forward prices, volatility in commodities and correlations between various commodities, such as natural gas, electricity and oil. A number of factors influence the level and volatility of prices for energy commodities and related derivative products. These factors include supply, weather, seasonality, daily and hourly demand. The Contributed Entities manage the commodity price risk of their generation operations by entering into heat rate call option contracts to hedge the variability in future cash flows from forecasted sales of electricity and purchases of fuel. The portion of forecasted transactions hedged may vary based upon the Contributed Entities management s assessment of market, weather, operations and other factors.

Fair Value of Derivative Instruments

The Contributed Entities enter into interest rate swaps and other contracts to reduce their exposure to market risks from changing interest, commodity and energy rates. The interest rate swap agreements are used to convert the floating interest rate component of a portion of their long-term debt obligations to fixed rates. In addition, the Contributed Entities have entered into heat rate call option contracts on generating capacity for a number of their

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electric generating facilities. The table below disaggregates realized and unrealized changes in fair value and estimated fair values of derivative instruments as of September 30, 2006.

		(in thousands)
Derivative Activity Gains / (Losses)		
Fair Value of portfolio at January 1, 2006	$	(95)
Contracts realized and changes in fair value		592
Fair Value of portfolio at September 30, 2006	$	497

The fair values of the derivative instruments are determined by using modeling techniques based on a combination of management estimates and information obtained from third parties using the latest available market data.

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NEW DYNEGY BUSINESS

The following discussion regarding the expected business, properties and operations of New Dynegy should be read in conjunction with (i) the discussion regarding the business, properties and operations of Dynegy which is incorporated into this proxy statement/prospectus by reference to Dynegy s Annual Report on Form 10-K, as amended, for the fiscal year ended December 31, 2005 (see Where You Can Find More Information) and (ii) the discussion regarding the business, properties and operations of the Contributed Entities set forth in the section of this proxy statement/prospectus entitled Business of the Contributed Entities.

Rationale for the Merger Agreement Transactions

Dynegy believes that the power industry has the following distinctive characteristics. First, the power industry is a commodity cyclical business with significant commodity price volatility. Second, the industry is capital intensive and involves long lead times for investment in long-lived assets. Third, the industry is regional in nature due primarily to the physical limitations of the electric transmission grid and local and federal regulatory requirements. Finally, Dynegy believes that regional scale and scope are important factors for success, and that, similar to other capital intensive and commodity cyclical industries, consolidation of smaller industry participants into larger, more robust companies is likely.

As a result of these beliefs and other factors described in The Merger Background of the Merger Agreement Transactions and The Merger Recommendation of the Dynegy Board; Reasons of Dynegy for the Merger Agreement Transactions, Dynegy and the LS Contributing Entities have agreed to the Merger Agreement Transactions. Upon the completion of the Merger Agreement Transactions, New Dynegy will have scale and scope in key regions as well as fuel and dispatch diversity. Furthermore, New Dynegy is expected to have more predictable cash flows through market pricing cycles, and be positioned for future growth.

New Dynegy

Upon completion of the Merger Agreement Transactions, New Dynegy, a holding company, will conduct substantially all of its business operations through its subsidiaries, including its 50% interest in the Development LLC.

New Dynegy s power generation fleet will be diversified by dispatch type, fuel source and geographic location. Its primary business will be the production and sale of electric energy, capacity and ancillary services from its fleet of 29 owned or leased power generation facilities, with approximately 19,500 MW of generating capacity, operating in 13 states, (i) including Dynegy s 614 MW CoGen Lyondell generation facility, its 576 MW Bluegrass generation facility and its 539 MW Heard County generation facility, each of which Dynegy (or New Dynegy, following the completion of the Merger) will seek to sell in 2007 and (ii) excluding Dynegy s 351 MW Calcasieu generation facility, which Dynegy (or New Dynegy, following the completion of the Merger) expects to sell to Entergy in early 2008 pursuant to an agreement entered into on February 1, 2007.

In addition to its operating generation facilities, New Dynegy will own all of the LS Contributing Entities approximate 40% undivided interest in Plum Point, a new, 665 MW coal-fired plant under construction in Arkansas. Through its interest in the Development LLC, New Dynegy will also own a 50% interest in a portfolio of greenfield development projects totaling more than 7,600 MW of generating capacity and repowering and/or expansion opportunities, representing approximately 2,300 MW of generating capacity, thus providing New Dynegy with meaningful organic growth prospects.

New Dynegy s generating facilities will be located in areas served by the Midwest Independent System Operator (MISO), PJM, the Southeastern Electric Reliability Council (SERC), CAISO, the Western Electricity Coordinating Council (WECC), the Electric Reliability Council of Texas (ERCOT), the New York Independent System Operator (NYISO) and ISO-NE.

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Upon the completion of the Merger Agreement Transactions, New Dynegy s operating power generation portfolio will be comprised as follows:

Facility	Total net generating capacity (MW) (1)	Primary fuel type	Dispatch type	Location	Region
Baldwin	1,800	Coal	Baseload	Baldwin, IL	MISO
Kendall	1,200	Gas	Intermediate	Minooka, IL	PJM
Ontelaunee	580	Gas	Intermediate	Ontelaunee Township, PA	PJM
Havana Units 1-5	228	Oil	Peaking	Havana, IL	MISO
Unit 6	441	Coal	Baseload	Havana, IL	MISO
Hennepin	293	Coal	Baseload	Hennepin, IL	MISO
Oglesby	63	Gas	Peaking	Oglesby, IL	MISO
Stallings	89	Gas	Peaking	Stallings, IL	MISO
Tilton	188	Gas	Peaking	Tilton, IL	MISO
Vermilion Units 1-2	164	Coal/Gas	Baseload	Oakwood, IL	MISO
Unit 3	12	Oil	Peaking	Oakwood, IL	MISO
Wood River Units 1-3	119	Gas	Peaking	Alton, IL	MISO
Units 4-5	446	Coal	Baseload	Alton, IL	MISO
Rocky Road (2)	330	Gas	Peaking	East Dundee, IL	PJM
Riverside/Foothills	960	Gas	Peaking	Louisa, KY	PJM
Rolling Hills	965	Gas	Peaking	Wilkesville, OH	PJM
Renaissance	776	Gas	Peaking	Carson City, MI	MISO
Bluegrass (3)	576	Gas	Peaking	Oldham Co., KY	SERC
Total Midwest	**9,230**				
Moss Landing Units 1&2	1,020	Gas	Baseload	Monterrey County, CA	CAISO
Units 6&7	1,509	Gas	Peaking	Monterrey County, CA	CAISO
Morro Bay (4)	650	Gas	Peaking	Morro Bay, CA	CAISO
South Bay	706	Gas	Peaking	Chula Vista, CA	CAISO
Oakland	165	Oil	Peaking	Oakland, CA	CAISO
Arlington Valley	585	Gas	Intermediate	Arlington, AZ	WECC
Griffith	558	Gas	Intermediate	Golden Valley, AZ	WECC
Heard County (3)	539	Gas	Peaking	Heard Co., GA	SERC
Black Mountain (5)	43	Gas	Baseload	Las Vegas, NV	WECC
CoGen Lyondell (3)	614	Gas	Baseload	Houston, TX	ERCOT
Total West	**6,389**				
Independence	1,064	Gas	Intermediate	Scriba, NY	NYISO
Roseton	1,185	Gas/Oil	Intermediate	Newburgh, NY	NYISO
Bridgeport	527	Gas	Baseload	Bridgeport, CT	ISO-NE
Casco Bay	540	Gas	Baseload	Veazie, ME	ISO-NE
Danskammer Units 1-2	123	Gas/Oil	Peaking	Newburgh, NY	NYISO
Units 3-4	370	Coal/Gas/Oil	Baseload	Newburgh, NY	NYISO
Total Northeast	**3,809**				
Total Fleet Capacity	**19,428**				

(1) Unit capabilities are based on winter capacity. Excludes Dynegy s Calcasieu peaking generation facility located in Sulphur, Louisiana, which has a total net generating capacity of 351 MW. Pursuant to an agreement entered into on February 1, 2007 and subject to the regulatory approvals and customary closing conditions specified therein, Dynegy (or New Dynegy, following the completion of the Merger) expects to sell this facility to Entergy in early 2008. Includes Dynegy s 614 MW CoGen Lyondell generation facility located in Houston, Texas, its 576 MW Bluegrass generation facility located in Oldham County, Kentucky and its 539 MW Heard County generation facility located in Heard County, Georgia, each of which is shown above and which Dynegy (or New Dynegy, following the completion of the Merger) will seek to sell in 2007.

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(2) Does not include 28 MW of capacity for unit 3, which is not available during cold weather because of winterization requirements.
(3) Dynegy (or New Dynegy, following the completion of the Merger) will seek to sell this generation facility in 2007.
(4) Represents units 3 and 4 generating capacity. Units 1 and 2, with a combined net generating capacity of 352 MW, are currently in layup status and out of operation.
(5) New Dynegy will own Dynegy s current 50% interest in this facility upon the completion of the Merger Agreement Transactions; the remaining 50% interest is currently held, and will continue to be held following the completion of the Merger Agreement Transactions, by Chevron. Total generating capacity of this facility is 85 MW.

Dynegy is reviewing the combined operating portfolio that will be owned by New Dynegy. Dynegy s practice has been to evaluate its generation assets continually, based primarily on geographic location, strategic fit, regional market structure, and market recovery expectations. Consistent with industry practice, Dynegy periodically has considered, and in some cases consummated, divestitures of non-core assets where the balance of factors described above suggests that such assets earnings potential is limited or that the value that can be captured through a divestiture outweighs the benefits of continuing to own and operate such assets. In conducting its current portfolio review, Dynegy is considering, among other things, divesting certain assets that (i) are primarily peaking in nature and generally operate in locations where market recovery is projected to occur much further in the future than in other regions in which New Dynegy will have a significant asset position, or (ii) could present value propositions through potential dispositions not likely to be achieved through continued ownership and operation by New Dynegy. As a result of this review, Dynegy (or New Dynegy, following the completion of the Merger) will, in 2007, seek to sell its 614 MW CoGen Lyondell generation facility, its 576 MW Bluegrass generation facility and its 539 MW Heard County generation facility located in Heard County, Georgia. Moreover, dispositions of one or more other generation facilities could occur in 2007 or beyond. Were any such sale or disposition to be consummated, the disposition could result in accounting charges related to the affected assets, and the earnings and cash flows of Dynegy or New Dynegy could be affected in 2007 and beyond.

Competitive Strengths

New Dynegy expects that it will have the following competitive strengths:

Scale and Diversity of Assets in Key Regions of the United States

Upon the completion of the Merger Agreement Transactions, New Dynegy will own or lease approximately 19,500 MW of power generation capacity at 29 facilities in 13 states, (i) including Dynegy s 614 MW CoGen Lyondell generation facility located in Houston, Texas, its 576 MW Bluegrass generation facility located in Oldham County, Kentucky and its 539 MW Heard County generation facility located in Heard County, Georgia, each of which Dynegy (or New Dynegy, following the completion of the Merger) will seek to sell in 2007 and (ii) excluding Dynegy s 351 MW Calcasieu generation facility located in Sulphur, Louisiana, which Dynegy (or New Dynegy, following the completion of the Merger) expects to sell to Entergy in early 2008. New Dynegy s portfolio, with scale and scope in key regions, should be well positioned to meet market needs by providing a variety of electric energy, capacity, and ancillary services through both short- and long-term arrangements. In addition, New Dynegy should benefit from economies of scale in its operations.

New Dynegy s power generation capacity will be diversified by fuel source and dispatch type (*i.e.,* baseload, intermediate and peaking facilities). A large portion of Dynegy s generating capacity is coal-fired, while New Dynegy will have a more balanced portfolio of facilities using coal, natural gas and fuel oil as fuel sources. New Dynegy s portfolio will also be more balanced in terms of dispatch type, with a mix of base-load, intermediate and peaking facilities. Approximately 32% of New Dynegy s power generation fleet will be natural gas-fired, combined-cycle capacity, 39% will be natural gas-fired peaking capacity, 18% will be baseload coal-fired capacity and the remainder of New Dynegy s power generation fleet will have oil or dual-fuel capability (including

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Dynegy s gas-fired CoGen Lyondell, Bluegrass and Heard County generation facilities, each of which Dynegy (or New Dynegy, following the completion of the Merger) will seek to sell in 2007, and excluding its gas-fired Calcasieu generation facility, which Dynegy (or New Dynegy, following the completion of the Merger) expects to sell to Entergy in early 2008). New Dynegy believes that this fuel and dispatch type diversity positions it to capture additional market opportunities. The term dual-fuel capability refers to the ability to switch from one fuel source to another for generating energy, thus reducing dependence on any one source of supply.

With the addition of the facilities operated by the Contributed Entities in the Western and Northeastern United States, New Dynegy s power generation capacity will also be diversified by geographic location, as approximately 47% of New Dynegy s generating capacity will be located in the Midwest, 20% in the Northeast, and 33% in the West (including Dynegy s CoGen Lyondell generation facility located in Houston, Texas, its Bluegrass generation facility located in Oldham County, Kentucky and its Heard County generation facility located in Heard County, Georgia, each of which Dynegy (or New Dynegy, following the completion of the Merger) will seek to sell in 2007 and excluding Dynegy s Calcasieu generation facility located in Sulphur, Louisiana, which Dynegy (or New Dynegy, following the completion of the Merger) expects to sell to Entergy in early 2008). New Dynegy believes that this geographic diversity positions it to benefit from different supply/demand characteristics across broad geographic regions. These different supply/demand characteristics can occur over the short-term (e.g., based on weather patterns or the unavailability of other suppliers) or over the long-term (e.g., based on long-term demand growth that exceeds supply additions). New Dynegy will have established positions in the Northeast and California, where new supply options are limited. These markets exhibit supply/demand balance at or close to equilibrium and are markets in which electric energy, capacity, and ancillary service products can be sold.

Financial Stability

New Dynegy will sell electric energy, capacity and ancillary services through a combination of bilateral negotiated contracts and spot transactions in regional central markets. New Dynegy s commercial strategy, similar to that of Dynegy, will be to construct a balanced portfolio of spot, mid- and long-term sales arrangements. The expected cash flows produced by that mix of arrangements should be greater and more stable than those expected from Dynegy and should better support the liquidity and capital needs inherent in New Dynegy s debt maturity schedule and the timing of its expected capital expenditures. New Dynegy should also have opportunity to benefit from increasing commodity prices, whether as a result of short-term or long-term increases in demand.

In 2007, almost 50% of the output from New Dynegy s fleet of power generation facilities will be contracted for a term of one year or longer, or will be subject to reliability-must-run (RMR) arrangements. Moreover, New Dynegy s mix of future contractual supply obligations and uncommitted output available for the merchant market will position it to benefit from improving commodity prices and power market recovery. These contractual arrangements should provide New Dynegy with predictable cash flows with which to reduce its debt.

Proven and Mature Asset Development Platform; Repowering and Expansion Opportunities

New Dynegy expects to benefit from the growth prospects offered by certain development activities initiated by the LS Power Group. The LS Power Group has a proven track record of successfully developing projects since 1990. Upon completion of the Merger Agreement Transactions, New Dynegy will own all of the LS Contributing Entities approximate 40% undivided interest in Plum Point. New Dynegy will be the largest owner and will have management responsibilities during construction and operation of the facility. Plum Point is expected to begin commercial operations in 2010.

New Dynegy s 50% interest in the Development LLC, which will own a portfolio of greenfield developments as well as repowering and expansion opportunities related to New Dynegy s operating fleet, is expected to provide additional organic growth prospects. Dynegy does not currently have the personnel and other resources required to undertake new greenfield development projects.

For more detailed information about the development projects and their status, please see Business of the Contributed Entities Development Assets Discussion.

Regional Advantages

Almost half of New Dynegy s power generation capacity (approximately 9,230 MW) will be in the Midwest region. Approximately 8,654 MW of this capacity is located in either the MISO or PJM power markets. New Dynegy s Midwest assets will serve the large, liquid MISO and PJM markets with a full range of baseload, intermediate, and peaking facilities which employ coal, gas, and oil as fuels. New Dynegy believes these regions will experience increased demand for power in the future. New Dynegy also believes that its low-cost baseload facilities will be well-situated to capture higher market prices, while its gas-fired facilities will be well-situated to meet intermediate, peakload, and reliability needs.

New Dynegy s Midwest baseload coal-fired fleet will consist of 3,144 MW of low-cost generation facilities. These facilities have benefited from higher natural gas prices which tend to set the marginal power prices during on-peak periods in the Midwest region. Dynegy implemented, and New Dynegy plans to continue, a fuel procurement policy intended to ensure a long-term adequate supply of coal at economic prices. All of Dynegy s coal plants in the Midwest are now burning low-cost Powder River Basin coal, which should provide New Dynegy with significant cost advantages and lower emissions. Approximately 96% of the coal supply and all related transportation requirements are contracted through 2010.

The Contributed Entities produce 5,545 MW of power generation capacity in California and Arizona under a mix of forward sales, offtake contracts with PG&E, and RMR contracts, thereby providing strong, predictable cash flows in these key fast-growing markets. New Dynegy believes that its combined cycle facilities will be favorably placed on the dispatch curve and its steam units will be positioned to provide resource adequacy and reliability services in California. The term offtake contract refers to a contract between a generator and a purchaser of electricity under which the purchaser agrees to buy specified amounts of electric capacity and/or energy from a specified generation facility.

In the Northeast, the Contributed Entities facilities in Connecticut and Maine will complement Dynegy s New York facilities, providing New Dynegy with approximately 3,800 MW of generation capacity in the Northeastern United States. These facilities employ a mix of coal, gas, and oil as fuel. New Dynegy believes that its 370 MW of coal-fired capacity at Danskammer is well positioned to capture high margins in a gas-dominated market. Moreover, because of its dual-fuel (gas and oil) capability, New Dynegy can dispatch the 1,185 MW Roseton facility based on the lowest cost fuel option and, therefore, capture additional market opportunities when they arise. In addition, the 1,064 MW gas-fired Independence facility has 72% of its capacity under contract through 2014 and its energy is sold into the NYISO market.

The 527 MW Bridgeport facility is located in transmission-constrained Southwest Connecticut and currently sells its output under RMR arrangements that mitigate market demand and commodity price risks. The 540 MW Casco Bay facility is located in Maine and has entered into financial contracts to hedge the majority of its energy output and its energy gross margin through 2010, but has retained rights to regulatory capacity. The term financial contract means a contract which establishes the terms of a financial settlement (such as location, timing, amount) whereby no physical electricity, gas or other product changes ownership. It is expected that both Casco Bay and Bridgeport, when its RMR contract is terminated, should benefit significantly from the implementation of ISO-NE s Forward Capacity Markets (FCM). The FCM program is expected to improve capacity payments to generators in the region with higher payments in subregions, like Southwest Connecticut, with disproportionate demand for electricity relative to its supply.

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Competitive Weaknesses

New Dynegy believes that, after giving effect to the Merger Agreement Transactions, it will have the following competitive weaknesses:

Significant Debt Leverage

Although Dynegy s capital structure and credit ratings are expected to improve as a result of the Merger Agreement Transactions, New Dynegy will remain a highly-leveraged company and its credit ratings are expected to remain below investment grade. Furthermore, even after giving effect to the credit improvements that are anticipated to result from the Merger Agreement Transactions, New Dynegy s access to capital markets may be limited, and its need for liquidity to meet collateral obligations will be determined in part by market prices for power and natural gas, which are beyond New Dynegy s control and are uncertain.

Exposure to the Merchant Market

As is the case with Dynegy, New Dynegy will operate some of its facilities as merchant facilities without term power sales agreements. Although the addition of power-generation facilities with long-term power sales arrangements as part of the Merger Agreement Transactions makes New Dynegy, as a whole, less susceptible to volatility in power and commodity prices than Dynegy currently, New Dynegy s revenues and profitability will still remain subject to such volatility to the extent power sales agreements are not in place with respect to portions of its generating capacity.

For further information regarding New Dynegy s competitive weaknesses, please see Risk Factors.

Strategy

New Dynegy will be a leading independent power producer operating in key regions of the United States, including the Midwest, West and Northeast. New Dynegy intends to use its power generation facility base and development portfolio as a platform for future growth and to take advantage of market opportunities, including commodity price volatility and expected regional market recoveries, to enhance its financial performance. New Dynegy will be well positioned to participate in continuing industry consolidation and capitalize on expected regional power market recoveries by pursuing commercial arrangements designed to improve the predictability and quality of its cash flows.

New Dynegy s commercial strategy will be focused on three elements. First, New Dynegy will seek to employ a business model and capital structure appropriate for a commodity cyclical business. Second, New Dynegy will seek to maintain a diverse portfolio of assets that will consist of both low-cost plants and those that can provide reliability and other services to the markets both during peak-demand periods and as overall regional electric demand increases over time. Finally, New Dynegy will seek to ensure that all of its power generation facilities are ready to produce electricity when market demand and, therefore, market price, is highest.

New Dynegy expects that its business strategy will include the following:

Employ a Commodity Cyclical Business Model

New Dynegy intends to optimize its assets by selling electricity and capacity into the spot and term markets when pricing is most attractive. This strategy is expected to be achieved through a diverse portfolio of assets deployed through a combination of spot market sales and term contracts. While New Dynegy does not have a prescribed allocation of volumes between spot and term market sales, New Dynegy generally intends to rely on its low-cost coal facilities and term contractual sales arrangements to provide a base level of cash flow, while preserving financial exposure to market prices. New Dynegy believes this strategy will allow it to benefit from

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both short-term and long-term market price increases. Consequently, New Dynegy s financial results will be sensitive to, and generally correlated with, commodity prices (especially natural gas prices and regional power prices).

New Dynegy will succeed to certain longer-term sales arrangements of Dynegy and the Contributed Entities while retaining an ability to participate in near-term markets, thereby creating a more stable portfolio that will not be entirely dependent on cyclical commodity markets, but one that is positioned to benefit from rising commodity prices and improved capacity pricing.

Establish an Appropriate Capital Structure

New Dynegy believes that the power industry is a commodity cyclical business with significant commodity price volatility and requiring considerable capital investment. Thus, maximizing economic returns in this market environment requires a capital structure that can withstand power price volatility as well as a commercial strategy that captures the value associated with both short-term and long-term price trends. New Dynegy intends to maintain a capital structure that is suitable for its commercial strategy and the commodity cyclical market in which it operates. Maintaining appropriate debt levels and maturities and overall liquidity are key elements of this capital structure.

Consistent with these strategies, Dynegy is exploring a number of options to ensure an appropriate capital structure for New Dynegy as described above. Considerations include refinancing certain of the project financings of the Contributed Entities, modifying the existing DHI bank debt arrangements, including increasing DHI s revolving credit facility, and increasing the capacity of existing letter of credit facilities to support New Dynegy s liquidity and collateral needs. As a result of Dynegy s review and discussions with potential lenders to New Dynegy, Dynegy may elect to pursue alternative capital structures to be implemented in connection with the Merger Agreement Transactions. Dynegy s review is on-going and the ultimate capital structure to be established by New Dynegy will depend on financial market conditions beyond its control. Such alternative capital structures, if they are implemented, could affect New Dynegy s earnings and cash flows in 2007 and beyond.

Focus on Operational Excellence

New Dynegy will focus on maintaining and enhancing Dynegy s operating track record through increased plant availability, higher dispatch and capacity factors, and improved cost controls. By managing fuel costs, minimizing plant outages and reducing corporate overhead, New Dynegy will aim to improve upon Dynegy s results. Moreover, New Dynegy will continue Dynegy s commitment to operating its facilities in a safe, reliable and environmentally compliant manner.

Tightly Manage Costs and Expenditures

New Dynegy intends to continue Dynegy s efforts to manage costs and capital expenditures effectively. Likewise, New Dynegy s power generation facilities will be managed to require a relatively predictable level of maintenance capital expenditures without compromising operational integrity. New Dynegy believes that these ongoing efforts should allow it to maintain its focus on being a reliable, low-cost producer of power.

Position for Regional Market Recovery

New Dynegy will operate a balanced portfolio of generation assets that is diversified in terms of geography, fuel type and dispatch profile. As a result, New Dynegy believes its substantial coal-fired, baseload fleet should continue to benefit from the impact of higher natural gas prices on power prices in the Midwest and Northeast, allowing it to capture greater margins, while New Dynegy s efficient combined cycle units should provide meaningful cash flows and should benefit from improved margins as demand increases in the Western and New England markets.

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BUSINESS OF THE CONTRIBUTED ENTITIES

General

About the LS Power Group

The Contributed Entities are part of the LS Power Group, which is a fully-integrated investment, development and management services group of private companies focusing on the power industry. Founded in 1990, the LS Power Group s principal business is to invest in, develop and manage power generation assets in the United States. The Contributed Entities consist, in part, of a group of primarily natural gas-fired operating power plants representing approximately 8,000 MW in generation capacity, as well as a group of primarily coal-fired power plant development projects in early stages of development. In January 2005, the LS Power Group raised $1.2 billion of capital commitments to invest in the acquisition of various power generation facilities. As a developer, the LS Power Group has successfully developed nine natural gas-fired facilities and one coal-fired facility representing over 6,000 MW of total capacity, and is currently developing coal and gas-fired facilities throughout the United States. As a provider of management services, the LS Power Group functions as the management team for its power generation assets, managing all commercial, financial, legal and regulatory matters.

In addition, an independent associate of the LS Power Group manages a fund that invests in non-controlling positions in equity and debt securities of power, utility and related companies. Subject to the restrictions set forth in the Shareholder Agreement and applicable securities laws, the fund may from time to time make investments in New Dynegy. See Other Agreements and Documents Shareholder Agreement.

Operating Assets

In December 2004, LSP Kendall Holding, LLC, a Contributed Entity formed by the LS Power Group, acquired from a subsidiary of NRG Energy, Inc. all of the membership interests in an entity that owns Kendall. In October 2005, LSP Ontelaunee Holding, LLC, a Contributed Entity formed by the LS Power Group, acquired from a subsidiary of Calpine Corporation all of the outstanding membership interests in an entity that owns Ontelaunee. In May 2006, LS Power Generation, LLC, a Contributed Entity formed by the LS Power Group, acquired from a subsidiary of Duke all of the ownership interest Duke held in entities that own seven, and lease one, power generation facilities located in the western and northeastern United States, including a 50% indirect ownership interest in an entity that owns Griffith. The remaining 50% indirect ownership interest in the entity that owns Griffith was subsequently acquired in June 2006 from PPL. These eight power generation facilities are referred to herein collectively as the LS Generation Facilities. Kendall, Ontelaunee and the LS Generation Facilities are referred to herein collectively as the Operating Assets.

With these nine owned, and one leased, operating power generation facilities, the Operating Assets represent approximately 8,000 MW of total capacity. These operating power generation facilities, which generate electricity by burning natural gas (or, in the case of one facility, oil), are located throughout the United States and are divided on a regional basis into Western Operating Assets and Eastern Operating Assets, comprised as follows:

Western Operating Assets

Facilities	Technology	Location	Region	Capacity[1] (MW)	Offtake Contract Type	Fuel
Moss Landing						
Units 1&2	Combined-Cycle	CA	CAISO	1,020	Financial	Natural Gas
Units 6&7[2]	Conventional Steam	CA	CAISO	1,509	Toll	Natural Gas
Morro Bay[3]	Conventional Steam	CA	CAISO	650	Toll	Natural Gas
South Bay[4]	Conventional Steam	CA	CAISO	706	RMR	Natural Gas
Oakland[5]	Simple-Cycle	CA	CAISO	165	RMR	Oil
Arlington Valley[6]	Combined-Cycle	AZ	WECC	585	Financial	Natural Gas
Griffith[7]	Combined-Cycle	AZ	WECC	558	Financial/Toll	Natural Gas

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Eastern Operating Assets

Facilities	Technology	Location	NERC Region	Capacity[1] (MW)	Offtake Contract Type	Fuel
Kendall[8]	Combined-Cycle	IL	PJM	1,200	Toll	Natural Gas
Ontelaunee[9]	Combined-Cycle	PA	PJM	580	Financial	Natural Gas
Bridgeport[10]	Combined-Cycle	CT	NPCC	527	RMR	Natural Gas
Casco Bay[11]	Combined-Cycle	ME	NPCC	540	Financial	Natural Gas

(1) Represents winter ratings. Actual energy output of the power generation assets may vary depending on temperature, humidity and other operational conditions and may be lower under summer conditions.
(2) Units 6 and 7 commenced operations in 1967 and 1968, respectively.
(3) Capacity and contract type information are for units 3 and 4 of Morro Bay only. Units 1 and 2 of Morro Bay (352 MW) have been placed in extended lay-up status, which means these units are not currently in operation. Units 1 and 2 of Morro Bay commenced operations in 1955-1956, but are not currently operational. Units 3 and 4 of Morro Bay commenced operations in 1962-1963.
(4) Units 1, 2, 3, 4 and 5 commenced operations in 1960, 1962, 1964, 1971 and 1966, respectively.
(5) Oakland commenced operations in 1978.
(6) Arlington Valley commenced operations in 2002.
(7) Griffith commenced operations in 2002.
(8) Kendall commenced operations in 2002.
(9) Ontelaunee commenced operations in 2002.
(10) Bridgeport commenced operations in 1999.
(11) Casco Bay commenced operations in 2000.

Pursuant to the Merger Agreement Transactions, New Dynegy will acquire all of the LS Power Group s indirect equity interest in the entities that own the Operating Assets. NERC refers to the North American Electric Reliability Council and NPCC refers to the Northeast Power Coordinating Council.

Development Assets

As a developer, the LS Power Group has been developing various greenfield projects and expanding or replacing certain existing Operating Assets, which developments, expansions and replacements are referred to herein collectively as the Development Assets. Of the Development Assets, Plum Point is the only Development Asset currently in the construction phase, with an expected completion date of August 2010. Upon completion of construction, Plum Point will be a 665 MW coal-fired electric generating facility located at a site that is approximately two miles south of Osceola, Arkansas. Construction has not begun on any other Development Assets, which are currently in early stages of development.

Pursuant to the Merger Agreement Transactions, New Dynegy will acquire the LS Power Group s approximately 40% undivided interest in Plum Point. New Dynegy will also acquire 50% of the ownership interest in the Development LLC, which will own all of the other Development Assets. After the closing of the Merger Agreement Transactions, additional development projects may be contributed from time to time by the LS Power Group and by New Dynegy to the Development LLC. Because of the nature and risks involved in developing power generation facilities, there can be no assurance that any of the Development Assets will enter into the construction phase or eventually be completed.

Operating Assets Discussion

Western Operating Assets

The Western Operating Assets are comprised of six facilities located in California (Moss Landing, Morro Bay, South Bay and Oakland) and Arizona (Arlington Valley and Griffith), with a total capacity of 5,545 MW.

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The Western Operating Assets operate entirely within the WECC region of NERC. The following table sets forth certain key facts regarding the Western Operating Assets facilities:

Facility	Moss Landing (Units 1&2)	Moss Landing (Units 6&7)	Morro Bay	South Bay	Oakland	Arlington	Griffith
Pricing Point	NP-15	NP-15	ZP-26	SP-15	NP-15	Palo Verde	Mead
Offtake Contract Type	Financial Contract (753 MW)	Unit Contingent Toll (1,509 MW)	Unit Contingent Toll (650 MW)	RMR (full output) Condition 2	RMR (full output) Condition-1 with wraparound PPA	Financial contract (248 MW)	Financial contract (236 MW)/Unit Contingent Toll (285 MW)
Construction Contractor	Duke/Fluor Daniel	Stone & Webster	Units 1&2: Bechtel Corporation Units 3&4: PG&E	Not available	United Technologies	Duke/Fluor Daniel	Black & Veatch/ Zachry
Equipment	4 GE 7FA CTs 2 Alstom HRSGs 2 GE D11 STs	4 GE Generators 2 GE Cross Compound STs	2 GE F2 STs (Units 1&2) 2 Westinghouse Cross Compound STs (Units 3&4)	1 GE D3 ST (Unit 1) 2 Westinghouse LP71 STs (Units 2&4) 1 GE D6 ST (Unit 3) 1 Pratt & Whitney FT4A CT	6 Pratt & Whitney Aircraft FT4C CT	2 GE 7FA CTs 2 Aalborg/ Erie Power HRSGs 1 GE D11 ST	2 GE 7FA+E CTs 1 Toshiba 280 MW ST 2 NEM HRSGs
Electric Interconnection	PG&E s Gates, Midway and Mesa substations (230 kV) via Moss Landing substation (230 kV)	PG&E s Los Baños and Metcalf substations (500 kV) via Moss Landing substation (500 kV)	Units 1-4 wired to Morro Bay 230 kV substation ring-bus and from there to 230 kV to PG&E Gates Substation 230 kV to PG&E Midway Substation; 230 kV to PG&E DCPP Substation; 230 kV to PG&E Mesa Substation; 115 kV to SLO 1&2 and MB 12 kV	SDG&E s South Bay substation (69 kV and 138 kV)	Unit 1: PG&E substations (12 kV & 115 kV); Units 2 & 3: PG&E substation (115 kV)	Hassayampa Substation (500 kV)	WAPA s Peacock substation (230 kV) WAPA s McConnico substation (230 kV)
Gas / Oil Transportation	PG&E	PG&E	PG&E	SDG&E	Kinder Morgan	El Paso Natural Gas	El Paso/ Transwestern
Site	327 acres (out of 654 acres)	327 acres (out of 654 acres)	107 acres [(1)]	325 acres (leased)	2.6 acres in two parcels	48 acres [(2)]	160 acres

(1) Excludes 62 acres that are off-site.

(2) Arlington Valley also owns approximately 3,650 acres of land related to that facility s water supply.

Operations and maintenance of the various Western Operating Assets facilities are performed under contract by third-party service providers pursuant to separate operations and maintenance agreements customary in the power industry. The Moss Landing, Oakland, Morro Bay, South Bay and Arlington Valley facilities are currently operated and maintained by Wood Group Power Operations (West), Inc. Griffith is currently operated and maintained by Primesouth, Inc. These third-party service providers and their personnel, with direction from the Contributed Entities, are responsible for the day-to-day operations and maintenance of the Western Operating Assets.

Bear Energy LP (Bear) serves as the energy manager for the Western Operating Assets facilities under an energy management agreement. Bear procures the natural gas necessary for the facilities operations (other than (i) for Oakland, which uses oil procured directly by the facility on the spot market, and (ii) fuel provided by third-parties under various power purchase agreements described below), schedules and dispatches the facilities based on established operating and dispatch procedures, as well as from direction by certain Contributed Entities, markets the capacity and ancillary services of, and the electricity generated by, the facilities, and provides other services (including risk management) to the facilities.

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Moss Landing

The Moss Landing facility (Moss Landing) consists of two natural gas-fired sub-facilities, Moss Landing 1 and 2 and Moss Landing 6 and 7, with a combined capacity of 2,529 MW. Moss Landing is located in Monterey County, California.

Moss Landing 1 and 2 consists of two combined-cycle electric generating units that commenced commercial operations in 2002. Each unit utilizes two natural gas-fired, combustion turbines, two heat recovery steam generators and a single steam turbine. Moss Landing 1 and 2 has an operating capacity of 1,020 MW, with each unit capable of producing approximately 510 MW of output.

Moss Landing 6 and 7 consists of two conventional steam electric generating units that commenced commercial operations in 1967 and 1968, respectively. Each unit utilizes a single natural gas-fired supercritical steam generator and two steam turbine generators. Moss Landing 6 and 7 has an operating capacity of 1,509 MW, with each unit capable of producing approximately 755 MW of output.

Natural gas is delivered to Moss Landing 1 and 2 through a 20-inch lateral from the mainline of PG&E and to Moss Landing 6 and 7 through both a 20-inch and a 36-inch lateral from PG&E s mainline. Fuel is supplied to both Moss Landing facilities under a transportation service agreement with PG&E for up to 306,000 dekatherms per day of natural gas. Pursuant to the agreement, Moss Landing pays a fee to access PG&E s transportation system. Fuel for Moss Landing 1 and 2 is procured by Bear, as the energy manager, pursuant to the energy management agreement. Fuel for Moss Landing 6 and 7 is provided by PG&E under a power purchase agreement described later in this section.

Moss Landing sources its cooling water from the Pacific Ocean, and is permitted to discharge up to 1.2 billion gallons of cooling water per day into Monterey Bay under the National Pollutant Discharge Elimination System (NPDES) permit program. Moss Landing s cooling water discharge may be subject to additional monitoring and/or mitigation requirements that the California Regional Water Quality Control Board may impose as part of the periodic permit-renewal process.

Moss Landing is located within the CAISO-controlled grid. Moss Landing 1 and 2 is interconnected to PG&E s 230 kV Moss Landing substation pursuant to an interconnection agreement with PG&E, and sells its energy, capacity and other ancillary services to wholesale electricity customers directly in the spot market. However, exposure of Moss Landing 1 and 2 to the market prices of energy has been hedged under the call-option agreement described later in this section. Moss Landing 6 and 7 is interconnected to PG&E s 500 kV Moss Landing substation and sells its energy, capacity and other ancillary services to PG&E pursuant to a power purchase agreement described later in this section.

Morro Bay

The Morro Bay facility (Morro Bay) is a 1,002 MW capacity natural gas-fired, conventional steam power plant located in Morro Bay, California. It consists of four electric generating units. Units 1 and 2, which began commercial operations in the 1950s, utilize two steam turbines that have a combined capacity of 352 MW, with each unit capable of producing approximately 176 MW of output. Units 3 and 4, which began commercial operations in the early 1960s, utilize two steam turbines that have a combined capacity of 650 MW, with each unit capable of producing approximately 325 MW of output. Units 1 and 2 were removed from commercial operations in October 2003 and are currently in lay-up status (with the units out of operation). There are currently no plans to return units 1 and 2 to commercial operation, which would require significant expenditures as well as a lead-in period of approximately 120 to 160 days.

Natural gas is delivered to the facility through PG&E s mainline via a 20-inch lateral. Morro Bay has a transportation service agreement with PG&E for up to 184,000 dekatherms per day of natural gas. Pursuant to the agreement, Morro Bay pays a fee to access PG&E s transportation system. Fuel for Morro Bay is provided by PG&E under a power purchase agreement described later in this section.

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Morro Bay utilizes water from the Pacific Ocean for its once-through cooling system, and discharges cooling water into Estero Bay pursuant to a lease for the discharge facility right-of-way with the city of Morro Bay through 2012. This discharge is currently permitted and monitored pursuant to an NPDES permit. Morro Bay s cooling water discharge may be subject to additional monitoring and/or mitigation requirements that the California Regional Water Quality Control Board may impose as part of Morro Bay s facility modernization or periodic permit-renewal process.

Morro Bay is located within the CAISO-controlled grid. It is interconnected to PG&E s 230 kV transmission system at the Morro Bay substation (with connections to the Gates, Midway, Diablo Canyon Power Plant and Mesa substations), and sells its energy, capacity and other ancillary services to PG&E pursuant to a power purchase agreement described later in this section.

South Bay

The South Bay facility (South Bay) is a 706 MW capacity natural gas-fired, conventional steam power plant located in the San Diego basin in Chula Vista, California, approximately ten miles south of San Diego. It began commercial operations in stages between 1960 and 1971. South Bay is a five-unit electric generating facility utilizing one combustion turbine and four single-reheat condensing steam turbines.

Natural gas is delivered to the facility through two pipelines owned and operated by SDG&E. The pipelines provide South Bay with up to 78,000 dekatherms per day of natural gas under a gas transportation agreement with SDG&E. Pursuant to the gas transportation agreement, South Bay pays a fee to access SDG&E s transportation system. Fuel for South Bay is procured by Bear, as the energy manager, pursuant to the energy management agreement.

South Bay uses the San Diego Bay as its source of cooling water, and has an agreement with Sweetwater Water Authority for additional supply of water. It discharges cooling water into the San Diego Bay under the NPDES permit program.

South Bay is located within the CAISO-controlled grid. It is interconnected to the SDG&E 69 kV and 138 kV transmission systems at the South Bay substation.

South Bay is leased under an agreement with the SDUPD, the owner of the facility. The amount of rent payable under the lease agreement was matched with the amount of principal and interest payable under certain industrial revenue bonds that were issued by the California Maritime Infrastructure Authority, which in turn loaned the proceeds of the bonds to the SDUPD for its acquisition of South Bay in 1998. The industrial revenue bonds underlying the lease payments have since been defeased, and, as a result, lease payments are no longer required under the agreement.

At the end of the lease term (on January 31, 2010, unless South Bay continues to operate under the RMR agreement with the CAISO after such date, in which case the lease term may continue until the termination of the RMR agreement), South Bay is responsible for decommissioning, dismantling, removal and limited environmental remediation of the facility before returning the facility to the SDUPD. A portion of the expected costs associated with the decommissioning has been escrowed, which reduces future out-of-pocket costs associated therewith. In addition, LSP South Bay LLC, the owner of South Bay, is currently developing a replacement facility on a neighboring site.

Oakland

The Oakland facility (Oakland) is a 165 MW capacity oil-fired, simple-cycle power plant located in Oakland, California. The term simple cycle refers to a turbine process whereby air is heated and compressed to spin the turbine; the heated air is passed through the turbine one time only. The facility began commercial operations in 1978. Oakland consists of three electric generating units, each utilizing two turbines fueled by oil

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and equipped with water injection for nitrogen dioxide (NOx) control. Each Oakland unit is capable of producing approximately 55 MW of output.

Oil is delivered to the facility through a pipeline owned and operated by Kinder Morgan, and is procured by Oakland from the market on a spot basis. The facility has a 50,000-barrel above ground storage tank for oil storage.

Water is supplied to Oakland from the local water district via two pipelines, and Oakland maintains 60,000 gallons of water supply onsite using two 30,000-gallon demineralized water storage tanks.

Oakland is located within the CAISO-controlled grid. Unit 1 of Oakland is interconnected to PG&E s 12 kV and 115 kV systems pursuant to various agreements with PG&E. Units 2 and 3 of Oakland are interconnected to PG&E s 115 kV system pursuant to various agreements with PG&E.

Arlington Valley

The Arlington Valley facility (Arlington Valley) is a 585 MW capacity natural gas-fired, combined-cycle power plant located approximately 50 miles southwest of Phoenix, Arizona. It began commercial operations in June 2002. Arlington Valley is a single-unit electric generating facility utilizing two natural gas-fueled combustion turbine generators, two heat recovery steam generators and one condensing steam turbine generator operating in combined-cycle mode. The facility is capable of producing approximately 474 MW of output without peaking capacity, and approximately 585 MW of output with peaking capacity.

Natural gas is delivered to the facility on the two-mile lateral pipeline of El Paso Natural Gas Company (El Paso) under a firm transportation agreement with El Paso for up to 45,500 dekatherms per day of natural gas during the months from April to October of each year, at the rates set forth on El Paso s Rate Schedule FT-H12 that has been filed with the FERC. The current El Paso firm transportation agreement expires on October 31, 2008. Fuel for Arlington Valley during the months from November to March of each year is procured by Bear, as the energy manager, in the spot market pursuant to the energy management agreement.

Water for all facility processes is obtained from three onsite groundwater wells under various permits and agreements with local authorities. The groundwater wells supply sufficient water to Arlington Valley for its operations.

Arlington Valley is interconnected to the Palo Verde transmission hub. It is interconnected to the 500 kV transmission system at the Hassayampa substation pursuant to an interconnection agreement with the owners of the Palo Verde nuclear power station, and sells its energy, capacity and other ancillary services to wholesale electricity customers directly on the spot market. However, Arlington Valley has partially hedged its exposure to the market prices of energy under the call-option agreement described later in this section.

Griffith

Griffith is a 558 MW capacity natural gas-fired, combined-cycle power plant located in Kingman, Arizona, approximately 100 miles southeast of Las Vegas. It began commercial operations in January 2002. Griffith is a single-unit electric generating facility utilizing two natural gas-fired combustion turbines, an inlet chilling system, two supplemental fired heat recovery steam generators and one condensing steam turbine generator operating in combined-cycle mode. The facility is capable of producing approximately 437 MW of output without peaking capacity, and approximately 558 MW of output with peaking capacity.

Natural gas is delivered to the facility on the El Paso and Transwestern pipelines through the UniSource lateral. Griffith has entered into a firm transportation agreement with Citizens Utility through 2020 for 121,000 dekatherms per day of natural gas. Fuel for Griffith is procured by Bear, as the energy manager, pursuant to the energy management agreement.

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Water is supplied to the facility under a 50-year supply agreement with Mohave County, Arizona for up to 4,800 gallons per minute of ground water. In exchange for the water supply, Griffith pays a share of the operating and maintenance costs of the Mohave County water system that is equal to the quotient, expressed as a percentage, of 4,800 divided by the capacity of the water system then in effect. As of November 2006, Griffith was responsible for approximately 90% of the operating and maintenance costs of the water system.

Griffith is interconnected to the Western Area Power Administration (WAPA) transmission system at the 230 kV Peacock and 230 kV McConnico substations. It has entered into three firm transmission service agreements for 433 MW, 87 MW and 75 MW to allow direct sales of energy at the Mead substation, which sales are made by Griffith directly to wholesale electricity customers on the spot market. However, Griffith has partially hedged its exposure to the market prices of energy under the call-option agreement described later in this section. The 433 MW agreement also includes provisions for crediting Griffith for transmission upgrades completed on WAPA s system and pre-funded by Griffith. These transmission credits amount to approximately $3 million annually, until 2016.

In April 2006, prior to the LS Power Group s purchase of Griffith, the steam turbine at Griffith failed during a start-up process as a result of a mechanical problem with the turbine s rotor. Initial repairs to the rotor were made, and the steam turbine has performed a number of successful hot starts, one cold start and one warm start. However, the steam turbine still requires additional inspection and repair, up to and including the purchase of a replacement rotor. A new rotor is on order with Toshiba, the original equipment manufacturer, with a specified cancellation schedule. The new rotor is scheduled for delivery and installation in the spring of 2008. Certain of the LS Contributing Entities have the benefit of indemnities and other protections through the original purchase and sale agreements when the Griffith project was acquired from Duke and PPL. The indemnities will continue to benefit the project following the completion of the Merger Agreement Transactions.

Historical Operating Data of the Western Operating Assets

The following tables set forth certain historical operating data of the Western Operating Assets:

Year Ended December 31, 2003

Facility	Availability (%) (1)	Capacity Factor (%) (2)	Net Generation (GWh)	Fuel Consumption (MMBtu 000s)	Average Heat Rate (Btu/kWh) (3)
Moss Landing					
Units 1 and 2	95.2%	60.2%	5,375	38,060	7,081
Units 6 and 7	84.7%	9.6%	1,279	12,555	9,815
Morro Bay	66.2%	4.1%	279	2,760	9,885
South Bay	97.7%	21.4%	1,330	14,243	10,633
Oakland	95.7%	1.0%	14	192	13,418
Arlington Valley	95.6%	29.0%	1,485	10,387	6,996
Griffith	82.2%	23.9%	1,258	9,307	7,397

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Facility	Availability (%) (1)	Capacity Factor (%) (2)	Net Generation (GWh)	Fuel Consumption (MMBtu 000s)	Average Heat Rate (Btu/kWh) (3)
Year Ended December 31, 2004					
Moss Landing					
Units 1 and 2	87.7%	57.7%	5,049	36,507	7,231
Units 6 and 7	90.6%	8.1%	1,080	10,605	9,817
Morro Bay	83.3%	3.8%	332	3,259	9,813
South Bay	95.3%	30.8%	1,915	20,541	10,692
Oakland	97.7%	1.5%	21	284	13,371
Arlington Valley	94.6%	29.8%	1,536	10,944	7,125
Griffith	94.6%	21.6%	1,138	8,383	7,368

Facility	Availability (%) (1)	Capacity Factor (%) (2)	Net Generation (GWh)	Fuel Consumption (MMBtu 000s)	Average Heat Rate (Btu/kWh) (3)
Year Ended December 31, 2005					
Moss Landing					
Units 1 and 2	95.4%	54.7%	4,884	34,667	7,099
Units 6 and 7	91.7%	3.5%	467	4,533	9,705
Morro Bay	88.1%	3.6%	319	3,175	9,947
South Bay	97.2%	25.3%	1,534	16,537	8,882
Oakland	96.1%	2.5%	36	494	13,568
Arlington Valley	95.6%	26.9%	1,374	9,831	7,156
Griffith	82.2%	15.0%	787	5,912	7,513

Facility	Availability (%) (1)	Capacity Factor (%) (2)	Net Generation (GWh)	Fuel Consumption (MMBtu 000s)	Average Heat Rate (Btu/kWh) (3)
Nine Months Ended September 30, 2006					
Moss Landing					
Units 1 and 2	88.3%	51.2%	3,426	24,310	7,096
Units 6 and 7	79.3%	10.0%	1,025	10,187	9,936
Morro Bay	93.0%	5.5%	313	3,136	10,035
South Bay	97.5%	17.6%	797	8,882	11,142
Oakland	74.9%	2.7%	29	410	14,113
Arlington Valley	98.2%	33.1%	1,247	8,819	7,070
Griffith	65.0%	19.7%	741	5,391	7,276

(1) Calculated as the cumulative number of available MWhs in a period divided by the product of the facility s capacity and the number of hours in the period.

(2) Actual MWh/Operating MW in Hours Period.

(3) Heat rate is calculated as: Total Fuel Consumption (Btu)/Net Generation (kWh).

Aggregate Historical Operating Expenses of the Western Operating Assets

The following table sets forth the aggregate historical unaudited operating expenses, excluding fuel, fuel transportation and major maintenance costs, of the Western Operating Assets for the 2004 and 2005 fiscal years, and for the nine-month period of the 2006 fiscal year through September 30, 2006. The operating expenses for all three periods presented include 100% of Griffith s operating expenses.

2004	2005	2006 (through 9/30)
	(in millions)	
$115.0	$96.5	$90.3

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Power Purchase and RMR Agreements of the Western Operating Assets

Approximately 4,550 MW of the total capacity of the Western Operating Assets is contracted to third parties through power purchase agreements and RMR agreements.

Moss Landing 6 and 7, Morro Bay, Oakland and Griffith are subject to certain power purchase agreements. Under these power purchase agreements, the buyer pays the power generation facility a fixed monthly payment for the right to call energy, capacity and ancillary services from the power generation facility. A power purchase agreement provides a generation facility with a steady stream of revenues, and mitigates the effects of fluctuating market price for electricity.

The South Bay and Oakland facilities operate under RMR agreements with the CAISO. RMR agreements are agreements under which an ISO has the right to call on a generation facility to generate energy and/or provide ancillary services when required to ensure the reliability of the local power grid. In exchange, the ISO pays the generation facility certain fixed and variable payments. The ISOs rely upon must-run power plants to ensure reliability of electricity services in areas where electricity supply may be constrained due to transmission congestion, and to maintain the voltage power and stability of the overall power grid.

The following table summarizes the key terms of the power purchase agreements and RMR agreements of the Western Operating Assets:

	Contract		**Counterparty**	
Facility	**Type**	**Term/Expiration**	**Credit**	**Notes**
Moss Landing (Units 6&7)	Toll	31-Dec-2010	Investment Grade	Around-The-Clock 1,509 MW Unit contingent Variable operations and maintenance (VOM) reimbursement
Morro Bay	Toll	31-Dec-2007	Investment Grade	Around-The-Clock 650 MW Unit contingent VOM reimbursement
Griffith	Toll	Summer 2007	Non-Investment Grade	Around-The-Clock 285 MW Unit contingent VOM reimbursement
South Bay	RMR Condition-2	Annual Renewal	CAISO	Around-The-Clock Cost of service rates
Oakland	RMR Condition-2 (as of 1-Jan-2007)	RMR: Annual Renewal	RMR: CAISO	Around-The-Clock Toll agreement is unit contingent

Toll	Toll: 31-Dec-2006	Dispatch rights sold to PG&E
	Toll: PG&E	

Moss Landing In May 2006, LSP Moss Landing LLC (the owner of Moss Landing) entered into two consecutive power purchase agreements (one for the period from May 1, 2006 to December 31, 2006 and one for the period from January 1, 2007 to December 31, 2010) for Moss Landing 6 and 7 with PG&E. Under the Moss Landing 6 and 7 power purchase agreements, which are structured as tolling agreements, PG&E pays a fixed capacity payment to LSP Moss Landing LLC that is determined based on a guaranteed availability rate and an expected heat rate with respect to Moss Landing 6 and 7. In exchange, Moss Landing 6 and 7 converts the natural gas supplied by PG&E to electricity and provides PG&E with capacity and ancillary services. The Moss Landing 6 and 7 tolling agreements are on a unit contingent basis whereby if the plant is not operational, it is not expected to deliver power or make PG&E whole.

Moss Landing has entered into agreements to sell System Resource Adequacy (RA) capacity in accordance with CAISO and CPUC tariffs and policies to a variety of load-serving entities for 2007.

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RA refers to a condition in which utilities or other load-serving entities have demonstrated that they have acquired sufficient resources to satisfy a forecast of future loads reliably. RA capacity contracts supplied from generating units provide the required demonstration that planned resource commitments are secured to match to load forecasts. Sales from Moss Landing 1 and 2 average 150 MW per month. RA sales require the unit to be available for dispatch by the CAISO for reliability purposes, for which the purchaser pays a fixed monthly payment. RA sales do not entitle the purchaser to any portion of the energy associated with the RA capacity.

Under the Moss Landing 6 and 7 power purchase agreements, PG&E has exclusive full dispatch rights to the Moss Landing 6 and 7 units, which rights are limited by the applicable rules of the CAISO, the amount of capacity contracted under the power purchase agreements and certain other operating restrictions. LSP Gen Finance Co. provides collateral to PG&E. In addition, LSP Moss Landing, LLC is obligated under the power purchase agreements to post additional collateral to PG&E, up to a specified maximum amount, in the event PG&E s exposure to LSP Moss Landing, LLC increases due to a change in the mark-to-market value of the power purchase agreements. In order to be in a position to satisfy this potential additional collateral posting requirement, LSP Moss Landing, LLC and LSP Gen Finance Co, LLC have entered into an operative agreement with an investment grade financial institution, under which the financial institution has agreed to provide credit support in the form of cash deposits, up to a specified maximum amount. In the event PG&E were to utilize such cash deposits to satisfy LSP Moss Landing, LLC s obligations under the power purchase agreements, LSP Gen Finance Co, LLC would have an obligation to reimburse the financial institution. Reimbursement obligations are supported by a letter of credit in favor of the financial institution as well as a lien on the collateral securing the LSP Gen Finance Co, LLC credit facilities. In consideration of the financial institution s agreement to provide the additional credit support to PG&E, LSP Gen Finance Co, LLC is obligated to pay the financial institution three additional fee payments of approximately $2.6 million on each of February 1, 2007, August 1, 2007 and February 1, 2008.

Morro Bay Morro Bay is subject to a three-year power purchase agreement with PG&E with respect to units 3 and 4 of Morro Bay. The term of the power purchase agreement began in January 2005 and is effective through December 31, 2007. PG&E pays Morro Bay a fixed capacity payment (per kilowatt-month) and reimburses Morro Bay for certain of its variable operations and maintenance expenses. As the Morro Bay power purchase agreement is structured as a tolling agreement, PG&E must also supply Morro Bay with natural gas for its operations under the power purchase agreement. The Morro Bay power purchase agreement is on a unit contingent basis whereby Morro Bay is not responsible for providing replacement power in the event that the plant is not running. Under the Morro Bay power purchase agreement, PG&E has the right to certain ancillary services as well as to the contracted capacity of the plant. LSP Gen Finance Co. provides collateral to PG&E.

Griffith Griffith is subject to a four-month power purchase agreement with respect to 285 MW of its output. The term of the power purchase agreement begins on June 1, 2007 and runs through September 30, 2007. A non-investment grade counterparty pays Griffith a fixed capacity payment (per kilowatt-month) and reimburses Griffith for certain of its variable operations and maintenance expenses. As the Griffith power purchase agreement is structured as a tolling agreement, the counterparty must also supply Griffith with natural gas for its operations under the power purchase agreement. The Griffith power purchase agreement is on a unit contingent basis whereby Griffith is not responsible for providing replacement power in the event that the plant is not running. Under the Griffith power purchase agreement, the counterparty has the right to certain ancillary services as well as to the contracted capacity of the plant.

South Bay South Bay currently operates under RMR Condition-2 status pursuant to an RMR agreement with the CAISO. Under RMR Condition-2 status, South Bay is under complete dispatch control by the CAISO, and is not permitted to sell energy to the market. In exchange, South Bay receives cost-of-service rates from the CAISO. The term cost-of-service rates refers to the compensation or payment a generator receives from a utility or ISO for providing dispatch services based on the costs of maintaining, managing and operating the generator s plant. The South Bay RMR

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agreement is unilaterally renewable by the CAISO on an annual basis, and the RMR status of all five of South Bay s electric generating units has been confirmed by the CAISO for the 2007 calendar year.

Oakland Oakland currently operates under RMR Condition-1 status pursuant to an RMR agreement with the CAISO. Under RMR Condition-1 status, the CAISO provides Oakland with a portion of its cost-of-service rates, but allows Oakland to sell energy and other ancillary services to the market generally and retain all proceeds from such market sales. Oakland has also entered into a power purchase agreement with PG&E. Under the Oakland-PG&E power purchase agreement, PG&E has dispatch rights to call on the plant for energy when necessary, but is required to reimburse Oakland for revenues foregone under RMR Condition-1 status (partial cost-of-services rates) that it would have received under RMR Condition-2 status (full cost-of-services rates). The Oakland-PG&E power purchase agreement expires on December 31, 2006. The Oakland RMR agreement is renewable unilaterally by the CAISO on an annual basis, and the RMR status of all three of Oakland s electric generating units has been confirmed by the CAISO for the 2007 calendar year. Oakland has elected Condition-2 status for its RMR agreement commencing January 1, 2007.

Call-Option Agreements of the Western Operating Assets

Moss Landing (1 and 2), Arlington Valley and Griffith sell energy, capacity and/or other ancillary services to wholesale electricity customers directly in the spot market. In order to mitigate the exposure of these facilities to changes in the market price of energy, LSP Gen Finance Co., LLC has entered into several financially-settled heat rate call-option agreements with respect to the energy generated at these facilities.

Under this type of call-option agreement, a buyer pays a monthly fixed fee (or premium) to the seller of the energy for an option to financially settle such energy based on a contracted price (in dollars/kW and tied to a guaranteed heat rate matched to the relevant facility) and the notional amount (in kW) being contracted under the agreement. In exchange, the buyer receives a payment from the seller if the buyer exercises its option (which option is generally exercisable on a daily basis) to the extent the market price for the energy being contracted under the agreement is higher than the contracted price. These call-option agreements allow power generation facilities to mitigate volatility in electricity prices, while maintaining direct control over the generation units.

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The following table summarizes the key terms of the call-option agreements of the Western Operating Assets:

Facility	Contract Type	Term/ Expiration	Counterparty Credit	Notes
Moss Landing (Units 1&2)	Financial	30-Sep-2010	Investment Grade	Around-The-Clock Energy only 750 MW (May to September); 755MW (October to April) NP-15 power reference PG&E City Gate gas reference VOM reimbursement Retain ancillary services, regulatory capacity and real-time optionality
Arlington Valley	Financial	30-Sep-2008	Investment Grade	Around-The-Clock 245 MW (May to September); 250MW (October to April) Energy only Palo Verde power reference SoCal gas reference VOM reimbursement Retain ancillary services and real-time optionality
Griffith	Financial	30-Sep-2008	Investment Grade	Around-The-Clock 230 MW (May to September); 240MW (October to April) Energy only Mead power reference SoCal gas reference VOM reimbursement Retain ancillary services and real-time optionality

The LS Generation Facilities call-option agreements were entered into with high-quality, investment-grade counterparties, or buyers. Under the LS Generation Facilities call-option agreements, in exchange for a monthly fixed fee, the buyers receive payments from the relevant facilities

based on the difference between the prevailing energy price based on certain publicly available energy price indices (known as the reference price) and the product of the applicable facility s fuel costs based on a specified gas price (known as the gas reference price) multiplied by a contractually agreed heat rate (known as the strike heat rate). The strike heat rate at which the contracts settle financially are structured to incorporate start-up costs, transmission losses (if any), gas taxes (if any) and certain adjustments to gas prices. The buyers also pay an additional amount (known as the energy price adder) to the relevant facilities for each hour of energy generation actually called by the relevant buyer under the agreement to reflect variable operations and maintenance (including major maintenance) costs at the facilities.

The buyers each received a letter of credit and a pari passu first-priority lien on the same collateral that secures the LSP Gen Finance credit facilities (which are described later in this section) for a portion of the mark-to-market exposure under the call-option agreements. The buyers also received a third-priority lien on the same collateral that secures the LSP Gen Finance credit facilities for the remaining portion of the mark-to-market exposure under the call-option agreements that are not covered by the first lien claim on the same collateral. LS Power Generation, LLC has the right to substitute the existing plant-asset collateral with letters of credit, investment grade guaranties or secured liens on other assets. The collateral may be reduced as the facilities are sold or become subject to project-financing arrangements.

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The LS Generation Facilities call-option agreements are settled between the parties on a monthly basis. Because the agreements settle on a financial basis, the relevant LS Generation Facilities retain dispatch control over their facilities and receive all proceeds from the physical sale of energy, capacity and ancillary services from the plants. No actual energy is transferred between the parties under these call-option agreements. The Moss Landing 1 and 2 call-option agreement is scheduled to terminate on September 30, 2010 and the Arlington Valley and Griffith call-option agreements are scheduled to terminate on September 30, 2008.

Aggregate Contracted Revenue of the Western Operating Assets

Based on the current pricing terms in the relevant power purchase, RMR and call-option agreements, the aggregate contracted revenue, including variable non fuel operating cost reimbursements, of the Western Operating Assets is estimated to be approximately $282.7 million for 2007 and approximately $246.0 million for 2008. These contracted revenue figures exclude the optionality, ancillary services and non-contracted regulatory capacity retained by the Western Operating Assets other than the renewal of RMR status. The revenue figures assume that no additional agreements are entered into with respect to the existing available capacity or on the expiration of the existing agreements.

The decline in contracted revenue from 2007 to 2008 is due to: (1) the expiration of the power purchase agreements between Morro Bay and PG&E by year-end 2007 and (2) the expiration of the call-option agreements at Arlington Valley and Griffith by September 2008.

Eastern Operating Assets

The Eastern Operating Assets are comprised of four facilities located in Illinois (Kendall), Pennsylvania (Ontelaunee), Connecticut (Bridgeport) and Maine (Casco Bay), with a total capacity of 2,847 MW. The Eastern Operating Assets operate within either PJM or ISO-NE. The following table sets forth certain key facts regarding the Eastern Operating Assets facilities:

Facility	**Kendall**	**Ontelaunee**	**Bridgeport**	**Casco Bay**
Pricing Point	LMP	LMP	LMP	LMP
Contract Type	Toll (3 of 4 units)	Financial Contract (500 MW)	RMR status designated by ISO-NE, which provides cost of service based revenues	Financial contract (460 MW)
Construction Contractor	NEPCO/DICR	Calpine	Siemens	Duke/Fluor Daniel
Equipment	4 GE 7 FA CTs 4 Foster Wheeler HRSGs 4 GE STs	2 Siemens- Westinghouse GTs 2 Nooter-Ericksen HRSGs 1 Siemens- Westinghouse ST	2 Siemens V84.3A CTs 2 Vogt/Nem HRSGs 1 Siemens KN ST	2 GE 7FA+e CTs 2 ABB HRSGs 1 GE D11 ST
Electric Interconnection	ComEd s 345kV Kendall substation	MetEd s 230kV North Temple substation	UI 115kV Pequonnock Substation	Bangor Hydro s 115kV Graham substation
Gas / Oil Transport	ANR Pipeline and NGPL Pipeline	Texas Eastern Pipeline	Iroquois Pipeline and Southern Connecticut Gas dedicated lateral	Maritimes & Northeast Pipeline
Site	149 acres	19 acres	7 acres	30 acres

Operations and maintenance of the various Eastern Operating Assets facilities are performed under contract by third-party service providers pursuant to separate operations and maintenance agreements customary in the power industry. Kendall is currently operated and maintained by General Electric International, Inc. Ontelaunee is currently operated and maintained by WorleyParsons Group, Inc. Bridgeport and Casco Bay

are currently operated and maintained by North American Energy Services Company. These third-party service providers and their personnel are responsible for the day-to-day operations and maintenance of the Eastern Operating Assets.

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Kendall

Kendall is a 1,200 MW capacity natural gas-fired, combined-cycle facility located in Minooka, Illinois, approximately 30 miles southwest of Chicago. It began commercial operations in 2002. Kendall consists of four electric generating units, with each unit utilizing one natural gas-fired, combustion turbine, one heat recovery steam generator and one steam turbine. Each Kendall unit is capable of producing approximately 260 MW of output without peaking capacity, and approximately 300 MW of output with peaking capacity.

Natural gas is supplied to Kendall from two pipelines, one owned by ANR, a subsidiary of El Paso Corporation, and the other by NGPL, a subsidiary of Kinder Morgan, Inc. Each of the pipelines provides Kendall with up to 237,000 dekatherms per day of natural gas. Fuel for units 1, 2 and 3 of Kendall is provided by the applicable buyers under the Kendall power purchase agreements described below. Fuel for unit 4 of Kendall is procured by Fortis Inc. (Fortis), as the energy manager for unit 4 of Kendall, pursuant to the energy management and marketing agreement described below.

Water for cooling is sourced directly from the Illinois River and supplied to Kendall through a 7.5-mile pipeline owned by Kendall. Kendall also has onsite storage capacity for cooling water for operations during low river flow conditions.

Kendall is located within the Commonwealth Edison (ComEd) region of the PJM, a wholesale electricity market that extends from Illinois through parts of the midwest to the east coast of the United States between the outer banks of North Carolina and northern New Jersey. Kendall is interconnected to the ComEd 345 kV electric transmission system pursuant to an interconnection agreement with ComEd, and sells its energy, capacity and other ancillary services pursuant to the power purchase agreements described below (with respect to units 1, 2 and 3) and on a short-term basis to wholesale electricity customers in the spot market (with respect to unit 4).

Fortis serves as the energy manager for unit 4 of Kendall pursuant to an energy management and marketing agreement, and procures the fuel necessary for the unit s operations, schedules and dispatches the unit based on established operating and dispatch procedures and markets the capacity of, the electricity generated by and the other ancillary services provided by, the unit.

Ontelaunee

Ontelaunee is a 580 MW capacity natural gas-fired, combined-cycle power generation facility located in Ontelaunee Township, Pennsylvania, approximately 60 miles northwest of Philadelphia and approximately 40 miles west of Bethlehem, Pennsylvania. It commenced commercial operations in December 2002. Ontelaunee is a single-unit electric generating facility utilizing two gas turbines, each connected to its own heat recovery steam generator and supplying steam to a single steam turbine generator. At standard winter conditions, it is capable of producing approximately 560 MW of output without peaking capacity, and approximately 580 MW of output with peaking capacity.

Natural gas is supplied to Ontelaunee from the TETCO interstate gas pipeline systems via two lateral gas pipelines that cross the Ontelaunee project site, which provide Ontelaunee with up to 100,000 dekatherms per day of natural gas.

The Reading Area Water Authority supplies cooling water to Ontelaunee pursuant to an Amended and Restated Water Supply Agreement dated as of November 14, 2001.

Ontelaunee is located within the Metropolitan Edison Company (MetEd) region of PJM. It is interconnected to the PJM power pool through MetEd s North Temple substation pursuant to an interconnection agreement with MetEd, and sells its energy, capacity and other ancillary services to wholesale electricity customers directly on the spot market. However, exposure to the market prices of energy has been hedged under the call-option agreement described below.

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Eagle Energy Partners I, L.P. serves as the energy manager for Ontelaunee pursuant to an energy services agreement, and procures the fuel necessary for the unit s operation, schedules and dispatches the facility based on established operating and dispatch procedures, markets the capacity of, the electricity generated by, and the ancillaries provided by, the facility.

Bridgeport

The Bridgeport facility (Bridgeport) is a 527 MW capacity natural gas-fired, combined-cycle power plant located in Bridgeport, Connecticut. It began simple-cycle operations in August 1998 and combined-cycle operations in July 1999. Bridgeport is a single-unit electric generating facility utilizing two natural gas-fired combustion turbine generators, two heat recovery steam generators and one condensing steam turbine generator operating in combined-cycle mode.

Natural gas is delivered to Bridgeport through an 11-mile lateral owned by Southern Connecticut Gas. Bridgeport has a firm transportation agreement with Southern Connecticut Gas and CNE Energy Services Group through 2017 for 187,000 dekatherms per day of natural gas, as well as a firm transportation service agreement with Iroquois Gas Transmission System through 2018 for 94,000 dekatherms per day of natural gas. Fuel for Bridgeport is procured by Bear, as the energy manager, pursuant to the energy management agreement. Pursuant to the firm transportation agreement with Southern Connecticut Gas and CNE Energy Services Group, Bridgeport pays a transportation fee based on the volume of natural gas supplied, subject to a guaranteed annual minimum payment of approximately $8 million. These fees are subject to adjustments to reflect the actual capital cost of the delivery system that was constructed specifically to supply Bridgeport with natural gas. The fees may also be adjusted to reflect certain changes in taxes.

Bridgeport utilizes a once-through cooling system with water sourced from Bridgeport Harbor. Demineralized water and auxiliary steam are provided by the neighboring Public Service Electric and Gas Company Bridgeport Harbor Station pursuant to a joint operating agreement.

Bridgeport is located within the ISO-NE controlled grid. It is interconnected with the New England Power Pool (NEPOOL) transmission system at the Pequonnock 115 kV substation pursuant to an interconnection agreement with UIL Holding Corporation. Bridgeport is subject to an RMR Agreement with ISO-NE, described below.

Bear serves as the energy manager for Bridgeport under an energy management agreement, and procures the natural gas necessary for the facility s operations, schedules and dispatches the facility based on established operating and dispatch procedures, markets the capacity and ancillary services of, and the electricity generated by, the facility, and provides other services (including risk management services) to the facility.

Casco Bay

The Casco Bay facility (Casco Bay) is a 540 MW capacity natural gas-fired, combined-cycle power plant located in Veazie, Maine, adjacent to the Penobscot River. It began commercial operations in May 2000. Casco Bay is a single-unit electric generating facility utilizing two natural gas-fired combustion turbine generators, two supplemental-fired heat recovery steam generators, two mechanical foggers for inlet cooling, and one condensing steam turbine generator operating in combined-cycle mode.

Natural gas is supplied to Casco Bay from the Sable Island natural gas fields through the Veazie lateral pipeline, which is interconnected to the Maritimes & Northeast Pipeline. Casco Bay has a firm transportation service agreement with Maritimes and Northeast Pipeline through 2019 for up to 105,000 dekatherms per day of natural gas, at the rate of Maritime & Northeast Pipeline s Rate Schedule MNLFT, which is on file with the FERC. The annual payment for the firm transportation is approximately $1 million. Fuel for Casco Bay is procured by Bear, as the energy manager, pursuant to the energy management agreement.

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Water supply for the facility, including make-up water for the plant cooling tower, is obtained from the Penobscot River. A cooling tower is a heat exchanger designed to aid in the cooling of water that was used to cool exhaust steam exiting the turbines of a power plant.

Casco Bay is located within the ISO-NE controlled grid. It is interconnected with the NEPOOL transmission system at the 115 kV Bangor Hydro Electric Graham substation pursuant to an interconnection agreement with Bangor Hydro Electric. Additionally, the facility has an agreement for 500 MW of firm transmission capacity through the 345 kV line from the Orrington substation to the Maine Yankee substation. Casco Bay sells its energy, capacity and other ancillary services to wholesale electricity customers directly on the spot market. However, Casco Bay has hedged its exposure to the market prices of energy under the call-option agreement described later in this section.

Bear serves as the energy manager for Casco Bay under an energy management agreement, and procures the natural gas necessary for the facility s operations, schedules and dispatches the facility based on established operating and dispatch procedures, markets the capacity and ancillary services of, and the electricity generated by, the facility, and provides other services (including risk management services) to the facility.

Historical Operating Data of the Eastern Operating Assets

The following tables set forth certain historical operating data of the Eastern Operating Assets:

Year Ended December 31, 2003

Facility	Availability (%) (1)	Capacity Factor (%) (2)	Net Generation (GWh)	Fuel Consumption (MMBtu 000s)	Average Heat Rate (Btu/kWh) (3)
Kendall	99.2%	4.5%	424	3,508	8,277
Ontelaunee	94.1%	15.7%	836	6,150	7,354
Bridgeport	99.1%	70.2%	3,036	21,358	7,036
Casco Bay	92.4%	52.0%	2,499	17,225	6,920

Year Ended December 31, 2004

Facility	Availability (%) (1)	Capacity Factor (%) (2)	Net Generation (GWh)	Fuel Consumption (MMBtu 000s)	Average Heat Rate (Btu/kWh) (3)
Kendall	99.5%	5.5%	553	4,383	7,924
Ontelaunee	88.8%	24.3%	1,301	9,314	7,157
Bridgeport	95.7%	73.4%	3,180	22,428	7,053
Casco Bay	94.6%	59.4%	2,750	19,458	7,077

Year Ended December 31, 2005

Facility	Availability (%) (1)	Capacity Factor (%) (2)	Net Generation (GWh)	Fuel Consumption (MMBtu 000s)	Average Heat Rate (Btu/kWh) (3)
Kendall	99.0%	16.1%	1,330	9,706	7,300
Ontelaunee	90.3%	16.1%	780	5,790	7,426
Bridgeport	92.6%	62.5%	2,700	19,032	7,049
Casco Bay	96.6%	58.5%	2,693	18,840	6,997

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Nine Months Ended September 30, 2006

Facility	Availability (%) (1)	Capacity Factor (%) (2)	Net Generation (GWh)	Fuel Consumption (MMBtu 000s)	Average Heat Rate (Btu/kWh) (3)
Kendall	97.9%	15.0%	1,143	8,498	7,435
Ontelaunee	96.8%	32.8%	1,183	8,678	7,334
Bridgeport	85.7%	58.3%	1,882	13,433	7,137
Casco Bay	95.6%	44.7%	1,667	11,779	7,067

(1) Calculated as the cumulative number of available MWhs in a period divided by the product of the facility s capacity and the number of hours in the period.
(2) Actual MWh/Operating MW in Hours Period.
(3) Heat rate is calculated as: Total Fuel Consumption (Btu)/Net Generation (kWh).

Aggregate Historical Operating Expenses of the Eastern Operating Assets

The following table sets forth the aggregate historical unaudited operating expenses, excluding fuel, fuel transportation and major maintenance costs, of the Eastern Operating Assets for the 2004 and 2005 fiscal years, and for the nine-month period of the 2006 fiscal year through September 30, 2006.

2004	2005 (in millions)	2006 (through 9/30)
$58.3	$ 60.1	$ 43.0

Power Purchase and RMR Agreements of the Eastern Operating Assets

Approximately 2,365 MW of the total capacity of the Eastern Operating Assets is contracted to third parties through power purchase agreements and RMR agreements. The Kendall facility is subject to two significant power purchase agreements. In addition, the Bridgeport facility operates under an RMR agreement with the ISO New England.

The following table summarizes the key terms of the power purchase agreements and RMR agreements of the Eastern Operating Assets:

Facility	Contract	Term/Expiration	Counterparty Credit	Notes
Kendall	Toll	Constellation PPA: 2017	Constellation	Both tolls: Around-The-Clock VOM and start cost reimbursement Unit contingent
	Toll	Dynegy PPA: 2012 (with extension options, through 2022)	Dynegy	
Bridgeport	RMR	31-May-2010	ISO-NE	Around-The-Clock Cost of service rates and VOM reimbursement
Casco Bay		2007-2009	Constellation	Sale of 100 MW UCAP

Capacity
Sale

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Kendall LSP-Kendall Energy, LLC, the owner of Kendall, is party to two significant long-term power purchase agreements for the sale of energy and ancillary services from three of Kendall s four electric generating units (units 1, 2 and 3). Under these power purchase agreements, the buyer pays LSP-Kendall Energy, LLC a fixed monthly payment for the right to call the energy, capacity and ancillary services from Kendall. These power purchase agreements provide LSP-Kendall Energy, LLC with a steady stream of revenues, and mitigate the effects of fluctuating market prices for electricity.

Units 1 and 2 of Kendall are committed under a power purchase agreement with Dynegy Power Marketing, Inc. (DPM), an indirect subsidiary of Dynegy. This agreement with DPM is referred to as the Dynegy PPA. The initial term of the Dynegy PPA is through 2012, which may be extended unilaterally by either party for an additional term of five years through 2017. If DPM elects to extend the term of the Dynegy PPA through 2017, DPM will have the option, at the end of such extended term, to further extend the term of the Dynegy PPA for a second five-year term and through 2022. Unit 3 of Kendall is committed under a power purchase agreement with Constellation Energy Commodities Group, Inc. (CECG), which is a subsidiary of Constellation Energy Group, Inc. This agreement with CECG is referred to as the Constellation PPA. The term of the Constellation PPA is through 2017, subject to CECG s right to extend the term for additional one-year periods in the event that availability falls below a certain threshold for two or more months during a peak season. The Constellation PPA and the Dynegy PPA are structured as tolling agreements that require the buyers, in exchange for the electricity generated by the contracted units, to provide Kendall with natural gas to fuel the contracted units, and to pay, in addition to the fixed monthly payments, certain variable payments on a monthly basis. Constellation Energy Group, Inc. and DHI have entered into guaranty agreements with LSP-Kendall Energy, LLC that guarantee the obligations of their respective subsidiaries under the power purchase agreements. In addition, DPM has entered into a back-to-back power purchase agreement with CECG with respect to units 1 and 2 of Kendall, whereby CECG indirectly assumes the fixed obligations under the Dynegy PPA through November 2008.

After the closing of the Merger Agreement Transactions, the Dynegy PPA will become an intercompany agreement with New Dynegy and will be effectively settled.

Bridgeport Bridgeport currently operates under RMR status pursuant to an RMR agreement with ISO-NE. Under the Bridgeport RMR agreement, Bridgeport receives full cost-of-service rates from ISO-NE in exchange for selling all of its energy into ISO-NE. The Bridgeport RMR agreement is subject to ongoing proceedings before the FERC. Unless Bridgeport elects to terminate the agreement, the Bridgeport RMR agreement will be in place until the earlier of May 31, 2010 or the implementation of certain capacity regulatory programs (known as Forward Capacity Market programs) within ISO-NE.

Casco Bay Casco Bay is subject to an agreement with an investment grade counterparty under which Casco Bay will sell 100 MW of unforced capacity (UCAP) to such counterparty each month from January 2007 to December 2009. UCAP refers to an amount of capacity that a generator is allowed to sell, which is calculated based upon the generator s tested capability adjusted for the generator s forced outage rate.

Call-Option Agreements of the Eastern Operating Facilities

Ontelaunee and Casco Bay sell energy, capacity and other ancillary services to wholesale electricity customers directly in the spot market. In order to mitigate the exposure of these facilities to changes in the market price of energy, Ontelaunee and Casco Bay are subject to certain financially-settled heat rate call-option agreements with respect to the energy generated at those facilities.

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The following table summarizes the terms of the call-option agreements of the Eastern Operating Assets:

Facility	Contract	Term/ Expiration	Counterparty Credit	Notes
Ontelaunee	Financial	31-Dec-2008	Investment Grade Party	Around-The-Clock (from 1/1/07) Energy only PJM-West power reference Texas Eastern M3 gas reference VOM reimbursement Retain ancillary services, regulatory capacity and real-time optionality
Casco Bay	Financial	31-Dec-2010	Investment Grade Party	Around-The-Clock through 31-Dec-2008; and On-Peak (only during hours with the highest energy demand) thereafter through 31-Dec-2010 450 MW (May to September); 480 MW (October to April) Energy only NE Internal Hub power reference Transco Zone 6 gas reference VOM reimbursement Retain ancillary services, regulatory capacity and real-time optionality

Ontelaunee Ontelaunee Power Operating Company, LLC (OPOC), which is the owner of Ontelaunee, is party to a financially-settled heat rate call-option agreement with respect to the energy generated at Ontelaunee. Under the OPOC call-option agreement, in exchange for a monthly fixed fee, the counterparty, as buyer, may choose, on a daily basis, to call the option to purchase the energy on a financial basis. For every day that the buyer calls the option, the buyer receives payments from OPOC based on the difference between the prevailing energy price based on an electricity price (known as the reference price) and the product of fuel costs based on a specified gas price (known as the gas reference price) multiplied by a contractually agreed heat rate (known as the strike heat rate). The strike heat rate at which the contract settles is structured to incorporate start-up costs, transmission losses (if any), gas taxes (if any) and certain adjustments to gas prices. The buyer also pays an additional amount (known as the energy price adder, which reflects variable operations and maintenance costs, including major maintenance costs) to OPOC for each hour of energy generation actually called by the buyer under the agreement. Beginning January 1, 2007, the buyer has the option to call energy from Ontelaunee each day for both on peak and off peak periods on any day of the week, which option is commonly known as an around-the-clock option. The call-option agreement allows OPOC to mitigate volatility in electricity prices, while maintaining direct control over the Ontelaunee generation units.

OPOC s obligations under the call-option agreement are secured by a letter of credit and a second-lien security interest on the same collateral that secures the Ontelaunee credit facility described below. The call-option agreement also requires Ontelaunee to maintain insurance to cover against unscheduled plant related outages.

The Ontelaunee call-option agreement is settled between the seller and the buyer on a monthly basis. Because the agreement settles on a financial basis, OPOC retains dispatch control over its facility and receives all proceeds from the physical sale of energy, capacity and ancillary services from the plant on PJM. No actual energy is transferred between the parties under the call-option agreement. Ontelaunee also retains the benefits and risks of differentials between its locational marginal price (LMP) and the energy reference price. The Ontelaunee call-option agreement is scheduled to terminate on December 31, 2008.

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Casco Bay LSP Gen Finance Co., LLC has entered into a financially-settled heat rate call-option agreement with respect to the energy generated at Casco Bay that is substantially similar to the call- option agreements that it has entered into with respect to Ontelaunee. The Casco Bay call-option agreement is scheduled to terminate on December 31, 2010. For more information about these LSP Gen Finance call option agreements, please see Western Operating Assets Call-Option Agreements of the Western Operating Assets.

Aggregate Contracted Revenue of the Eastern Operating Assets

Based on the current pricing terms in the relevant power purchase, RMR and call-option agreements, the aggregate contracted revenue of the Eastern Operating Assets is estimated to be approximately $207.4 million for 2007 and approximately $206.7 million for 2008. These contracted revenue figures exclude the optionality, ancillary services and non-contracted regulatory capacity retained by the Eastern Operating Assets other than the renewal of RMR status. The revenue figures assume that no additional agreements are entered into with respect to the existing available capacity or on the expiration of the existing agreements.

Development Assets Discussion

Pursuant to the Merger Agreement Transactions, New Dynegy will acquire the LS Power Group s approximately 40% undivided interest in Plum Point, which is held indirectly through PPEA. New Dynegy will also acquire 50% of the interests in the Development LLC, which will own the other Development Assets. After the closing of the Merger Agreement Transactions, additional development projects may be contributed from time to time by the LS Power Group and by New Dynegy to the Development LLC. Because of the nature and risks involved in developing power generation facilities, there can be no assurance that any of the Development Assets will enter into the construction phase or eventually be completed.

For more information regarding the joint venture arrangements for the ownership of the Development Assets, please see Other Agreements and Documents Joint Venture Agreements.

Greenfield Projects

As a developer, the LS Power Group has been developing the following various greenfield projects:

Greenfield Development Project	Location	Generating Capacity
Plum Point[(1)]	AR	665
Plum Point II	AR	668
Sandy Creek	TX	800
Longleaf	GA	1,200
White Pine	NV	1,600
Egan Wind	NV	200
Elk Run	IA	750
High Plains	CO	600
Five Forks	VA	800
West Deptford	NJ	500
West Texas	TX	500 (gas)
Great Basin Transmission[(2)]	NV	NM

(1) In construction phase; expected to be completed in August 2010.
(2) Transmission development project.

The term greenfield refers to projects that are developed from completely undeveloped sites, often an unused parcel of land. The developer acquires unimproved land and oversees all aspects of the permitting, planning, design, construction and eventual operation of the facility that will occupy the land.

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Greenfield projects have multiple phases of development. In the early development phase, the developer generally obtains an option on the land on which the power plant is to be constructed and applies for permits to construct the project. In the construction phase or earlier, the developer arranges for construction contracting and supply, obtains the funds (generally through third-party financing) to proceed with construction of the physical assets, and enters into third-party arrangements such as power sales and fuel supply agreements. In the operational phase, the construction of the project is completed and operations commence.

Plum Point, which is described below, is currently in the construction phase and is expected to be completed by August 2010. The remaining greenfield projects in the Development Assets are in the early development phase and have not commenced construction. Of the greenfield projects in the Development Assets that are still in the early development phase, the project at Sandy Creek is the most advanced. The Sandy Creek facility is a 800 MW pulverized coal-fired facility under development near Waco, Texas. The project will be located on a 700-acre site. Low-sulfur coal will be delivered to the project by rail from the Wyoming Powder River Basin region. The project will employ advanced emission controls, including low NOx burners, selective catalytic reduction, dry flue gas desulfurization, halogenated activated carbon injection and fabric filters. The project will utilize recycled wastewater from a local municipal wastewater treatment plant for water supply and will be connected to the 345 kV transmission system in the ERCOT North zone.

Major permits required prior to the start of construction on Sandy Creek have been issued. The air permit is currently being appealed in Travis County District Court by environmental advocacy groups. Agreements for water supply, electrical interconnection and tax abatement have been executed. Discussions are ongoing with potential counterparties for power offtake/joint ownership. The target schedule for the project is to begin construction in 2007 and begin operations in 2011, subject to receipt of final permits, power sales agreements and financing.

Expansion and Facility Replacement Projects

The LS Power Group has also been exploring expansion and facility replacement projects at the existing Operating Assets, including at South Bay, Griffith and Bridgeport. These expansion or facility replacement projects also form part of the Development Assets. Currently, no such expansion or facility replacement project has progressed beyond the early development phase.

LSP South Bay LLC (LSP South Bay), which operates South Bay under a lease with the plant owner, the SDUPD, is advancing a proposal to build a replacement project. The new approximately 620 MW plant will be a natural gas-fired, dry-cooled, combined-cycle facility. It will be constructed on a parcel of land immediately south of the existing South Bay facility. Once the new plant achieves commercial operation, the existing South Bay facility will be decommissioned and demolished.

In June 2006, LSP South Bay filed an application for certification (AFC) with the California Energy Commission (the CEC) to build the replacement project. The CEC deemed the AFC data adequate in August 2006, and has launched its one-year review process of the proposal. Working closely with other regulatory agencies, the CEC will analyze and hold public workshops on all potential impacts of the replacement project. Simultaneously, LSP South Bay will work with the local utility and other potential customers to establish a power purchase agreement for the plant s output. LSP South Bay expects to receive a CEC permit in 2007 and, subject to entering into suitable power purchase and financing arrangements, LSP South Bay could begin construction on the replacement project in 2008, with a commercial operations date in mid-2010.

Plum Point

Following construction, Plum Point will be a 665 MW coal-fired electric generating facility at a site that is approximately two miles south of the City of Osceola in Mississippi County, Arkansas. Plum Point will be a single-unit facility utilizing one water and hydrogen-cooled steam turbine generator. PPEA currently owns Plum

Point s capacity under a tenancy-in-common arrangement with other co-owners. These co-owners include the Missouri Joint Municipal Electric Utility Commission, the Municipal Energy Agency of Mississippi, East Texas Electric Cooperative and Empire District Electric.

Plum Point will primarily burn low-sulfur Wyoming Powder River Basin coal and will utilize modern control technologies for emissions control. Plum Point has executed a firm transportation agreement with the Burlington Northern Santa Fe Railway for the transportation of coal from its origin to the plant site with a ten-year term commencing from the date of first delivery. Plum Point will enter into coal purchase agreements at a date that is closer to the expected commercial operations date for the facility.

Water supply and discharge for Plum Point will be from and to the Mississippi River.

The Plum Point site is located within the Entergy wholesale electricity market, which spans Louisiana, Arkansas, Mississippi and Texas. Plum Point will be interconnected to the Entergy system through the 500 kV Dell-Shelby transmission line to the Sans Souci substation, located on the backbone of Entergy s transmission system, pursuant to an interconnection agreement with Entergy Arkansas. Plum Point is expected to sell its energy and capacity pursuant to the power purchase agreements described below.

Construction of Plum Point is guaranteed on a joint and several basis by a joint venture of Kiewit Construction, Black & Veatch and Zachry Construction under a fixed-price engineering, procurement and construction contract. The contract specifies a substantial completion date of March 31, 2010, a guaranteed completion date of August 2010 and contains extensive performance and completion guarantees and liquidated damage provisions as are customary for construction contracts for development projects of this type.

Under the project management agreement relating to Plum Point, LSP Services Plum Point, LLC, one of the Contributed Entities, manages, administers and performs certain specified services in connection with the construction of the Plum Point project.

Power Purchase Agreements for Plum Point

PPEA has entered into 30-year power purchase agreements with Empire District Electricity Company for 50 MW, South Mississippi Electric Power Association for 200 MW, Southwestern Electric Cooperative, Inc. for up to 70 MW, and the Missouri Joint Municipal Electric Utility Commission for 50 MW, of Plum Point s capacity and associated energy. Under these power purchase agreements, the buyer pays PPEA a pre-determined capacity payment to purchase energy and capacity from Plum Point. The agreements provide PPEA with a steady stream of revenue, and mitigate the effects of fluctuating market price for electricity.

Under the Plum Point power purchase agreements, PPEA will receive reimbursement for the fixed and variable operations and maintenance expenses, including the actual cost of fuel, allocated in proportion to the total capacity. The fuel charge under the power purchase agreements will be based on the delivered cost of coal (inclusive of transportation costs) and assumed heat rates ranging from 9,350 Btu/kWh to 9,500 Btu/kWh for Plum Point.

Financing Arrangements Discussion

In connection with the Merger Agreement Transactions, Dynegy is exploring a number of options to ensure an appropriate capital structure for New Dynegy. Considerations include refinancing certain of the project financings of the Contributed Entities, changes to the existing DHI bank debt arrangements, including increasing DHI s revolving credit facility, and increasing the capacity of existing letter of credit facilities to support New Dynegy s liquidity and collateral needs. As a result of Dynegy s review and discussions with potential lenders to New Dynegy, Dynegy may elect to pursue alternative capital structures to be implemented in connection with the Merger Agreement Transactions. Dynegy s review is on-going and the ultimate capital structure to be established

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by New Dynegy will depend on financial market conditions beyond its control. Such alternative capital structures, if they are implemented, could affect New Dynegy s earnings and cash flows in 2007 and beyond.

For further information on the Kendall credit facilities, Ontelaunee credit facilities, LSP Gen Finance credit facilities, Plum Point credit facilities and the Plum Point bonds and lease agreement described below, please see Note 8 Financing Arrangements, to the Unaudited Combined Financial Statements of the Power Generation Business of LS Power Development, LLC and Affiliates as of September 30, 2006, found elsewhere in this prospectus/proxy statement.

Kendall Credit Facilities

On October 7, 2005, LSP-Kendall Energy, LLC, as borrower, entered into an eight-year $422 million senior secured term loan facility and a six-year $10 million senior secured liquidity facility, which are referred to collectively as the Kendall credit facilities. As of September 30, 2006, there was approximately $405 million of term loan outstanding under the term loan facility and no amounts outstanding under the liquidity facility.

Unless the Kendall credit facilities are amended, a waiver is obtained from the applicable lenders, or the existing credit ratings of the Kendall credit facilities are reaffirmed by S&P and Moody s after taking into account the Merger Agreement Transactions, the Merger Agreement Transactions will result in a change of control under the Kendall credit facilities and the borrower will be required to make a prepayment offer to each lender under the Kendall credit facilities. Dynegy is evaluating the possibility of refinancing or modifying the Kendall credit facilities. The Merger Agreement Transactions are not conditioned on such refinancing or modification.

Ontelaunee Credit Facilities

On May 5, 2006, OPOC, as borrower, entered into a $100 million first lien senior secured credit facility and a $50 million second lien senior secured credit facility, which are referred to collectively as the Ontelaunee credit facilities. As of September 30, 2006, there was $150 million outstanding under the Ontelaunee credit facilities.

For the Merger Agreement Transactions, the borrower has obtained a consent and waiver under the applicable change of control provisions from the required lenders under the Ontelaunee credit facilities and no event of default or accelerated payment will arise as a result of the completion of the Merger Agreement Transactions.

LSP Gen Finance Credit Facilities

In connection with the LS Power Group s purchase of the LS Generation Facilities, LSP Gen Finance Co., LLC (a subsidiary of the LS Power Generation, LLC, which holds indirect ownership interest in the LS Generation Facilities), as borrower, entered into the following credit facilities:

- a $100 million five-year first lien revolving and letter of credit facility (the working capital facility) used for general corporate, liquidity and working capital purposes;

- a $950 million seven-year first lien term loan;

- a $40 million seven-year first lien delayed draw term loan (which was subsequently drawn) maturing on the same date as the first lien term loan;

- a $150 million eight-year second lien term loan;

a $500 million seven-year first lien senior secured special letter of credit facility (the special letter of credit facility); and

a $150 million five-year first lien senior secured letter of credit facility (the five-year letter of credit facility).

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The foregoing facilities are referred to collectively as the LSP Gen Finance credit facilities. As of September 30, 2006, approximately $13.9 million in letters of credit was outstanding under the working capital facility, approximately $965 million was outstanding under the first lien term loan (including the delayed draw term loan), approximately $150 million was outstanding under the second lien term loan, approximately $470.3 million in letters of credit was outstanding under the special letter of credit facility and approximately $30 million in letters of credit was outstanding under the five-year letter of credit facility.

The Merger Agreement Transactions do not constitute a change of control under the LSP Gen Finance credit facilities. At the present time, New Dynegy has no intention of refinancing the LSP Gen Finance credit facilities in connection with the Merger Agreement Transactions.

Plum Point Credit Facilities

Each co-owner of Plum Point is separately financing, and is not liable for amounts in excess of, its pro rata share of the total construction cost of Plum Point. To finance its portion of the total construction cost, fund interest expense during construction and cover transaction costs, expenses and other working capital requirements, PPEA, as the borrower, has obtained a $423 million eight-year senior secured first lien term loan facility, a $50 million six-year senior secured first lien revolving credit facility and a $102 million eight-year senior secured first lien funded letter of credit facility that is utilized to back-stop the PPEA tax-exempt bonds described below. It has also obtained a $175 million 8 1/2-year second lien term loan facility. As of September 30, 2006, approximately $376 million was outstanding under the first lien term loan facility, no amount was outstanding under the first lien revolving credit facility and approximately $157 million was outstanding under the second lien term loan facility. In addition, letters of credit in the aggregate amount of approximately $101.5 million were outstanding under the first lien funded letter of credit facility. The foregoing facilities are collectively referred to as the PPEA credit facilities.

Unless the PPEA credit facilities are amended, a waiver is obtained from the applicable lenders, or the existing credit ratings of the PPEA credit facilities are reaffirmed by S&P and Moody s after taking into account the Merger Agreement Transactions, the Merger Agreement Transactions will result in a change of control under the PPEA credit facilities and the borrower will be required to make a prepayment offer to each lender under the PPEA credit facilities. The LS Contributing Entities are currently considering their options to obtain a credit rating affirmation, a waiver or other suitable refinancing alternatives for the Plum Point credit facilities on more favorable terms. The Merger Agreement Transactions are not conditioned on such refinancing or modification.

Plum Point Bonds and Lease Agreement

On June 26, 2001, PPEA, the City of Osceola, Arkansas, Mississippi County, Arkansas, the Osceola School District No. 1 of Mississippi County and the Mississippi County Community College District entered into an agreement whereby the City of Osceola, Arkansas agreed to issue industrial development revenue bonds for the purpose of acquiring, constructing and equipping the Plum Point development project. Pursuant to this agreement, the City of Osceola agreed to enter into a lease agreement with PPEA at a future date whereby the Plum Point project would be leased from the City of Osceola to PPEA.

On March 1, 2006, the City of Osceola and PPEA entered into a trust indenture and guaranty agreement, a lease agreement and other ancillary documents in connection with the Plum Point project. Pursuant to the trust indenture and guaranty agreement, the City of Osceola agreed to issue to PPEA industrial development revenue bonds in the aggregate principal amount of up to $980 million (the PPEA taxable bonds). PPEA is the sole holder of the PPEA taxable bonds.

Pursuant to the lease agreement, the City of Osceola leased the Plum Point project to PPEA for a term that matches the maturity of the PPEA taxable bonds (March 1, 2036). Under the lease agreement, PPEA is required to pay rent amounts equal to principal and interest amounts payable from time to time on the PPEA taxable

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bonds. Under the trust indenture, the PPEA taxable bonds are limited recourse obligations of the City of Osceola that are payable only out of amounts received by the City of Osceola from PPEA as rent under the lease agreement. Because PPEA is also the sole holder of the PPEA taxable bonds, PPEA is both the payor and the ultimate payee of the rent amounts payable by PPEA under the lease agreement. In recognition of this fact, PPEA is permitted under its agreements with the City of Osceola to satisfy its obligation to make rent payments by way of netting the amount of each rent payment against the equal amount otherwise payable at such time to PPEA as holder of the PPEA taxable bonds. As a result of such netting, PPEA is not expected to have any obligation to make any cash payments under the lease agreement.

On April 1, 2006, the City of Osceola and PPEA entered into a loan agreement pursuant to which the proceeds from the City of Osceola s issuance of solid waste disposal revenue bonds in the aggregate amount of $100 million was loaned by the City of Osceola to PPEA (the PPEA tax-exempt bonds). The PPEA tax-exempt bonds were issued and secured by a trust indenture dated April 1, 2006 between the City of Osceola, PPEA and Regions Bank, as trustee. The purpose of the PPEA tax-exempt bonds is to finance certain of PPEA s undivided interests in various sewage and solid waste collection and disposal facilities related to the Plum Point project. These systems are eligible for tax-exempt financing pursuant to Section 142(a) of the Code. To support the payment of the PPEA tax-exempt bonds, an irrevocable letter of credit was issued by Credit Suisse, New York Branch, for the benefit of the owners of the PPEA tax-exempt bonds.

Regulatory and Environmental Matters

The Operating Assets and the Development Assets are subject to extensive federal, state and local laws and regulations governing the generation and sale of electricity.

Regulatory Matters

The Contributed Entities ability to charge market-based rates for wholesale sales of electricity is governed by the FERC. The FERC has granted market-based rate authority to the exempt wholesale generator (EWG) facilities owned by the Contributed Entities, which represent all of the operating generation facilities. Retention of the market-based rate authority depends on the FERC not finding that the relevant facility can exercise market power. The facilities are required to provide market power analyses to the FERC every three years and to report to the FERC any change in status within 30 days after the same occurs. The FERC has adopted market behavior rules and rules modeled after the SEC s Rule 10b-5 to prohibit market manipulation. These rules are incorporated in the market-based rate tariffs of the EWGs and power marketer. A violation of these rules could result in the revocation or suspension of market-based rate authority, as well as refunds, disgorgement of profits and potential penalties. The facilities are also subject to FERC-approved market rules of regional transmission organizations that govern certain markets in which the facilities participate.

Environmental, Health and Safety Matters

The Operating Assets are subject to extensive federal, state and local laws and regulations relating to the protection of the environment, including those governing discharges to air and water, the management and disposal of hazardous waste, the cleanup of contaminated sites and health and safety matters. The facilities forming the Operating Assets are committed to operating in compliance with these laws and regulations. Because they change frequently and may become more stringent in the future, however, the facilities could incur substantial costs, including cleanup costs, fines, sanctions and third-party claims for property damage or personal injury, as a result of violation of, or liabilities under, environmental laws and regulations relating to the Operating Assets or the permits required for the Operating Assets. In addition, acquiring and maintaining necessary permits may require substantial capital and operating expenditures or impose unfavorable or uneconomic operating conditions on some or all of the Operating Assets and Development Assets. Because the costs of ongoing compliance with environmental laws and regulations and the cost of capital expenditures at the Operating Assets

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that are attributable, in whole or in part, to the requirements of environmental law are typically closely related to the overall operating costs and capital expenditures at each of the facilities, such costs are not accounted for as independent matters.

Following is a summary of the environmental, health and safety issues arising in connection with the Contributed Entities business:

Federal and State Remedial Laws. The Operating Assets are subject to liability under federal and state environmental laws, including the Comprehensive Environmental Response, Compensation, and Liability Act and the Resource Conservation and Recovery Act, for the costs of remediating environmental contamination. Remediation activities include the cleanup of current facilities and offsite waste disposal facilities. The Operating Assets are currently involved in proceedings relating to sites where hazardous substances have been released and may be subject to additional proceedings in the future.

Four of the Operating Assets, Morro Bay, Moss Landing, South Bay and Oakland, are undergoing, or may in the future undergo, soil and/or groundwater remediation for contamination from operations prior to acquisition of these facilities by LS Contributing Entities, including contamination caused by a tank fire that occurred in 2003 at the Moss Landing plant. A significant portion of the expected remediation liabilities are covered under indemnification or cost-sharing agreements with the prior owners of the facilities, and in some cases the prior owner is responsible for managing the remediation process at the sites. The Operating Assets remediation liabilities are limited in scope, the known potential liabilities primarily involve remediation of soil below above-ground tanks that are to be removed, and the LS Contributing Entities do not expect that the remediation for which the Operating Assets may be responsible will result in material costs to the Operating Assets.

Due to their age, several of the operating facilities contain asbestos-containing materials, lead-based paint, and/or other regulated, hazardous materials. In accordance with existing state and federal regulations, the Contributed Entities have developed management plans for the proper maintenance and disposal of these materials.

Air Emissions Initiatives and Legislation. The Operating Assets are subject to requirements under the federal Clean Air Act and comparable state laws and regulations relating to air emissions, including permitting, compliance, and reporting obligations. The LS Contributing Entities believe that the Operating Assets are currently in substantial compliance with these regulations. The U.S. Congress and several individual states are currently considering legislative proposals that may regulate the emissions of sulfur dioxide (SO_2), NOx, mercury, and in some proposals, carbon dioxide. In 2005, the EPA finalized the Clean Air Interstate Rule (CAIR) requiring reductions in SO_2 and NOx emissions in 28 states and the District of Columbia, including states in which Operating Assets are located. In 2005, the EPA also issued the Clean Air Visibility Rule (CAVR), requiring the installation of Best Available Retrofit Technology to address problems of regional haze. The LS Contributing Entities do not believe that the facilities will be required to make any modifications or incur any material cost as a result of these initiatives. It is possible, however, that the financial impact of future legislation and regulation governing pollution from air emissions may be material, if regulations become more stringent.

Climate Change. The U.S. Congress is considering legislative proposals that may result in mandatory requirements for reductions in emissions of greenhouse gases. In the absence of preemptive federal legislation, some states have enacted legislation, adopted regulations or entered into regional agreements governing greenhouse gas emissions. In September 2006, the California legislature enacted the California Global Warming Solutions Act (AB 32), requiring the California Air Resources Board to institute a system for emissions reporting and to adopt regulations that will result in reductions of greenhouse gas emissions by 2020. AB 32 does not specify the mechanisms by which these reductions will be achieved. Therefore, the LS Contributing Entities are not able to evaluate the impact, positive or negative, of the legislation on the business of the Contributed Entities. It is possible, however, that the regulations that implement the objectives of AB 32 will require emissions reduction measures at the California facilities, which may have a material effect on the business of the Contributed Entities.

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Clean Water Act Section 316(b). The EPA recently issued a rule under Section 316(b) of the Clean Water Act requiring existing electric generation facilities with once-through cooling water intake structures to determine and implement the best available technology to minimize adverse effects to fish and shellfish from these systems. Under Phase II of the rule, four of the operating facilities, Moss Landing, Morro Bay, South Bay and Bridgeport, have been required to conduct Comprehensive Demonstration Studies to determine what, if any, facility-specific modifications, operational measures or restoration measures are necessary to meet new impingement, mortality and/or entrainment reduction requirements. The total cost of implementing any required solutions can not yet be determined, but the Contributed Entities may incur significant capital expenditures and compliance costs at some of these Operating Assets.

Issues Specific to the Development Assets. The Development Assets may be subject to environmental regulations that could materially affect construction or the business. The Development Assets include thirteen so-called greenfield projects, twelve of which are still in the early development stage, intended for eventual operation as coal-fired power plants. Federal and state environmental laws require these facilities to obtain various environmental permits prior to the commencement of operations, including permits governing construction, air emissions, wastewater discharges, and hazardous waste disposal. In addition, the coal-fired power plants, including Plum Point, which is in the construction stage and scheduled for completion in August 2010, will be subject to regulations issued by the EPA governing air emissions for fossil fuel-fired plants. These regulations, specifically the Clean Air Act Mercury/Nickel Rule, CAIR and CAVR, may require additional pollution control equipment at the proposed facility or require the proposed facilities to obtain emission allowances in order to achieve compliance with specified emissions limits. Coal-fired plants operated by the Development Assets would also be subject to any future greenhouse gas emission requirements that could result from legislative proposals the U.S. Congress is currently considering or regional and state legislation or initiatives. Depending on the structure of any mandatory pollution control or emission reduction program, the financial impact to the Development Assets could be material.

Legal Proceedings

On December 15, 2004, the ISO-NE notified Bridgeport Energy, LLC, the owner of Bridgeport, that Bridgeport is needed by the ISO-NE for RMR operations to ensure reliability of services on the local power grid. Thereafter, Bridgeport Energy, LLC filed with the FERC a proposed RMR agreement between itself and the ISO-NE setting forth the terms of Bridgeport s RMR operations, including those relating to the recovery of costs for the services by Bridgeport. Several third parties, however, intervened in the FERC proceeding to oppose the Bridgeport RMR agreement.

In a July 2005 order, the FERC conditionally accepted the Bridgeport RMR agreement effective as of June 1, 2005. The ruling, however, is subject to ongoing evidentiary hearings as to whether, and to what extent, the Bridgeport RMR agreement is necessary to ensure that Bridgeport recovers its costs for the services under RMR operations. Subject to the outcome of the evidentiary hearings, as well as ongoing settlement discussions between Bridgeport Energy, LLC and the interveners to the case, Bridgeport Energy, LLC may be subject to refund obligations relating to payments it has received under the Bridgeport RMR agreement. The outcome of this case cannot be predicted at this time.

Other than as described above, the Operating Assets and the Development Assets are not subject to any material litigation at this time.

Employees

The Operating Assets do not have employees. Long-term agreements are in place at each of the Operating Assets for the operation and maintenance of the electric generating facilities as described in the facilities descriptions above.

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DIRECTORS AND MANAGEMENT OF NEW DYNEGY

Directors

Pursuant to the Shareholder Agreement between New Dynegy and the LS Contributing Entities, as long as shares of New Dynegy s Class B common stock are outstanding, New Dynegy s board of directors will consist of 11 members, of which up to three will be Class B Directors and the remaining directors will be elected by the holders of New Dynegy s Class A common stock voting as a separate class (Class A Directors), unless the number of directors is increased pursuant to the terms of one or more series of New Dynegy s preferred stock that may be outstanding from time to time. The holders of New Dynegy s Class B common stock will be entitled to elect (i) three Class B Directors if the percentage of outstanding shares of New Dynegy s Class B common stock equals or is greater than 30% of the outstanding shares of New Dynegy s common stock, (ii) two Class B Directors if such percentage is less than 30% but greater than or equal to 10% and (iii) no Class B Directors if such percentage is less than 10%.

Bruce A. Williamson, the current chairman of the board of Dynegy, will serve as the Chairman of the Board of New Dynegy, and current Dynegy director Patricia A. Hammick will continue as lead director. All of Dynegy s other current directors will remain on the Board of Directors of New Dynegy, with the exception of Rebecca B. Roberts and Howard B. Sheppard. Ms. Roberts and Mr. Sheppard, both of whom were nominated to the Dynegy Board by Chevron, which holds all of Dynegy s outstanding shares of Class B common stock, will resign from their positions as class B directors of Dynegy upon the completion of the Merger Agreement Transactions as a result of Chevron s reduced ownership interest.

Upon the completion of the Merger Agreement Transactions, the LS Contributing Entities, as a result of their ownership of New Dynegy s Class B common stock, will have the right to name three Class B Directors to the board of directors of New Dynegy. It is expected that these three directors will be Mikhail Segal, the Chairman and Chief Executive Officer of the LS Power Group, Frank Hardenbergh, Vice Chairman of the LS Power Group, and James Bartlett, President of LS Power Equity Advisors, L.P.

The following table lists the persons who are expected to serve as directors of New Dynegy, including their ages (as of January 31, 2007) and current and recent business experience:

Name and Age	Current and Recent Business Experience
Class A Directors:	
Bruce A. Williamson, 47	Currently, Mr. Williamson serves as Chairman and Chief Executive Officer of Dynegy. He has served as Chief Executive Officer and as a director of Dynegy since October 2002 and as Chairman of the Board of Dynegy since May 2004. Prior to joining Dynegy, Mr. Williamson served in various capacities with Duke Energy and its affiliates. From August 2001 to October 2002, he served as President and Chief Executive Officer of Duke Energy Global Markets. In this capacity, he was responsible for all Duke business units with global commodities and international business positions. From 1997 to August 2001, he served as Senior Vice President of Business Development and Risk Management and President and Chief Executive Officer at Duke Energy International. Mr. Williamson joined PanEnergy Corporation in June 1995, which then merged with Duke Power in June 1997. Prior to the Duke-PanEnergy merger, he served as PanEnergy s Vice President of Finance. Before joining PanEnergy, he held positions of increasing responsibility at Shell Oil Company, advancing over a 14-year period to Assistant Treasurer. He currently serves as a Director of Questar Corporation.

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Name and Age	Current and Recent Business Experience
David W. Biegler, 60	Mr. Biegler was elected to the Dynegy Board in April 2003. He has served as Chairman of Estrella Energy, L.P., which was formed to engage in the acquisition, construction and management of natural gas industry assets, since August 2003. Mr. Biegler retired at the end of 2001 as Vice Chairman of TXU Corporation, which engages in power generation and energy marketing and provides electric and natural gas utility services and other energy-related services. He also served as President and Chief Operating Officer of TXU Corporation from 1997 to December 2001. From 1993 to 1997, he served as Chairman, President and Chief Executive Officer of ENSERCH Corp. He currently serves as a Director of Trinity Industries, Inc., Southwest Airlines Co. and Austin Industries, Inc.
Thomas D. Clark, Jr., 65	Mr. Clark was elected to the Dynegy Board in July 2003. Since 2006, Mr. Clark has been the President of Strategy Associates, a consulting firm specializing in strategy development, strategic planning assistance, corporate governance policy and corporate analysis and on the boards of several community organizations and two privately-held companies. Mr. Clark previously served as Dean of the E.J. Ourso College of Business Administration and Ourso Distinguished Professor of Business from 1995 to 2003, and the Edward G. Schlieder Distinguished Chair of Information Science, and Director of the DECIDE Board Room at Louisiana State University from 2003 to 2006. Prior to these positions, he was Chairman of Information and Management Sciences at Florida State University and Director of the Information Systems Research Center from 1984 to 1995. He was the Gage Crocker Outstanding Professor at the Air Force Institute of Technology where he served in the School of Engineering from 1977 to 1984. Mr. Clark is also a Director of Endeavour International (AMEX).
Victor E. Grijalva, 68	Mr. Grijalva was elected to the Dynegy Board in May 2006. He has served as a director of Hanover Compressor Company since 2002 and formerly served as Chairman of Hanover s Board from 2002 to 2005. From August 2 to August 19, 2002, Mr. Grijalva served as interim President and Chief Executive Officer of Hanover. Mr. Grijalva is the retired Vice Chairman of Schlumberger Limited, a supplier of technology, project management and information solutions to the oil and gas industry. Before serving as Vice Chairman, he served as Executive Vice President of Schlumberger s Oilfield Services division from 1994 to January 1999 and as Executive Vice President of Schlumberger s Wireline, Testing and Anadrill division from 1992 to 1994. He retired from Schlumberger in December 2001. Mr. Grijalva is also a director of Transocean, Inc., where he served as Chairman of the Board from 1999 to 2002.
Patricia A. Hammick, 60	Ms. Hammick was elected to the Dynegy Board in April 2003 and was appointed Lead Director in May 2004. She was an adjunct professor at George Washington University from 2002 to 2003. Ms. Hammick served as Senior Vice President, Strategy and Communications and a member of the management committee of Columbia Energy Group from 1998 through 2000 and was Vice President, Corporate Strategic Planning, for Columbia Energy Group from 1997 through 1998. From 1983 to 1996, she served as the Chief Operations Officer for the National Gas Supply Association in Washington, D.C., and held a management position with Gulf Oil

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Name and Age	Current and Recent Business Experience
	Exploration and Production Company from 1979 through 1983. Prior to 1979, Ms. Hammick worked for the American Petroleum Institute, the Center for Naval Analysis and the Naval Weapons Center. She currently serves as a director of Consol Energy, Inc. and SNC-Lavalin Group, Inc.
George L. Mazanec, 70	Mr. Mazanec was elected to the Dynegy Board in May 2004. He has served as a member of the board of directors of National Fuel Gas Company, a diversified energy company, since October 1996. Mr. Mazanec was Advisor to the Chief Operating Officer of Duke Energy Corporation from August 1997 to 2000, and Vice Chairman of PanEnergy Corporation from 1989 until October 1996. He previously served as a director of TEPPCO, LP from 1992 to 1997, as a director of Northern Border Pipeline Company Partnership from 1993 to 1998, and as a director of Westcoast Energy Inc. from 1996 to 2002. Mr. Mazanec is the former Chairman of the Management Committee of Maritimes & Northeast Pipeline, L.L.C. and currently serves as a director of the Northern Trust Bank of Texas, NA (advisory board), National Fuel Gas Company and AEGIS Insurance Services, Inc. He has also served as a Member of the Board of Trustees of DePauw University since 1996.
Robert C. Oelkers, 62	Mr. Oelkers was elected to the Dynegy Board in August 2002. He served as President of Texaco International Trader Inc. from April 1999 until his retirement in October 2001. Mr. Oelkers served as Vice President and Comptroller of Texaco Inc. from April 1994 until March 1999. Mr. Oelkers was employed by Texaco Inc. from 1966 until his retirement. Mr. Oelkers also served as a member of the Financial Accounting Standards Board s Advisory Committee from 1997 through 2000.
William L. Trubeck, 60	Mr. Trubeck was elected to the Dynegy Board in April 2003. He has served as Executive Vice President and Chief Financial Officer of H&R Block, Inc. since October 2004. He previously served Waste Management as Executive Vice President of its Western Group from April 2003 until July 2004, Executive Vice President, Operations Support, and Chief Administrative Officer from May 2002 until April 2003 and Executive Vice President and Chief Financial Officer from March 2001 until April 2002. He was Senior Vice President Finance and Chief Financial Officer of International Multifoods, Inc. from March 1997 until March 2000, and President, Latin American Operations of International Multifoods, Inc. from May 1998 until March 2000. He has served as a director of YRC Worldwide since 1994 and as chairman of its audit committee since April 2002. He also currently serves as a director for Ceridian Corporation.
Class B Directors:	
Mikhail Segal, 56	Mr. Segal has served as Chairman and Chief Executive Officer of the LS Power Group, a privately held power plant investor, developer and manager, since 1990. Mr. Segal has over 32 years of experience in the power industry. Prior to co-founding the LS Power Group, Mr. Segal served as co-head of Commercial Union Energy Corporation, where he was responsible for managing the Commercial Union Energy Limited Partnership, a partnership focused on investing in power generation projects. Mr. Segal was previously President of The Energy Systems

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Name and Age	Current and Recent Business Experience
	Company, a private developer of cogeneration projects, and held various positions, including General Manager of Power Generation and Systems Planning, with LEMCO Engineers, Inc. (LEMCO), an electrical engineering and consulting firm. Prior to LEMCO, Mr. Segal worked for the Department of Energy in the former Soviet Union.
Frank Hardenbergh, 63	Mr. Hardenbergh, Vice Chairman of the LS Power Group, joined the LS Power Group in 1993 and has over 20 years of experience in the power industry. From January 2001 to May 2005, he served as Executive Vice President and Chief Operating Officer of the LS Power Group. He has served as Vice Chairman of the LS Power Group since May 2005. Prior to joining the LS Power Group, Mr. Hardenbergh served as Senior Vice President, General Counsel and member of the Management Committee of the Commercial Union Capital Group, a private boutique merchant bank that included Commercial Union Energy Corporation and the Commercial Union Energy Limited Partnership. Mr. Hardenbergh was previously Associate General Counsel of the Commercial Union Insurance Companies, the parent company to Commercial Union Capital Group. Prior to joining the Commercial Union Insurance Companies, Mr. Hardenbergh was an Associate with Peabody & Arnold LLP.
James Bartlett, 39	Mr. Bartlett has served as President of LS Power Equity Advisors, L.P., since 2005 and has 17 years of experience in the power industry. Prior to joining the LS Power Group in March 2005, Mr. Bartlett held various positions in the Energy Investment Banking Group at Credit Suisse, where he focused on M&A and financing transactions in the power generation sector. Mr. Bartlett joined Credit Suisse in 1992 and was named Managing Director in 2001. Previously, Mr. Bartlett was an Associate at Kendall Capital Partners and an Analyst at Drexel Burnham Lambert.

If any of the directors nominated by Dynegy are unable to serve on New Dynegy s board of directors, Dynegy will be entitled to nominate substitute nominees and, likewise, if any of the directors nominated by the LS Contributing Entities are unable to serve on New Dynegy s board of directors, the LS Contributing Entities will be entitled to nominate substitute nominees in accordance with the terms of the Shareholder Agreement.

Committees of the Board of Directors of New Dynegy

Each of the committees of New Dynegy s board of directors will have two or more members. Each of the Audit and Compliance Committee, Compensation and Human Resources Committee and Corporate Governance and Nominating Committee will consist entirely of independent directors. Subject to applicable law, each committee (other than any committee the mandate of which is limited solely to (i) consideration of matters relating to New Dynegy s relationship with its Class B common stockholders and their affiliates or (ii) nomination of candidates for directors other than Class B Directors) will have at least one Class B Director as a member thereof, unless no Class B Director satisfies the independence requirements of the NYSE and the SEC, as applicable, for membership on such committee or unless all Class B Directors decline to serve on such committee or the Class B common stockholders decline to elect any Class B Director. The initial committees of New Dynegy s board of directors will be:

an Audit and Compliance Committee;

a Compensation and Human Resources Committee;

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- a Corporate Governance and Nominating Committee; and
- a Performance Review Committee.

New Dynegy s board of directors may designate other committees in the future.

New Dynegy Management

Set forth below is a table of the persons expected to serve as senior management of New Dynegy following the completion of the Merger Agreement Transactions, together with their ages (as of January 31, 2007), current positions and recent business experience:

Name and Age/Current Position(s)	Current Position(s) and Recent Business Experience
Bruce A. Williamson, 47 Chief Executive Officer and Chairman of the Board of Dynegy	Currently, Mr. Williamson serves as Chairman and Chief Executive Officer of Dynegy. He has served as Chief Executive Officer and as a director of Dynegy since October 2002 and as Chairman of the Board of Dynegy since May 2004. Prior to joining Dynegy, Mr. Williamson served in various capacities with Duke Energy and its affiliates. From August 2001 to October 2002, he served as President and Chief Executive Officer of Duke Energy Global Markets. In this capacity, he was responsible for all Duke business units with global commodities and international business positions. From 1997 to August 2001, he served as Senior Vice President of Business Development and Risk Management and President and Chief Executive Officer at Duke Energy International. Mr. Williamson joined PanEnergy Corporation in June 1995, which then merged with Duke Power in June 1997. Prior to the Duke-PanEnergy merger, he served as PanEnergy s Vice President of Finance. Before joining PanEnergy, he held positions of increasing responsibility at Shell Oil Company, advancing over a 14-year period to Assistant Treasurer. He currently serves as a Director of Questar Corporation.
Stephen A. Furbacher, 59 President and Chief Operating Officer of Dynegy	Mr. Furbacher has served as President and Chief Operating Officer of Dynegy since August 2005 and as Executive Vice President of Dynegy s previous NGL segment from September 1996 to August 2005. Mr. Furbacher is responsible for overseeing Dynegy s power generation business and, until October 31, 2005, was responsible for overseeing Dynegy s midstream operations. He joined in May 1996, just prior to Dynegy s acquisition of Chevron s midstream business. Before joining Dynegy, he served as President of Warren Petroleum Company, the natural gas liquids division of Chevron U.S.A. He began his career with Chevron in August 1973 and served in positions of increasing responsibility before being named President of Warren Petroleum Company in July 1994.
Holli C. Nichols, 36 Executive Vice President and Chief Financial Officer of Dynegy	Ms. Nichols has served as Executive Vice President and Chief Financial Officer of Dynegy since November 2005. Ms. Nichols is responsible for financial affairs, including finance and accounting, treasury, risk management, internal audit and investor and credit agency relationships. Ms. Nichols previously served as Senior Vice President and Treasurer from May 2004 to November 2005, as Dynegy s Senior Vice President and Controller from June 2003 to May 2004 and as Vice President, Assistant Corporate Controller and Senior Consultant from May 2000 to June 2003. Ms. Nichols joined Dynegy from PricewaterhouseCoopers LLP in May 2000.

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Name and Age/Current Position(s)	Current Position(s) and Recent Business Experience
J. Kevin Blodgett, 35 General Counsel, Executive Vice President Administration and Secretary of Dynegy	Mr. Blodgett has served as General Counsel and Executive Vice President Administration of Dynegy since November 2005 and as Secretary of Dynegy since March 2006. Mr. Blodgett is responsible for legal and administrative affairs, including legal services supporting Dynegy s operational, commercial and corporate areas, as well as ethics and compliance, human resources, information technology, building services, real estate and procurement management. Mr. Blodgett previously served as Senior Vice President, Human Resources from August 2004 to November 2005, as Group General Counsel Corporate Finance & Securities and Corporate Secretary from May 2003 to August 2004 and as Assistant General Counsel, Senior Corporate Counsel and Corporate Counsel from October 2000 to May 2003. Mr. Blodgett joined Dynegy from Baker Botts LLP in October 2000.
Lynn A. Lednicky, 46 Executive Vice President of Strategic Planning and Corporate Business Development of Dynegy	Mr. Lednicky has served as Executive Vice President of Strategic Planning and Corporate Business Development of Dynegy since November 2005 and as Senior Vice President of Strategic Planning and Corporate Business Development since July 2003. Mr. Lednicky is responsible for identifying opportunities and strategies for building value at both the corporate level and within Dynegy s power generation business. In addition, Mr. Lednicky has previously served as Senior Vice President of Power Origination from December 2000 to July 2003. Mr. Lednicky joined Dynegy s predecessor Destec Energy, Inc. in July 1991.
Jason Hochberg, 35 President of LS Power Development, LLC	Mr. Hochberg joined the LS Power Group in 1999 as in-house legal counsel and served as General Counsel of the LS Power Group beginning in 2001. In 2003, Mr. Hochberg was named head of the LS Power Group s asset management business, which provided management services to the LS Power Group-owned projects. In 2005, Mr. Hochberg was named President of LS Power Development, LLC. Prior to joining the LS Power Group, Mr. Hochberg was an Associate at Latham & Watkins LLP. Following the completion of the Merger, Mr. Hochberg will serve as a member of New Dynegy s executive management team.

Director and Executive Officer Compensation

There have been no compensation or other payments made by, and there are currently no employment agreements or other compensation arrangements in place with, New Dynegy with respect to persons expected to serve as directors or executive officers of New Dynegy, including persons currently employed by the LS Power Group. In addition, there have historically been no compensation or other payments made by Dynegy or the Contributed Entities, as the entities being acquired by New Dynegy in connection with the Merger Agreement Transactions, to prospective directors and executive officers of New Dynegy currently employed by the LS Power Group, and there are no employment agreements or other compensation arrangements between prospective directors and executive officers of New Dynegy currently employed by the LS Power Group and either Dynegy or the Contributed Entities. There have historically been, and there are currently, no material transactions with New Dynegy, Dynegy or the Contributed Entities related to prospective directors and executive officers of New Dynegy currently employed by the LS Power Group.

Upon completion of the Merger, it is anticipated that New Dynegy will assume the existing employment agreement between Bruce A. Williamson, Dynegy s Chairman and Chief Executive Officer, and Dynegy. It is not anticipated that New Dynegy will enter into any similar employment agreements. Any employment agreements or other compensation arrangements that New Dynegy enters into with respect to persons expected to

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serve as directors or executive officers of New Dynegy, including persons currently employed by the LS Power Group, will be disclosed in accordance with the rules and regulations of the SEC. Information concerning persons expected to serve as directors and executive officers of New Dynegy affiliated with Dynegy and their historical compensation paid by Dynegy and ownership of Dynegy common stock is contained in Dynegy s definitive proxy statement for its 2006 annual meeting of shareholders previously mailed to Dynegy s shareholders and incorporated by reference herein. See Where You Can Find More Information.

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THE MERGER AGREEMENT AND MERGER AGREEMENT TRANSACTIONS

Dynegy, the LS Contributing Entities, Merger Sub and New Dynegy entered into the Merger Agreement dated as of September 14, 2006. The Merger Agreement, in general, governs the contribution of certain power generation assets of the LS Contributing Entities to New Dynegy in exchange for (i) approximately 40% of New Dynegy s common stock that will be outstanding upon the completion of the Merger, which will be in the form of New Dynegy s Class B common stock, (ii) $100 million in cash and (iii) the New Dynegy Notes. The Merger Agreement also governs the merger of Merger Sub with and into Dynegy, a wholly owned subsidiary of New Dynegy, the result of which will be the conversion of each outstanding share of Dynegy s common stock into the right to receive one share of New Dynegy s Class A common stock. Pursuant to the Merger Agreement, New Dynegy and the LS Contributing Entities have entered into, and will enter into, additional agreements in connection with the transactions, including the following agreements:

- the Shareholder Agreement;
- the Corporate Opportunity Agreement;
- the LS Registration Rights Agreement; and
- the Development Services LLC Agreement.

The Merger Agreement Transactions

The following is a brief summary of the Merger Agreement Transactions.

Merger of Dynegy and Merger Sub

In connection with the Merger, Merger Sub, a new wholly owned subsidiary of New Dynegy, will merge with and into Dynegy. As a result, Dynegy will survive the Merger and become a wholly owned subsidiary of New Dynegy. Upon the completion of the Merger, each outstanding share of Dynegy s common stock will be converted into the right to receive one share of New Dynegy s Class A common stock.

Contribution from the LS Contributing Entities to New Dynegy

In connection with the completion of the Merger, the Contributions will be effected by or through:

- the sale by the LS Contributing Entities to New Dynegy of all of the outstanding equity interests in certain entities that collectively own an operating power plant in Kendall County, Illinois (known as Kendall) (the Kendall Interests), resulting in New Dynegy owning the Kendall facility;
- the transfer by the LS Contributing Entities to New Dynegy of all of the equity interests in certain entities that collectively own nine other operating power plants (known as Ontelaunee, Moss Landing, Morro Bay, South Bay, Oakland, Arlington Valley, Griffith, Bridgeport and Casco Bay) (the Operating Entity Interests), resulting in New Dynegy owning those operating power plants, located in Maine, Connecticut, Pennsylvania, Arizona and California;

the transfer by the LS Contributing Entities to New Dynegy of all of the equity interests in certain entities that collectively own interests in a power plant being constructed in Osceola, Arkansas (known as Plum Point), resulting in New Dynegy owning an approximately 40% undivided ownership interest in Plum Point (the Plum Point Interests); and

the transfer by LS Associates to the Development LLC of all of the interests in certain entities that collectively own various power generation development projects (the Development Interests), and the contribution by LS Associates of 50% of the membership interests in the Development LLC to New Dynegy, resulting in New Dynegy owning a 50% interest in these power generation development projects through the Development LLC.

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In exchange for the contribution of the Contributed Entities, the LS Contributing Entities will receive, upon the completion of the Merger, the following:

- 340 million shares of New Dynegy s Class B common stock, which will represent approximately 40% of the common stock of New Dynegy that will be outstanding upon the completion of the Merger;
- $100 million in cash; and
- $275 million in aggregate principal amount of the New Dynegy Notes.

Upon the completion of these transactions, Dynegy s shareholders, in the aggregate, will hold approximately 60%, and the LS Contributing Entities will hold approximately 40%, of the common stock of New Dynegy that will be outstanding upon the completion of the Merger, and New Dynegy will assume approximately $1.9 billion of net debt (debt less restricted cash and investments) of the LS Contributing Entities.

Contribution of Assets from LS Associates and New Dynegy to the Development LLC Post-Closing

Immediately after the completion of the Merger, the LS Power Group intends to contribute its interests in the Egan Wind, Plum Point II and Abernathy development projects to the Development LLC, and New Dynegy intends to contribute its interests in the development projects consisting of the Baldwin expansion, and redevelopment activities at the Roseton, Vermillion, Blue Grass, Rolling Hills, Riverside and Independence facilities to the Development LLC.

Alternative Kendall Stand-Alone Acquisition

Alternatively, should the Merger Agreement Transactions not be completed, Dynegy, through a new wholly owned indirect subsidiary, Kendall Power LLC, will acquire for cash all of the LS Contributing Entities interests in LSP Kendall Holding, LLC and LSP-Kendall Blocker, Inc., which own Kendall. The purchase of the LS Contributing Entities interests in LSP Kendall Holding, LLC will be effectuated pursuant to a Limited Liability Company Membership Interests and Stock Purchase Agreement, dated as of September 14, 2006, among LS Associates, LS Equity Partners, LS Partners, PIE and Kendall Power LLC. The approval of Dynegy s shareholders is not required, and would not be sought, for Dynegy s purchase of the LS Contributing Entities interests in LSP Kendall Holding, LLC as a stand-alone acquisition if the Merger Agreement Transactions are not completed.

Merger Agreement

The following is a summary of the material provisions of the Merger Agreement. The Merger Agreement is attached as Annex A to this proxy statement/prospectus and is incorporated herein by reference. You should read the entire Merger Agreement carefully.

Contributions

Upon the completion of the Merger, LS Associates, LS Equity Partners, LS Partners and PIE will transfer the Kendall Interests to New Dynegy. In exchange for the Kendall Interests, LS Associates, LS Equity Partners, LS Power and PIE will receive from New Dynegy $100 million in cash and $112 million in aggregate principal amount of the New Dynegy Notes.

In addition, the LS Contributing Entities will contribute the Operating Entity Interests and the Plum Point Interests, as well as 50% of the membership interests in the Development LLC, to New Dynegy. In exchange for the Operating Entity Interests and the Plum Point Interests and 50% of the membership interests in the Development LLC, the LS Contributing Entities will receive from New Dynegy 340 million shares of New Dynegy s Class B common stock and $163 million in aggregate principal amount of the New Dynegy Notes.

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The Merger

Following the satisfaction or waiver of the conditions in the Merger Agreement, Merger Sub will merge with and into Dynegy, and Dynegy will be the surviving corporation. As a result of the Merger, Dynegy and its wholly owned subsidiary, DHI, will become wholly owned subsidiaries of New Dynegy. Upon completion of the Merger, each outstanding share of Dynegy common stock will be exchanged for one share of New Dynegy s Class A common stock. Such exchange will include the shares of Dynegy s Class B common stock, which are held by Chevron.

Exchange of Shares

Exchange Agent

Prior to the Merger, Dynegy will appoint an exchange agent to effect the exchange of certificates representing shares of Dynegy common stock for certificates representing shares of New Dynegy s Class A common stock. At or prior to the completion of the Merger, New Dynegy will deposit with the exchange agent, in trust for the holders of Dynegy common stock, certificates representing New Dynegy s Class A common stock issuable upon conversion of shares of Dynegy common stock.

Exchange of Dynegy Shares

Promptly after the Merger but no later than five business days thereafter, the exchange agent will mail to each holder of certificates of Dynegy common stock a letter of transmittal and instructions explaining how to surrender such certificates to the exchange agent.

Dynegy shareholders who surrender their stock certificates to the exchange agent, together with a properly completed and signed letter of transmittal and any other documents required by the instructions to the letter of transmittal, will receive New Dynegy Class A common stock certificates representing such number of shares as such holders are entitled to receive in accordance with the Merger Agreement.

Dynegy common stock certificates should not be returned with the enclosed proxy card and should not be forwarded to the exchange agent except with a signed letter of transmittal and any other documents that may be required by the exchange agent, as provided in the instructions that will accompany the letter of transmittal, which will be provided to Dynegy shareholders following the Merger.

New Dynegy will make arrangements for Chevron to exchange its Dynegy common stock certificates for New Dynegy Class A common stock certificates upon the completion of the Merger.

Conditions

Conditions to the Obligations of Dynegy and the LS Contributing Entities to Complete the Merger Agreement Transactions

The respective obligations of each party to complete the Merger Agreement Transactions are subject to the satisfaction or waiver on or prior to the closing date of the Merger Agreement of the following conditions:

- the adoption of the Merger Agreement and the approval of the Merger by Dynegy s shareholders;

- no law, statute, rule or regulation, or order, judgment, writ, injunction, decree, settlement, stipulation or award exists or has been enacted, entered, promulgated or enforced by any governmental authority which prohibits or makes illegal the completion of the Merger Agreement Transactions;

- the expiration or termination of any waiting period applicable to the Merger Agreement Transactions under the HSR Act;

- the FERC s approval of the parties joint application under Section 203 of the FPA and of the notice of change of status filing on behalf of New Dynegy s subsidiaries with market-based rate authority submitted under Section 205 of the FPA;

- the receipt of certain approvals necessary for completion of the Merger Agreement Transactions under New York law;

- no stop order suspending the effectiveness of the registration statement of which this proxy statement/prospectus forms a part shall be in effect, and no proceeding for such purpose shall be pending before or threatened by the SEC;

- the approval of the listing on the NYSE of New Dynegy s Class A common stock to be issued in connection with the Merger; and

- the execution and delivery of the documents relating to the Development LLC.

Another condition to the completion of the Merger and the Contributions, the expiration of the waiting period applicable under the HSR Act, has already been satisfied.

Conditions to the Obligations of the LS Contributing Entities to Complete the Merger Agreement Transactions

The LS Contributing Entities obligations to complete the Merger Agreement Transactions are further subject to the satisfaction or waiver on or prior to the Closing Date of the Merger Agreement Transactions of the following additional conditions:

- the representations and warranties of Dynegy, New Dynegy and Merger Sub must be true and correct as of the closing date of the Merger Agreement as though they were made on and as of the closing date of the Merger Agreement, except for representations and warranties which speak as of an earlier date or period, which must be true and correct as of such date or period; representations and warranties made at the closing of the Merger Agreement Transactions will be deemed to be true and correct unless the failure of all such representations and warranties to be so true and correct would reasonably be expected, in the aggregate, to have a Dynegy MAE, as described below; representations and warranties with respect to events and matters that occurred on or prior to the date of the Merger Agreement will be deemed be true and correct unless the failure of all such representations and warranties to be so true and correct has an adverse effect having a value in excess of, individually or in the aggregate, $50 million; and representations and warranties with respect to Dynegy s capitalization must be true and correct in all material respects as of the date of the Merger Agreement and as of the closing date of the Merger Agreement as though made on the closing date of the Merger Agreement;

- Dynegy, New Dynegy and Merger Sub must have performed in all material respects all obligations required to be performed by them under the Merger Agreement;

- the LS Contributing Entities must have received an officer s certificate from Dynegy certifying as to the truth and correctness of the representations and warranties of, and the performance in all material respects of the obligations of, Dynegy, New Dynegy and Merger Sub under the Merger Agreement;

- a Dynegy MAE, as described below, must not have occurred since June 30, 2006;

- the LS Contributing Entities must have received an opinion from Cravath, Swaine & Moore LLP regarding the tax treatment of the Merger and the Contributions as exchanges under Section 351 of the Code;

New Dynegy s certificate of incorporation and bylaws must have been amended and restated such that they are substantially in the forms of Annex B and Annex C to this proxy statement/prospectus, respectively;

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- the indenture for the New Dynegy Notes to be issued as consideration for the Contributed Entities must have been executed and be in effect;

- the New Dynegy Notes to be issued as consideration for the Contributed Entities must have been executed and be in effect;

- certain specified letters of credit with respect to Kendall and the other assets contributed by the LS Contributing Entities must have been replaced and the LS Contributing Entities must not have any remaining liability with respect to such letters of credit;

- Dynegy and New Dynegy must have taken all necessary actions to ensure that the composition of the board of directors of New Dynegy is in compliance with the Shareholder Agreement; and

- the transactions with respect to Griffith must have occurred prior to or simultaneous with the closing of the Merger Agreement Transactions.

Dynegy MAE means any state of facts, change, development, event, effect, condition or occurrence, individually or in the aggregate, that is materially adverse to the business, assets, properties, liabilities or condition, financial or otherwise, or results of operations of Dynegy and its direct and indirect subsidiaries taken as a whole (except for certain specified adverse changes, developments, events, effects, conditions or occurrences or effects that do not have a disproportionate adverse effect on Dynegy and its direct and indirect subsidiaries as compared to other entities engaged in the power generation business) or that, directly or indirectly, prevents or materially impairs or delays Dynegy s or any of its direct or indirect subsidiaries ability to perform its obligations under any agreement, instrument or document contemplated by the Merger Agreement (the Transaction Documents).

Conditions to the Obligations of Dynegy to Complete the Transactions

Dynegy s obligations to complete the Merger Agreement Transactions are further subject to the satisfaction or waiver on or prior to the closing date of the Merger Agreement of the following additional conditions:

- the representations and warranties of the LS Contributing Entities must be true and correct as of the closing date of the Merger Agreement as though they were made on and as of the closing date of the Merger Agreement, except for representations and warranties which speak as of an earlier date or period, which must be true and correct as of such date or period; representations and warranties made at the closing of the Merger Agreement Transactions will be deemed to be true and correct unless the failure of all such representations and warranties to be so true and correct would reasonably be expected, in the aggregate, to have an LS MAE, as described below; representations and warranties with respect to events and matters that occurred on or prior to the date of the Merger Agreement will be deemed to be true and correct unless the failure of all such representations and warranties to be so true and correct has an adverse effect having a value in excess of, individually or in the aggregate, $50 million; and representations and warranties with respect to the equity interests owned by the LS Contributing Entities in the Contributed Entities and the capitalization of the Contributed Entities must be true and correct in all material respects as of the date of the Merger Agreement and as of the closing date of the Merger Agreement as though made on the closing date of the Merger Agreement;

- the LS Contributing Entities must have performed in all material respects all obligations required to be performed by them under the Merger Agreement;

- Dynegy must have received an officer s certificate on behalf of each LS Contributing Entity certifying as to the truth and correctness of the representations and warranties of, and the performance in all material respects of the obligations of, each LS Contributing Entity under the Merger Agreement;

an LS MAE, as described below, must not have occurred since June 30, 2006; and

the contribution of the Contributed Entities must have occurred.

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LS MAE means any state of facts, change, development, event, effect, condition or occurrence, individually or in the aggregate, that is materially adverse to the business, assets, properties, liabilities or condition, financial or otherwise, or results of operations of the Contributed Entities taken as a whole (except for certain specified adverse changes, developments, events, effects, conditions or occurrences or effects that do not have a disproportionate adverse effect on the Contributed Entities as compared to other entities engaged in the power generation business) or that, directly or indirectly, prevents or materially impairs or delays any of the LS Contributing Entities or Contributed Entities ability to perform its obligations under any Transaction Document.

No Other Transactions Involving Dynegy or the LS Contributing Entities

No Solicitation by Dynegy

Dynegy has agreed that it will not, and will not permit any of its subsidiaries or representatives to:

- directly or indirectly solicit, initiate or encourage the submission of any proposal that constitutes or is reasonably likely to lead to a Dynegy takeover proposal, as described below;
- approve or recommend any Dynegy takeover proposal, or enter into any agreement, agreement-in-principle or letter of intent with respect to or accept any Dynegy takeover proposal, or resolve to or publicly propose to do any of the foregoing; or
- directly or indirectly participate or engage in any discussions or negotiations regarding, or furnish to any person any information with respect to, or knowingly take any action to facilitate any inquiries or the making of any proposal that constitutes, or would reasonably be expected to lead to, any Dynegy takeover proposal.

A Dynegy takeover proposal means any bona fide proposal or offer from any person, other than the LS Contributing Entities, New Dynegy, Merger Sub or any of their affiliates, relating to:

- any direct or indirect acquisition, merger, consolidation, reorganization, share exchange, recapitalization, liquidation, direct or indirect business combination, asset acquisition or other similar transactions involving Dynegy or any of its direct or indirect subsidiaries of assets or businesses that constitute or represent 20% or more of the total revenue, operating income, EBITDA or the assets of Dynegy and its direct and indirect subsidiaries, taken as a whole immediately prior to such transaction;
- any direct or indirect acquisition, merger, consolidation, reorganization, share exchange, recapitalization, liquidation, direct or indirect business combination, asset acquisition or other similar transactions involving Dynegy or any of its direct or indirect subsidiaries of 20% or more of any class of capital stock of Dynegy or capital stock of, or other equity or voting interests in, any of Dynegy s direct or indirect subsidiaries whose business constitutes 20% or more of the total revenue, operating income, EBITDA or assets of Dynegy and its direct and indirect subsidiaries, taken as a whole immediately prior to such transaction; or
- any purchase or sale of, or tender offer or exchange offer for, capital stock of Dynegy or any of its direct or indirect subsidiaries that, if completed, would result in any person beneficially owning 20% or more of any class of capital stock of Dynegy or any of its direct or indirect subsidiaries whose business constitutes 20% or more of the total revenue, operating income, EBITDA or assets of Dynegy and its direct and indirect subsidiaries, taken as a whole immediately prior to such transaction.

Any person s proposal or offer to Chevron, so long as such action does not materially impair Dynegy s ability to perform its obligations under the Transaction Documents, shall not be a Dynegy takeover proposal.

In addition, the Merger Agreement does not prohibit Dynegy or the Dynegy Board from disclosing to Dynegy s shareholders a position with respect to a tender or exchange offer by a third party pursuant to Rules 14d-9 and 14e-2 under the Exchange Act or any similar disclosure, but the Dynegy Board may recommend

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that Dynegy s shareholders tender their shares of Dynegy stock in connection with any such tender or exchange offer only if the Dynegy Board determines in good faith (after consultation with its financial advisor and outside legal counsel) that such Dynegy takeover proposal is, or could result in, a Dynegy superior proposal, as described below, and Dynegy shall have complied in all material respects with all of its obligations under the Dynegy no-shop provisions of the Merger Agreement.

If, however, prior to obtaining its shareholders approval of the Merger Agreement, Dynegy receives an unsolicited Dynegy takeover proposal from a third party that the Dynegy Board determines in good faith, after consultation with its financial advisor and outside legal counsel, is, or would be reasonably likely to result in, a Dynegy superior proposal, as described below, then Dynegy and its representatives may make such inquiries or conduct such discussions with respect to such Dynegy takeover proposal as the Dynegy Board, after consultation with outside legal counsel, may deem reasonable to inform itself for the purpose of exercising its fiduciary duties to its stockholders under applicable law, and may conduct such additional discussions or negotiations as the Dynegy Board determines, but only if, before such discussions or negotiations, such third party has entered into a confidentiality agreement in customary form that is no less favorable to Dynegy, including any standstill provisions, and no less restrictive than the confidentiality agreement between LS Power Equity Advisors, LLC and Dynegy, and the Dynegy Board determines in its good faith judgment, after consultation with outside legal counsel, that failure to take such actions would be reasonably likely to be a breach of its fiduciary duties under applicable law.

The Dynegy Board will not:

- withdraw, amend, modify or qualify, or publicly propose to withdraw, amend, modify or qualify, its recommendation, approval, adoption or declaration of advisability of the Merger Agreement, and the Merger Agreement Transactions;
- recommend that Dynegy shareholders reject the Merger Agreement, the Merger or the Merger Agreement Transactions, or resolve, agree or propose publicly to take any such action;
- approve or recommend, or propose publicly to approve or recommend, any Dynegy takeover proposal; or
- terminate, amend, modify or waive any provision of any confidentiality or standstill agreement to which it is a party (other than any such agreement involving the LS Contributing Entities or the Contributed Entities), except with respect to any third party making an unsolicited bona fide written Dynegy takeover proposal that does not result from a violation of the Merger Agreement.

A Dynegy superior proposal means any bona fide written Dynegy takeover proposal (assuming that references to 20% in the definition of Dynegy takeover proposal are 50%) which is on terms that the Dynegy Board determines in its good faith judgment (after consultation with a financial advisor of nationally recognized reputation and outside counsel), taking into account all relevant factors, including any conditions to such Dynegy takeover proposal, the timing of the closing thereof, the risk of non-completion, any required governmental or other consents, filings and approvals, and the payment of the termination fee to the LS Contributing Entities as described below, would, if completed, result in a transaction that is more favorable to Dynegy s stockholders from a financial point of view than the Merger Agreement Transactions.

No Solicitation by the LS Contributing Entities

The LS Contributing Entities have agreed that they will not, and will not permit any of their subsidiaries or representatives to:

- directly or indirectly solicit, initiate or encourage the submission of any proposal that constitutes or is reasonably likely to lead to an LS takeover proposal, as described below;

approve or recommend any LS takeover proposal, or enter into any agreement, agreement-in-principle or letter of intent with respect to or accept any LS takeover proposal, or resolve to or publicly propose to do any of the foregoing; or

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directly or indirectly participate or engage in any discussions or negotiations regarding, or furnish to any person any information with respect to, or knowingly take any action to facilitate any inquiries or the making of any proposal that constitutes, or would reasonably be expected to lead to, any LS takeover proposal.

An LS takeover proposal means any bona fide proposal or offer from any person, other than Dynegy, New Dynegy, Merger Sub or any subsidiary or affiliate of Dynegy or New Dynegy, relating to:

- any direct or indirect acquisition, merger, consolidation, reorganization, share exchange, recapitalization, liquidation, direct or indirect business combination, asset acquisition or other similar transactions involving the LS Contributing Entities or any Contributed Entity or assets or businesses that constitute or represent 20% or more of the total revenue, operating income, EBITDA or assets of the Contributed Entities, taken as a whole immediately prior to such transaction;

- any direct or indirect acquisition, merger, consolidation, reorganization, share exchange, recapitalization, liquidation, direct or indirect business combination, asset acquisition or other similar transactions involving the LS Contributing Entities or any Contributed Entity of 20% or more of the outstanding equity or voting interests in any Contributed Entity whose business constitutes 20% or more of the total revenue, operating income, EBITDA or assets of any Contributed Entity immediately prior to such transaction; or

- any purchase or sale of, or tender offer or exchange offer for, the equity interests of any Contributed Entity that, if completed, would result in any person beneficially owning 20% or more of the equity interests of the LS Contributing Entities or any Contributed Entity whose business constitutes 20% or more of the total revenue, operating income, EBITDA or assets of the Contributed Entities, taken as a whole immediately prior to such transaction.

If, however, prior to obtaining Dynegy shareholders approval of the Merger Agreement, the LS Contributing Entities receive an unsolicited LS takeover proposal from a third party that the LS Contributing Entities determine in good faith, after consultation with their financial advisor and outside legal counsel, is, or would be reasonably likely to result in, an LS superior proposal, as described below, then the LS Contributing Entities and their representatives may make such inquiries or conduct such discussions with respect to such LS takeover proposal as the LS Contributing Entities, after consultation with outside legal counsel, may deem reasonable to inform itself for the purpose of exercising the fiduciary duties that the LS Contributing Entities would have if the LS Contributing Entities were the directors of a publicly traded Delaware corporation. In that event, the LS Contributing Entities may conduct such additional discussions or negotiations as the LS Contributing Entities shall determine, but only if, before such discussions or negotiations, such third party has entered into a confidentiality agreement in customary form that is no less favorable to the LS Contributing Entities and no less restrictive than the confidentiality agreement between the LS Contributing Entities and Dynegy, and the LS Contributing Entities determine in their good faith judgment, after consultation with outside legal counsel, that failure to take such actions would reasonably likely be a breach of the fiduciary duties that they would have if they were directors of a publicly traded Delaware corporation.

In addition, at any time prior to obtaining Dynegy shareholders approval of the Merger Agreement, the LS Contributing Entities may enter into a binding written agreement concerning an LS superior proposal only if they determine in good faith after consulting with their financial advisor and outside legal counsel that such LS takeover proposal is an LS superior proposal and that failure to take such actions would reasonably likely be a breach of the fiduciary duties that they would have if they were directors of a publicly traded Delaware corporation. Before entering into any LS superior proposal, the LS Contributing Entities will provide Dynegy five business days prior written notice and, if requested by Dynegy, negotiate in good faith with Dynegy during such five business day period regarding revisions to the Merger Agreement so as to prevent the LS Contributing Entities from entering into the LS superior proposal, and will provide to Dynegy advance written notice of entry into such LS superior proposal immediately prior thereto.

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The LS Contributing Entities have agreed not to terminate, amend, modify or waive any provision of any confidentiality or standstill agreement to which they are party (other than any such agreement involving Dynegy or any of its direct or indirect subsidiaries), except with respect to any third party making an unsolicited bona fide written LS takeover proposal that does not result from a violation of the Merger Agreement.

An LS superior proposal means any bona fide written LS takeover proposal (assuming that references to 20% in the definition of LS takeover proposal are 50%) which is on terms that the LS Contributing Entities determine in their good faith judgment (after consultation with a financial advisor of nationally recognized reputation and outside counsel), taking into account all relevant factors, including any conditions to such LS takeover proposal, the timing of the closing thereof, the risk of non-completion, any required governmental or other consents, filings and approvals, and the payment of the termination fee to Dynegy as described below would, if completed, result in a transaction that is more favorable to the LS Contributing Entities from a financial point of view than the Merger Agreement Transactions.

Termination of the Merger Agreement

The Merger Agreement may be terminated at any time prior to the occurrence of the Merger (regardless of whether Dynegy s shareholders have adopted the Merger Agreement) under any of the following circumstances:

- by mutual consent of the LS Contributing Entities and Dynegy;
- by either the LS Contributing Entities or Dynegy if:
  - the Merger Agreement Transactions have not been completed by March 31, 2007, except no party may terminate the Merger Agreement on such date if such party s failure to fulfill any obligation under the Merger Agreement has prevented the completion of the Merger Agreement Transactions from occurring prior to such date and except that either party may, under certain circumstances, extend such date to May 31, 2007;
  - any judgment, order, decree, statute, law, ordinance, rule, regulation or other legal restraint prohibiting the completion of the transactions becomes final and nonappealable;
  - Dynegy s shareholders fail to adopt the Merger Agreement and approve the Merger at the special meeting;
  - the Dynegy Board (i) withdraws, amends, modifies or qualifies or publicly proposes to withdraw, amend, modify or qualify its recommendation, approval, adoption or declaration of advisability of the Merger Agreement or (ii) recommends that Dynegy s shareholders reject the Agreement Transactions;
  - with respect to such termination by Dynegy, the Dynegy Board has recommended to Dynegy s shareholders any Dynegy takeover proposal or authorizes Dynegy to enter into a binding written agreement in connection with a Dynegy superior proposal, and in either case Dynegy has complied in full with its obligations described under No Other Transactions Involving Dynegy or the LS Contributing Entities No Solicitation by Dynegy ; or
  - with respect to such termination by the LS Contributing Entities, the LS Contributing Entities enter into a binding written agreement in connection with an LS superior proposal, and the LS Contributing Entities have complied in all respect with their obligations described under No Other Transactions Involving Dynegy or the LS Contributing Entities No Solicitation by the LS Contributing Entities ;

by the LS Contributing Entities, if Dynegy materially breaches the Merger Agreement and such breach is incapable of being cured, is not cured within 30 days after notice of such breach or causes certain closing conditions under the Merger Agreement to fail to be satisfied; or

by Dynegy, if any of the LS Contributing Entities materially breaches the Merger Agreement and such breach is incapable of being cured, is not cured within 30 days after notice of such breach or causes certain closing conditions under the Merger Agreement to fail to be satisfied.

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If the Merger Agreement Transactions are not completed, Dynegy will acquire all of the LS Contributing Entities interests in LSP Kendall Holding, LLC and LSP-Kendall Blocker, Inc. pursuant to the Kendall Agreement (as defined on page 187). For further discussion about the Kendall Agreement and the transactions contemplated by the Kendall Agreement, see Other Agreements and Documents Kendall Agreement.

Fees and Expenses

General

If the Merger is completed, then New Dynegy will pay all expenses, as described below, of the LS Contributing Entities and the Contributed Entities up to a maximum of $10 million. Expenses means all reasonable out-of-pocket expenses (including all reasonable fees and expenses of outside counsel, accountants and other experts and consultants) incurred in connection with, among other things, the due diligence, authorization, preparation, negotiation, execution and performance of the Merger Agreement Transactions.

If the Merger is not completed, then each of the parties to the Merger Agreement will generally bear its own expenses, except with respect to the fees described under Termination Fees and except that Dynegy will bear all expenses related to SEC, HSR Act and other regulatory filings, including expenses in connection with preparing, printing, filing and mailing this proxy statement/prospectus.

Termination Fees

Under the terms of the Merger Agreement, Dynegy will be obligated to pay to the LS Contributing Entities, or the LS Contributing Entities will be obligated to pay to Dynegy, as the case may be, a termination fee in the amount of $100 million if the Merger Agreement is terminated for any of the reasons described below. In addition, if either party is required to pay the termination fee, that party will also reimburse the expenses of the other party up to a maximum of $7.5 million.

Payment of the Termination Fee by Dynegy. Dynegy will be obligated to pay the termination fee to the LS Contributing Entities if the Merger Agreement is terminated:

- by the LS Contributing Entities or Dynegy if the Dynegy Board (i) has withdrawn, amended, modified or qualified or publicly proposed to withdraw, amend, modify or qualify its recommendation, approval, adoption or declaration of advisability of the Merger Agreement or (ii) has recommended that Dynegy shareholders reject the Merger Agreement or the Merger Agreement Transactions;

- by the LS Contributing Entities or Dynegy if the Dynegy Board has recommended to Dynegy s shareholders any Dynegy takeover proposal or authorized Dynegy to enter into a binding written agreement in connection with a Dynegy superior proposal, and in either case Dynegy has not breached its obligations described under No Other Transactions Involving Dynegy or the LS Contributing Entities No Solicitation by Dynegy;

- by the LS Contributing Entities or Dynegy if either Dynegy s shareholders have declined to approve the Merger after receipt of a Dynegy takeover proposal or the Merger has not been completed (unless the Merger cannot be completed because the registration statement of which this proxy statement/prospectus forms a part is subject to a stop order by the SEC suspending its effectiveness) by March 31, 2007 (or May 31, 2007 if such date is extended as described above), and if within 12 months of such termination Dynegy consummates or enters into a binding written agreement with respect to a transaction constituting a Dynegy takeover proposal (substituting 50% for each instance of 20% in the definition of Dynegy takeover proposal above); or

- by the LS Contributing Entities if either Dynegy has materially breached the Merger Agreement or the Merger has not been completed by March 31, 2007 (or May 31, 2007 if such date is extended as described above) and at such time Dynegy was in material breach of the Merger Agreement, and if within 12 months of such termination Dynegy consummates or enters into a binding written agreement

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with respect to a transaction constituting a Dynegy takeover proposal (substituting 50% for each instance of 20% in the definition of Dynegy takeover proposal above).

Payment of the Termination Fee by the LS Contributing Entities. The LS Contributing Entities will be obligated to pay the termination fee to Dynegy if the Merger Agreement is terminated:

- by Dynegy either because the LS Contributing Entities have materially breached the Merger Agreement or because the Merger was not completed by March 31, 2007 (or May 31, 2007 if such date is extended as described above) and at such time the LS Contributing Entities are in material breach of the Merger Agreement, and if within 12 months of such termination the LS Contributing Entities consummate or enter into a binding written agreement with respect to a transaction constituting an LS takeover proposal (substituting 50% for each instance of 20% in the definition of LS takeover proposal described above); or

- by the LS Contributing Entities or Dynegy if the LS Contributing Entities enter into a binding written agreement in connection with an LS superior proposal and the LS Contributing Entities have not breached their obligations described under No Other Transactions Involving Dynegy or the LS Contributing Entities No Solicitation by the LS Contributing Entities.

Other Covenants

Tax Matters

The parties to the Merger Agreement have agreed to use all commercially reasonable efforts to cause the contribution of the Contributed Entities to qualify as an exchange under Section 351 of the Code and to cause the sale of the Kendall Interests to qualify as a sale or exchange of the Kendall Interests under Section 1001 of the Code.

All excise, sales, use, transfer (including real property transfer or gains), stamp, documentary, filing, recordation and other similar taxes, together with any interest, additions or penalties with respect thereto and any interest in respect of such additions or penalties, resulting directly from the contribution of the Contributed Entities, will be paid by New Dynegy.

Credit Facilities and Letters of Credit

The parties have also agreed to use their commercially reasonable efforts to permit Dynegy, a subsidiary of Dynegy or a Contributed Entity to assume, guaranty, replace or modify certain outstanding letters of credit such that no such letter of credit will remain an obligation of the LS Contributing Entities upon the closing of the Merger Agreement Transactions. In addition, the parties have agreed to use their commercially reasonable efforts to avoid defaults under certain debt contracts of the Contributed Entities.

Directors and Officers Indemnification

In addition, the parties have agreed that the Development Master LLC Agreement and the Development Services LLC Agreement to be entered into in connection with the Merger will contain provisions indemnifying managers and officers against claims arising from facts or events that occurred before the closing date of the Merger Agreement to the fullest extent permitted by law (including with respect to the advancement of expenses). Such provisions will not be amended, repealed or otherwise modified for six years from the closing date of the Merger Agreement in any manner that would affect adversely the rights of individuals who at or at any time before the closing date of the Merger Agreement were employees, directors, members or managers of any Contributed Entity covered under the Development Master LLC Agreement and the Development Services LLC Agreement, as applicable.

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Employee and Employee Benefit Matters

The LS Contributing Entities have provided Dynegy with (i) a list of all of the current employees of the Contributed Entities and (ii) a list of employees of the LS Contributing Entities and their affiliates whom the LS Contributing Entities have offered to make available to Dynegy to discuss potential employment with New Dynegy or its affiliates following the closing of the Merger Agreement Transactions. Dynegy has made offers of employment with New Dynegy to certain such employees on terms determined by Dynegy in its sole discretion. Any such employee who has not received or accepted an offer of employment by the closing date of the Merger Agreement Transactions will be terminated from employment, or will become a transferred employee of an LS Contributing Entity, and the LS Contributing Entities will be solely liable for all claims, obligations, costs and liabilities, including all compensation, benefit and severance payments, related to such employee. All employees on the list who have received and accepted an offer of employment under New Dynegy will become, as of the closing date of the Merger Agreement Transactions, employees of New Dynegy and, as of such date, will cease participation in the employee benefit plans of the Contributed Entities. Upon the completion of the Merger, such employees will be provided with compensation and benefits by New Dynegy on a basis substantially similar to those provided to similarly situated employees of New Dynegy and its subsidiaries.

The LS Contributing Entities have further agreed to transfer to an LS Contributing Entity, immediately prior to the completion of the Merger, the sponsorship of all employee benefit plans of the Contributed Entities, and the LS Contributing Entities shall assume or retain, as applicable, all liabilities and other obligations under or relating to such plans. In addition, immediately prior to the completion of the Merger, the Contributed Entities will withdraw from participation in any employee benefit plans that are not maintained by any Contributed Entity, and the LS Contributing Entities will assume or retain, as applicable, all liabilities and other obligations under such plans and the termination of participation therein.

Transition Services Agreement

Dynegy has agreed to enter into a transition services agreement with the LS Contributing Entities prior to the closing of the Merger Agreement Transactions. The transition services agreement will set forth mutually agreeable and reasonable terms pursuant to which the LS Contributing Entities and their affiliates will provide to New Dynegy and its subsidiaries, for a period not to exceed one year following the completion of the Merger and the Contributions, certain services that employees of the LS Contributing Entities or their affiliates formerly provided to the Contributed Entities. The LS Contributing Entities will have no obligation to provide such services, however, if the services formerly provided to the Contributed Entities were provided by a former employee of the LS Contributing Entities who has since become employed with New Dynegy.

Griffith Transactions

The parties have agreed that, prior to the closing of the Merger Agreement Transactions, New Dynegy will form a new Delaware limited liability company that will hold interests in Griffith, and, immediately prior to the closing of the Merger Agreement Transactions, commit to contribute to such new entity 50% of the ownership interest New Dynegy receives as a part of the Contributions from the LS Contributing Entities in Southwest Power Partners, LLC. In exchange for such commitment, such new entity will issue to New Dynegy a senior secured note in the aggregate principal amount of $70 million evidencing a term loan from New Dynegy to the new entity. At the closing of the Merger Agreement Transactions, New Dynegy will transfer to the LS Contributing Entities the senior secured note issued by such new entity (and assign to the LS Contributing Entities the term loan with respect to such senior secured note) in exchange for their contribution of their ownership interest in Southwest Power Partners, LLC and, immediately after the closing of the Merger Agreement Transactions, New Dynegy will transfer 50% of such ownership interest to such new entity in satisfaction of its commitment. As a result of these transactions, such new entity will be 100% owned by New Dynegy and will be responsible for satisfying the obligations under such note and underlying term loan. New Dynegy may prepay all or part of such note at any time and may elect to do so in connection with the Merger or soon after the completion of the Merger.

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Commercially Reasonable Efforts

The parties to the Merger Agreement have agreed to cooperate and to use their commercially reasonable efforts to take all actions and cause all things necessary, proper or advisable to complete the Merger Agreement Transactions as promptly as possible. The Merger Agreement contains other customary covenants relating to the completion of the transactions, including covenants relating to this proxy statement/prospectus and the special meeting of Dynegy s shareholders that will be convened to vote on the Merger Agreement and the Merger, the listing of New Dynegy s Class A common stock, access to information, confidentiality, public announcements, preservation of books and records and certain tax matters. In addition, the parties to the Merger Agreement have agreed, among other things, to:

- not consent to any action or make or offer to make any material commitment or undertaking or incur any material liability or obligation with respect to Dynegy, any of its direct or indirect subsidiaries or any of the Contributed Entities without the other party s consent (not to be unreasonably withheld);
- file, and to consult with and assist one another with respect to, all regulatory filings necessary to complete the transactions, including without limitation filings with the Federal Trade Commission and Department of Justice under the HSR Act and filings with the FERC under the FPA;
- take any and all steps necessary to avoid or eliminate each and every impediment to the completion of the transactions under the HSR Act or other regulations and to use commercially reasonable efforts to obtain any third-party consents to the transactions after the closing date of the Merger Agreement that cannot be obtained prior to the closing date of the Merger Agreement;
- keep each other reasonably apprised of the status of matters relating to the completion of the transactions (in particular, any communications with and inquiries or requests for information from governmental or regulatory entities) and permit counsel for the other party reasonable opportunity to review communications with any governmental authority and to participate in substantive discussions with a governmental authority only if the other party has been consulted in advance and given the opportunity, if permitted, to participate in such discussions;
- vigorously defend, lift, mitigate and rescind the effect of any action materially and adversely affecting the Merger Agreement or the ability of the parties to complete the Merger Agreement Transactions; and
- use commercially reasonable efforts to take all action and do all things necessary, proper or advisable to cause the conditions to the closing of the Merger Agreement Transactions to be satisfied and to complete the transactions.

Representations and Warranties

Dynegy, the LS Contributing Entities, New Dynegy and Merger Sub have made various representations and warranties in the Merger Agreement. These representations and warranties relate to, among other things:

- organization, standing, power, authority and foreign qualifications;
- the ownership of equity interests;

necessary consents and approvals for the completion of the Merger;

the absence of conflicts;

broker s and finder s fees;

capitalization, including the capitalization of New Dynegy;

reports and financial statements;

the absence of undisclosed liabilities;

litigation;

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- compliance with applicable law;
- the status and funding of employee benefits plans;
- labor and employment matters;
- taxes;
- environmental compliance and other regulatory matters;
- outstanding contractual obligations;
- the status of the transaction under Section 351 of the Code; and
- insurance.

Amendment

The Merger Agreement cannot be amended except by an instrument in writing signed on behalf of each party. The Merger Agreement may be amended at any time, except that if Dynegy s shareholders approve the Merger Agreement Transactions, then no a