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)	Year Ended December 31, 2005	Nine Months Ended September 30, 2005 (unaudited)	Nine Months Ended September 30, 2006 (unaudited)
				(in millions)			
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,			As of September 30,
	2003 (unaudited)	2004 (unaudited)	2005	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;

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- 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

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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.

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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

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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.

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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.

(in thousands)	Predecessor Company January 1, 2003 to December 5, 2003 (1) (unaudited)	Predecessor Reorganized Company December 6, 2003 to December 31, 2003 (1) (unaudited)	Predecessor Reorganized Company Eleven Months Ended November 30, 2004 (2) (unaudited)	One Month Ended December 31, 2004 (2) (unaudited)	Year Ended December 31, 2005	Nine months ended September 30, 2005 (unaudited)	Nine months ended September 30, 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

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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

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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

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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.

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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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Year Ended December 31, 2004

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	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

Year Ended December 31, 2005

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	95.4%	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

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)
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

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	2006 (through 9/30)
	(in millions)	
$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;

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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 amendment may be made to the Merger Agreement that would materially and adversely affect the rights of such shareholders (except for a termination of the Merger Agreement pursuant to the terms thereof) without the further approval of such shareholders.

Governing Law

The Merger Agreement is governed by and is to be construed in accordance with the law of the State of Delaware. The parties have agreed that all litigation arising out of or related to the Merger Agreement must be brought in any state or Federal court sitting in Delaware.

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OTHER AGREEMENTS AND DOCUMENTS

Certificate of Incorporation of New Dynegy

The following is a description of the material provisions of New Dynegy s Certificate of Incorporation. New Dynegy s Certificate of Incorporation is attached as Annex B to this proxy statement/prospectus and is incorporated herein by reference. You should read the entire New Dynegy s Certificate of Incorporation carefully.

Capital Stock

Upon the completion of the Merger Agreement Transactions, New Dynegy s authorized capital stock will consist of 3,050 million shares as follows:

- 2.1 billion shares will be authorized shares of Class A common stock, par value $0.01 per share;
- 850 million shares will be authorized shares of Class B common stock, par value $0.01 per share; and
- 100 million shares will be authorized shares of preferred stock, par value $0.01 per share.

Authority is vested in the board of directors of New Dynegy to divide, and to provide for the issue from time to time of, one or more series of preferred stock. With respect to each such series, the board may fix and determine:

- the designation of and number of shares to be issuable in each series;
- the dividend rights of shares of each series;
- the consideration for which, and the terms and conditions on which, shares may be redeemed;
- the amount payable upon shares in the event of the voluntary or involuntary dissolution of New Dynegy;
- sinking fund provisions, if any;
- the terms and conditions on which shares may be converted into other securities of New Dynegy, if they may be converted at all; and
- the voting rights of such shares, provided that the voting rights of preferred shares may be no greater in proportion than to the economic interest of such shares.

No shares of New Dynegy preferred stock will be outstanding upon the completion of the Merger Agreement Transactions.

Except as required by law or as described below under Special Voting Rights of the Class A and Class B Shares, the holders of New Dynegy s Class A common stock will vote together with the holders of New Dynegy s Class B common stock as a single class on every matter coming before any meeting of the stockholders (subject to any voting rights which may be granted to holders of any class or series of preferred stock), and holders of New Dynegy s common stock will be entitled to one vote per share of such stock on each matter submitted to a vote at a meeting of holders of such common stock. Pursuant to the DGCL, because New Dynegy s Certificate of Incorporation does not deny stockholders the right to take action by written consent in lieu of a meeting, New Dynegy s stockholders will be entitled to take action by unanimous written consent or by consent of the holders of shares having not less than the minimum number of votes necessary to take action at a meeting in which all shares entitled to vote on the matter were present and voting.

Holders of New Dynegy s common stock will be entitled to receive dividends and other distributions declared by the board of directors from time to time out of assets legally available and will share equally on a per share basis in all such dividends or distributions, regardless of class, except that dividends or distributions of New Dynegy s common stock will be made to holders of New Dynegy s Class A common stock in the form of shares of New Dynegy s Class A common stock and to holders of New Dynegy s Class B common stock in the

form of shares of New Dynegy s Class B common stock. The dividend rights of holders of New Dynegy s common stock will be subject to the rights of holders of any preferred stock that may be outstanding from time to time.

Special Voting Rights of the Class A and Class B Shares

So long as any New Dynegy Class B common stock is outstanding, in addition to any vote required by law, the affirmative vote of a majority of the shares of such stock outstanding, voting as a separate class, will generally be required to change the rights, privileges or preferences of holders of New Dynegy Class B common stock (except for any amendment to the certificate of incorporation that establishes or designates one or more series of preferred stock) or amend certain other provisions of the certificate of incorporation and bylaws. In addition, so long as any New Dynegy Class B common stock is outstanding, in addition to any vote required by law, the affirmative vote of a majority of the shares of such stock outstanding, voting as a separate class, will be required to adopt any agreement of merger or consolidation if one of the parties thereto is a holder of New Dynegy s Class B common stock representing 10% or more of New Dynegy s common stock outstanding or certain affiliates, associates and permitted transferees of such persons.

In addition, so long as the holders of New Dynegy s Class B common stock collectively own such stock in an amount representing 30% or more of the total outstanding shares of New Dynegy s common stock, such holders will be entitled to vote as a separate class for three directors of New Dynegy. So long as the holders of New Dynegy s Class B common stock collectively own such stock in an amount representing less than 30%, but greater than or equal to 10%, of the total outstanding shares of New Dynegy s common stock, such holders will be entitled to vote as a separate class for two directors of New Dynegy. In either case, the holders of shares of New Dynegy s Class A common stock will be entitled to vote as a separate class for the remaining directors on New Dynegy s board. The total number of directors on the board will be fixed at 11 (unless increased pursuant to the terms of any preferred stock then outstanding) so long as any shares of New Dynegy s Class B common stock remain outstanding.

Board Vacancies

Any vacancy in the office of a class of director will be filled by the remaining directors of such class, unless such vacancy occurred because of the removal (with or without cause) of a director, in which event such vacancy will be filled by the affirmative vote of the holders of a majority of the outstanding shares of the applicable class or classes of capital stock entitled to elect such director. Any director elected by the holders of shares of New Dynegy s Class A common stock may be removed without cause by a vote of the majority of the holders of such stock voting as a separate class. Any Class B Director may be removed without cause by a vote (or action by written consent) of holders of the majority of New Dynegy s Class B common stock voting as a separate class.

Transfer and Conversion

If any holder of shares of New Dynegy s Class B common stock purports to transfer such shares, then such shares will automatically convert to shares of New Dynegy s Class A common stock, unless the transfer is made to another holder of shares of New Dynegy s Class B common stock or one or more of a limited number of permitted transferees. Permitted transferees include certain affiliates, directors or officers of holders of New Dynegy Class B common stock who are party to the Shareholder Agreement. In addition, shares of New Dynegy s Class B common stock will automatically convert into shares of New Dynegy s Class A common stock under certain circumstances if the holder of such shares ceases to hold shares of New Dynegy s Class B common stock representing at least 10% of the shares of New Dynegy s common stock outstanding. All shares of New Dynegy s Class B common stock will convert into shares of New Dynegy s Class A common stock if shares of New Dynegy s Class B common stock cease to represent in the aggregate at least 10% of the issued and outstanding shares of New Dynegy s common stock. Generally, shares of New Dynegy s Class A common stock acquired by holders of shares of New Dynegy s Class B common stock will automatically convert into shares of New Dynegy s Class B common stock. Any conversion of shares of New Dynegy s common stock from one class to another will be on a one-to-one basis.

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Corporate Opportunities

To the fullest extent permitted by Section 122(17) of the DGCL, New Dynegy renounces any interest, expectancy and opportunity to participate in business opportunities that are from time to time presented to certain holders of New Dynegy s Class B common stock or their respective officers, directors, agents, stockholders, members, partners, affiliates and subsidiaries (other than New Dynegy and its subsidiaries), including any such person that may be a director or officer of New Dynegy, even if the opportunity is one that New Dynegy or its subsidiaries might reasonably be deemed to have pursued or had the ability or desire to pursue if granted the opportunity to do so. No such person shall be liable to New Dynegy or any of its subsidiaries for breach of any fiduciary or other duty, as a director or officer or otherwise, because such person pursues or acquires such business opportunity, directs such business opportunity to another person or fails to present such business opportunity, or information regarding such business opportunity, to New Dynegy or its subsidiaries unless, in the case of any such person who is a director or officer of New Dynegy, such business opportunity is expressly offered to such director or officer in writing solely in his or her capacity as a director or officer of New Dynegy. See Corporate Opportunity Agreement.

Limitation of Liability and Indemnification

No director of New Dynegy will be personally liable for monetary damages for breach of any fiduciary duty as a director, except to the extent such exemption from or limitation of liability is not permitted under the DGCL. To the fullest extent permitted by law, New Dynegy will indemnify any person who was, is or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action by or in the right of New Dynegy) by reason of the fact that the person is or was a director or officer of New Dynegy or is or was serving at the request of New Dynegy as a director or officer of another corporation, partnership, joint venture, trust or other enterprise. The foregoing right to indemnification extends to expenses (including attorneys fees), judgments, fines, ERISA excise taxes and amounts paid in settlement actually and reasonably incurred by the person seeking indemnification in connection with the action, suit or proceeding for which indemnification is sought, provided that the person acted in good faith and in a manner the person reasonably believed to be in, or not opposed to, the best interests of New Dynegy, and, with respect to any criminal action or proceeding, had no reasonable cause to believe the person s conduct was unlawful. The termination of any action, suit or proceeding by judgment, order, settlement, conviction or upon a plea of nolo contendere or its equivalent will not, of itself, create a presumption that the person did not act in good faith and in a manner which the person reasonably believed to be in or not opposed to the best interests of New Dynegy, or, with respect to any criminal action or proceeding, had reasonable cause to believe that the person s conduct was unlawful.

New Dynegy will, to the fullest extent permitted by law, indemnify any person who was or is a party, or is threatened to be made a party, to any threatened, pending or completed action, suit or proceeding by or in the right of New Dynegy to procure a judgment in its favor by reason of the fact that the person is or was a director or officer of New Dynegy. The foregoing right to indemnification extends to expenses (including attorneys fees) actually and reasonably incurred by the person seeking indemnification in connection with the defense or settlement of the action, suit or proceeding for which indemnification is sought, provided that the person acted in good faith and in a manner the person reasonably believed to be in, or not opposed to, the best interests of New Dynegy. No indemnification will be made with respect to any claim, issue or matter as to which the person seeking indemnification has been finally adjudged to have been liable to New Dynegy, unless the court in which the action or suit was brought determines that, despite the adjudication of liability, such person is fairly and reasonably entitled to indemnification in view of all the circumstances of the case.

The determination that indemnification of a present or former director or officer is proper may be made by the board by a majority vote of a quorum consisting of directors who were not parties to the relevant proceeding; by a committee of such directors designated by majority vote of such directors, even though less than a quorum; if there are no such directors, or if such directors so direct, by independent legal counsel in a written opinion; or by the stockholders.

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To the fullest extent permitted by law, New Dynegy will advance to a director or officer the reasonable expenses incurred in defending a civil or criminal action, suit or proceeding in advance of the final disposition of such action, suit or proceeding upon receipt from the director or officer of an undertaking to repay the advance if it is ultimately determined that the director or officer was not entitled to indemnification.

The rights to indemnification and advancement of expenses under New Dynegy s Certificate of Incorporation are not exclusive of any other rights, by contract or otherwise, that a party seeking indemnification may have. In particular, New Dynegy may purchase insurance on behalf of any director, officer, employee or agent against liability asserted against such person whether or not New Dynegy would have the power to indemnify the person against such liability.

Bylaws of New Dynegy

The following is a description of the material provisions of New Dynegy s Bylaws. New Dynegy s Bylaws are attached as Annex C to this proxy statement/prospectus and are incorporated herein by reference. You should read the entire bylaws carefully.

Meetings of Stockholders

Meetings of stockholders of New Dynegy will be held at the time and place stated in the notice of the meeting or in a duly executed waiver of notice. Annual meetings will be held at such place, if any, on such date and at such time as the board of directors fixes. Each annual meeting will be held within 13 months of the last annual meeting. Special meetings of stockholders may be called only by the chairman of the board of directors, the chief executive officer, the president, a majority of the board of directors or the holders of not less than 20% of all the outstanding shares entitled to vote on the matter for which the meeting is called. A notice stating the place, if any, day and hour of the meeting and, in the case of a special meeting, the purpose or purposes for which the meeting is called, will be given not less than 10 nor more than 60 days (not less than 20 nor more than 60 days in the case of a meeting called to consider a merger, consolidation, share exchange, dissolution or sale, lease or exchange of assets or as otherwise provided by law) before the date of the meeting.

The board of directors may fix in advance a record date for the purpose of determining stockholders entitled to notice of or to vote at any meeting of stockholders, or stockholders entitled to receive payment of any dividend or to make a determination of stockholders for any other proper purpose. The record date will be not more than 60 days immediately preceding the meeting or other action for which the record date is determined. In the case of a meeting of stockholders, the record date will also be not less than 10 days (not less than 20 days in the case of a meeting called to consider a merger, consolidation, share exchange, dissolution or sale, lease or exchange of assets) before the date of the meeting. If no record date is fixed for the determination of stockholders entitled to notice of or to vote at a meeting of stockholders, the close of business on the day next preceding the date on which notice of the meeting is given (or, if notice is waived, at the close of business on the day next preceding the day on which the meeting is held) will be the record date.

A majority of the outstanding shares entitled to vote on a matter, represented in person or by proxy, will constitute a quorum for consideration of the matter at any meeting of stockholders. Where a separate vote by a class or series is required, a majority of the shares of such class or series represented in person or by proxy will constitute a quorum to take the action with respect to that vote by that class or series on that matter. If a quorum is present, the affirmative vote of the majority of shares represented at the meeting and entitled to vote on a matter will be the act of the stockholders, unless the vote of a greater number or voting by classes is required by the DGCL, New Dynegy s Certificate of Incorporation or New Dynegy s Bylaws and except for the election of the Class A Directors of New Dynegy for which the affirmative vote of a plurality of the shares of New Dynegy s Class A common stock represented at the meeting and entitled to vote will be required.

Each stockholder entitled to vote at a meeting of stockholders or to express consent to corporate action in writing without a meeting may authorize another person or persons to act for such stockholder by proxy, but no

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proxy will be voted or acted upon after eleven months from its date, unless the proxy provides for a longer period. A proxy will be irrevocable if it states that it is irrevocable and if it is coupled with an interest sufficient in law to support an irrevocable power. A stockholder may revoke any proxy which is not irrevocable by attending the meeting and voting in person or by delivering to the secretary of New Dynegy a revocation of the proxy or a new proxy bearing a later date.

Nominations of persons for election to the board of directors and the proposal of business to be considered by the stockholders may be made at an annual meeting of stockholders pursuant to notice of the meeting, by or at the direction of the board of directors, as expressly provided in New Dynegy s Certificate of Incorporation or by any stockholder of record at the relevant time. For nominations or other business to be properly brought before an annual meeting by a holder of New Dynegy s Class A common stock, such stockholder must generally have given timely notice in writing to the secretary and such business must be a proper matter for stockholder action. To be timely, the notice must be delivered to the secretary at New Dynegy s principal executive offices no later than the close of business on the 90th day nor earlier than the close of business on the 120th day before the first anniversary of the preceding year s annual meeting, provided that if the date of the annual meeting is more than 30 days before or more than 60 days after such anniversary date, notice by the stockholder to be timely must be so delivered no earlier than the close of business on the 120th day before the annual meeting and no later than the close of business on the later of the 90th day before the annual meeting or the 10th day following the day on which public announcement of the date of the meeting is first made. The notice must set forth certain information about the stockholder and the nominees or other business that the stockholder proposes to bring before the meeting. These notice requirements will be deemed satisfied if the stockholder has notified New Dynegy of his or her intention to present a proposal at an annual meeting in compliance with Rule 14a-8 (or any successor thereof) under the Exchange Act and such stockholder s proposal has been included in a proxy statement that has been prepared by New Dynegy to solicit proxies for such annual meeting. New Dynegy may require any proposed nominee to furnish such other information as it may reasonably require to determine the eligibility of such proposed nominee to serve as a director.

Nominations of persons for election to the board of directors may be made at a special meeting of stockholders at which directors are to be elected either by or at the direction of the board of directors or by any New Dynegy stockholder. If New Dynegy s board calls a special meeting of stockholders for the purpose of electing one or more directors to the board of directors, any such stockholder may nominate a person or persons for election to such position or positions if the stockholder s notice as described above is delivered to the secretary at New Dynegy s principal executive office no earlier than the close of business on the 120th day before such special meeting and no later than the close of business on the later of the 90th day before such special meeting or the 10th day following the day on which public announcement is first made of the date of the special meeting and of the nominees proposed by the board of directors to be elected at such meeting.

Only persons nominated in accordance with the procedures described above may be elected as directors, and only business that has been properly brought before a meeting of stockholders in accordance with the procedures described above may be conducted at the meeting. Except as otherwise provided by law, the certificate of incorporation or the bylaws, the chairman of the meeting has the power and duty to determine whether a nomination or any business proposed to be brought before the meeting was made, or proposed, as the case may be, in accordance with the procedures set forth above and. If the chairman of the meeting determines that any proposed nomination or business is not in compliance with such procedures, the chairman of the meeting may declare that such defective proposal or nomination shall be disregarded. Stockholders must also comply with all applicable requirements of the Exchange Act and the rules and regulations thereunder.

Directors

The business and affairs of New Dynegy will be managed by its board of directors. Each director will hold office until the next annual meeting of stockholders following the director s election and until the director s successor has been duly elected and qualified or until the director s earlier death, resignation or removal. A

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director need not be a resident of the State of Delaware or a stockholder of New Dynegy in order to be a director. A director may resign at any time by giving written notice to the board of directors, the chairman of the board, chief executive officer, president or secretary. A resignation will be effective when the notice is given, unless the notice specifies a future date. In addition to the directors whom the stockholders elect, the board of directors may also designate by resolution one or more advisory directors who may attend all meetings of the board of directors but may not vote on any matters before the board. The advisory director will have no rights as a director either under the New Dynegy s Bylaws, New Dynegy s Certificate of Incorporation, Delaware law or any agreement to which New Dynegy is a party. Notwithstanding the foregoing, an advisory director will be entitled to receive compensation for services as a director in the same amount and manner that such director would be entitled to receive as an employee director or non-employee director, as the case may be, if such director were elected by the stockholders.

Meetings of the Board of Directors

The board of directors of New Dynegy may hold meetings, both regular and special, either within or without the State of Delaware. Regular meetings of the board of directors will be held immediately after the annual meeting of the stockholders and at such other times, if any, as the board of directors may determine. Special meetings of the board of directors may be called only by the chairman of the board of directors or the lead director and must be called by the chairman or the secretary upon the written request of any two directors. A majority of the directors then in office will constitute a quorum for the transaction of business at any meeting of the board of directors. The act of a majority of the directors present at a meeting at which a quorum is present will be the act of the board of directors, except that, at any time when the holders of New Dynegy s Class B common stock collectively directly own shares of such stock representing at least 15% of the total combined voting power of New Dynegy s voting securities, no Major Action, as described below, may be approved if all of the Class B Directors present at the meeting where such action is considered vote against it. See Shareholder Agreement Blocking Rights.

At the board meeting associated with the annual meeting of stockholders each year, the non-management directors may designate a lead director to serve until the next annual board meeting. If the non-management directors designate a lead director, such director will be a non-management director selected by a majority of the non-management directors at such meeting. The chairman of the board of directors may be elected to serve as the lead director if he or she meets the applicable independence and non-employee criteria. The lead director will have the power to convene executive sessions of the non-management directors of the board of directors and coordinate, develop an agenda for and moderate such sessions; to consult with the non-management directors and serve as a conduit to New Dynegy s senior management of the views of the non-management directors when the board of directors is not in session; to engage outside advisors to report to the board of directors or a committee thereof; to refer to the chairman of any committee of the board of directors matters within the scope of such committee s authority; to confer with outside counsel, auditors and other advisors to New Dynegy; and to consult with the chairman of the board of directors regarding the agenda of matters for meetings of the board of directors.

Committees

The board of directors may create one or more committees and appoint members of the board of directors to serve on the committee or committees. Each committee will have two or more members, who serve at the pleasure of the board of directors. Any vacancy in a committee may be filled by the board of 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 holders of New Dynegy s Class B common stock decline to elect any Class B Director.

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To the extent specified by resolution of the board of directors and the bylaws, each committee may exercise the authority of the board of directors, except that, subject to limited exceptions, a committee may not:

- authorize distributions, except for dividends to be paid with respect to shares of any preferred or special classes or any series thereof;
- approve or recommend to stockholders any act requiring the approval of stockholders under applicable law;
- fill vacancies on the board of directors or any committee;
- elect or remove officers or fix the compensation of any member of the committee;
- adopt, amend or repeal bylaws;
- approve a plan of merger not requiring stockholder approval;
- authorize or approve reacquisition of shares, except according to a general formula or method prescribed by the board of directors;
- authorize or approve the issuance or sale of shares, or determine the designation and relative rights, preferences and limitations of a series of shares; or
- amend, alter, repeal or take action inconsistent with any resolution or action of the board of directors when the resolution or action of the board of directors provides by its terms that it shall not be amended, altered or repealed by action of a committee.

The committees of the board of directors of New Dynegy will initially include:

- a compensation and human resources committee, which will, among other things, review the salaries, compensation and employee benefits for New Dynegy s executive officers and employees make recommendations to the board of directors concerning such matters;
- a corporate governance and nominating committee, which will, among other things, consider matters related to corporate governance, develop general criteria regarding the selection and qualifications for members of the board of directors and recommend candidates for election to the board of directors;
- an audit and compliance committee, which will, among other things, review the selection and qualifications of the independent public accountants employed by New Dynegy to audit its financial statements and the scope and adequacy of their audits, consider recommendations made by such independent public accountants and review internal financial audits and report any additions or changes it deems necessary to the board of directors; and

- a performance review committee, which will, among other things, review New Dynegy s commercial and operating performance, benchmark key performance measures and develop strategies for maximizing shareholder value.

Except for the performance review committee, membership on the foregoing committees will consist of non-employee or independent directors, as the case may be, as required under applicable listing standards of the NYSE.

Officers

New Dynegy will have the following officers: a chief executive officer, chairman of the board of directors, president, one or more vice presidents as determined by the board of directors, a secretary, a treasurer, a controller and such other officers as may be elected by the board of directors. The respective powers and duties of the officers holding such offices are as set forth in the bylaws and are generally those powers and duties customarily associated with such offices. Any two or more offices may be held by the same person.

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Each officer will hold office until a successor is elected and qualified or until such officer s earlier resignation or removal. Any vacancy occurring in any office will be filled by the board of directors for the unexpired portion of the term. Each appointed officer will serve at the pleasure of the board of directors, and election or appointment of an officer or agent will not of itself create contract rights. Any officer or agent may be removed by the board of directors, with or without cause, whenever in its judgment the best interests of New Dynegy will be served thereby. Such removal will be without prejudice to the contract rights, if any, of the person so removed. The compensation of all officers will be fixed by or under the direction of the board of directors. No officer will be prevented from receiving such compensation because the officer is also a director of New Dynegy.

Shares

The issued shares of New Dynegy capital stock may be represented by certificates or may be uncertificated, in either case in whole or in part, as determined by the board of directors.

Fiscal Year

New Dynegy s fiscal year will be as determined by its board of directors.

Emergency Bylaws

The bylaws provide for the constitution of an emergency board of directors in the event that a quorum of the board of directors cannot be convened as a result of certain catastrophes or emergency conditions. To the extent possible, the holders of New Dynegy s Class B common stock will be entitled to nominate the number of directors to the emergency board of directors that is proportionate to the number of directors the Class B common stockholders would then be entitled to nominate to the board of directors. The emergency board of directors will have all of the rights, powers and duties of the board of directors except that the emergency board of directors may not amend the certificate of incorporation of the corporation or approve a merger, sale of all or substantially all of New Dynegy s assets, liquidation or dissolution.

Amendment

Subject to New Dynegy s Certificate of Incorporation, New Dynegy s Bylaws may be adopted, amended or repealed by New Dynegy s board, provided that no amendment or repeal of certain provisions of New Dynegy s Bylaws (or the adoption of any provision of New Dynegy s Bylaws which would substantially and adversely affect the rights of the holders of New Dynegy s Class B common stock) will be effective unless approved by a majority of the Class B Directors and a majority of the directors in office. Subject to the provisions of New Dynegy s Certificate of Incorporation, New Dynegy s Bylaws may also be altered, amended or repealed by New Dynegy s stockholders.

Shareholder Agreement

Concurrently with the execution of the Merger Agreement, New Dynegy entered into the shareholder agreement, dated as of September 14, 2006, entered into between New Dynegy and the LS Contributing Entities (the Shareholder Agreement). The Shareholder Agreement is attached as Annex D to this proxy statement/prospectus and is incorporated herein by reference. The following summary of the material terms of the Shareholder Agreement does not purport to be complete and may not contain all of the information that is important to you. You are encouraged to read the entire Shareholder Agreement.

Ownership of New Dynegy s Common Stock

The LS Contributing Entities and their permitted transferees and each member of the LS Control Group (as defined below) who may become parties to the Shareholder Agreement (each, a LS Shareholder) shall not, and shall cause Luminus Management, LLC and its controlled affiliates and managed funds (Luminus) to not, and shall use it reasonable best efforts to cause the members of the LS Control Group to not, acquire any equity securities of New Dynegy; provided, however, that;

a member of the LS Control Group may acquire equity securities of New Dynegy if, after giving effect to such acquisition (excluding shares of New Dynegy s common stock that may be issued to members of the LS Control Group under employee benefit plans), (i) the members of the LS Control Group collectively do not own more than 40% of the outstanding shares of New Dynegy s common stock; provided that such percentage will be permanently reduced following any sale of New Dynegy s Class B common stock that is not a widely dispersed sale (as defined below) by a number equal to the percentage of total outstanding shares of New Dynegy s common stock that such person acquires in such sale in excess of the percentages that would have made such sale a widely dispersed sale and (ii) subject to clause (i), the members of the LS Control Group, together with Luminus, do not own more than 41% of the total outstanding shares of New Dynegy s common stock;

at any time when members of the LS Control Group collectively own shares (excluding shares of New Dynegy s Class B common stock issued to members of the LS Control Group under employee benefit plans) of New Dynegy s Class B common stock representing greater than or equal to 30% of all outstanding shares of New Dynegy s common stock, Luminus may acquire equity securities of New Dynegy if after giving effect to such acquisition Luminus does not own more than 1% of the total outstanding shares of New Dynegy s common stock; and

at any time when members of the LS Control Group collectively own shares (excluding New Dynegy s Class B common stock issued under employee benefit plans) of New Dynegy s Class B common stock representing less than 30% but greater than or equal to 10% of all outstanding shares of New Dynegy s common stock, Luminus may acquire equity securities of New Dynegy if after giving effect to such acquisition Luminus does not own more than 5% of the total outstanding shares of New Dynegy s common stock.

A widely dispersed sale is:

any transfer of shares of New Dynegy common stock to any person involving not more than 3% of the total outstanding shares of New Dynegy s common stock and, after giving effect to such transfer, such person, together with its affiliates would not beneficially own more than 5% of the total outstanding shares of New Dynegy s common stock, or

an underwritten public offering of New Dynegy s Class B common stock (or shares into which New Dynegy s Class B common stock may convert) or a bona fide public sale of New Dynegy s Class B common stock (or shares into which New Dynegy s Class B common stock may convert) in an open market transaction through a broker, dealer or market maker under Rule 144 of the Securities Act.

For purposes of the Shareholder Agreement, the term LS Control Group means (i) any person(s) or group that owns shares of New Dynegy s Class B common stock representing greater than 10% of the outstanding shares of New Dynegy s common stock, together with all affiliates and associates of such person(s) or of any member of any group and (ii) the LS Contributing Entities and each LS Shareholder, together with their respective affiliates. Luminus shall not be deemed to be a member of the LS Control Group.

Auction Rights

In certain circumstances described below, the LS Shareholders may cause New Dynegy to be put through an auction and sale process after the Lock-Up Period. For purposes of the Shareholder Agreement, the term Lock-Up Period means the period from the completion of the Merger until the earlier of (i) the second anniversary of the Merger, (ii) the date the LS Shareholders cease to own at least 15% of the total combined voting power of New Dynegy s outstanding securities and (iii) 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.

After the end of the Lock-Up Period, a representative on behalf of the LS Shareholders has the right to make one or more written offers to New Dynegy to acquire all, but not less than all, of the outstanding voting securities of New Dynegy (each, a Qualified Offer). If New Dynegy does not accept such

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Qualified Offer in writing within 30 days after receipt thereof, upon the request of the LS Shareholders representative, New Dynegy will (i) conduct an auction in which the LS Shareholders may participate but have no special priority or other special rights or (ii) conduct an auction in which no member of the LS Control Group or Luminus or their respective controlled affiliates may participate, but the LS Shareholders will have the right to acquire all of the outstanding voting securities of New Dynegy at 105% of the purchase price per share set forth in the bid selected by New Dynegy s board of directors. Alternatively, the LS Shareholders representative may elect to not require an auction to occur, in which case New Dynegy would continue in its ordinary course of business. Any auction shall be completed within 120 days after New Dynegy receives a Qualified Offer, and the sale shall close within 60 days after the completion of such auction.

New Dynegy will notify the LS Shareholders representative upon conclusion of an auction conducted pursuant to clause (ii) above and, if the LS Shareholders representative elects to acquire all of the outstanding shares of voting securities of New Dynegy, the LS Shareholders representative will provide notice of such intent within 10 days of the conclusion of such auction. New Dynegy s board of directors will approve the acquisition within 10 days of the LS Shareholders representative s election to acquire all of the outstanding voting securities of New Dynegy and New Dynegy and the LS Shareholders will enter into a definitive agreement relating to such acquisition. Such definitive agreement will contain customary terms and conditions, including a termination fee payable upon termination of such definitive agreement equal to 5% of the aggregate value of New Dynegy and the right of New Dynegy to terminate the transaction and pay such termination fee to the LS Shareholders if the board of directors of New Dynegy deems such action necessary to properly discharge its fiduciary duties.

If the LS Shareholders are not the winning bidder in an auction conducted under clause (i) of the first bullet point above that is successfully completed or do not elect to purchase all of the voting securities of New Dynegy at the successful conclusion of an auction conducted under clause (ii) of the first bullet point above, the LS Shareholders will vote their Class B common stock in favor of the successful bidder s transaction, will not exercise dissenter s rights, will tender their shares in the event of a tender offer and shall otherwise cooperate in consummating the transaction.

If there is an auction conducted under clause (i) or clause (ii) of the first bullet point above and the auction is not successfully concluded within 120 days from New Dynegy s receipt of the Qualified Offer, the LS Shareholders may either proceed with their Qualified Offer and close the purchase within 60 days or begin the auction process again by submitting a new Qualified Offer.

If (i) following the successful conclusion of an auction the sale does not close within 60 days, (ii) New Dynegy fails to enter into an agreement with the LS Shareholders after they elect to exercise their right to purchase all, but not less than all, of the outstanding shares of New Dynegy s common stock for 105% of the purchase price set forth in the bid selected by New Dynegy s board of directors, or (iii) New Dynegy terminates any agreement entered into with the LS Shareholders because the board of directors determines that terminating the agreement is necessary to properly discharge its fiduciary duties, the LS Shareholders will have no obligation to vote in favor of any other transaction or tender their shares to a third party and may proceed with a tender or exchange offer for all of New Dynegy s outstanding voting securities.

To the extent the LS Shareholders make a Qualified Offer of all shares not directly owned by the LS Shareholders through a tender offer, the LS Shareholders will not complete such tender offer until the holders of a majority of the shares of New Dynegy s Class A common stock have voted in favor of such tender offer by the LS Shareholders and/or have tendered their shares in such tender offer.

If, during any 18-month period, the Class B Directors exercise their blocking right on at least 2 occasions that prevents the sale, merger or consolidation of New Dynegy or the sale of all or substantially all of its assets, and within 45 days after the second such vote the directors elected by the holders of New Dynegy s Class A common stock elect to pursue a sale, merger or consolidation of

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New Dynegy or the sale of all or substantially all of New Dynegy s assets that is different from the transactions blocked by the Class B Directors, then New Dynegy may conduct an auction under clause (i) of the first bullet point above or if the LS Shareholder elects, clause (ii) of the first bullet point above, and the Class B Directors will not be entitled to their blocking rights under Article III, Section 7(B) of New Dynegy s Bylaws. See Blocking Rights.

If the LS Shareholders require that New Dynegy be put up for auction as described above, the holders of New Dynegy Class A common stock will be entitled to vote as a separate class to approve any merger or consolidation resulting from such auction.

Transfer Restrictions

Each LS Shareholder may not transfer any shares of New Dynegy s Class B common stock until the expiration of the Lock-Up Period; provided, however, that;

- beginning on the day that is 180 days after the closing of the Merger to the date that is 360 days after the closing of the Merger, the LS Shareholders may transfer up to 21,250,000 shares of New Dynegy s Class B common stock in widely dispersed sales, with an additional 21,250,000 shares of New Dynegy s Class B common stock becoming transferable on and after the first day of each succeeding 180-day period thereafter. If the LS Shareholders collectively transfer fewer than the amount of New Dynegy s Class B common stock permitted to be transferred during any 180-day period, an unused amount of up to 21,250,000 shares of New Dynegy s Class B common stock may be carried over to the next succeeding 180-day period. In no event may more than 42,500,000 shares of New Dynegy s Class B common stock be transferred during any 180-day period;

- each LS Shareholder may tender all or any part of its New Dynegy s common stock to a third party pursuant to a tender offer approved by New Dynegy s board of directors;

- each LS Shareholder may transfer its shares of its New Dynegy s Class B common stock to any permitted transferee; and

- on the 180th day after the closing of the Merger, each LS Shareholder may distribute all or a part of the shares of New Dynegy s Class B common stock to its direct or indirect owners; provided that New Dynegy may block such distribution for up to 60 days in connection with any proposed underwritten public offering by New Dynegy. Such deferral right may not be exercised more than once during any calendar year.

Following the expiration of the Lock-Up Period, members of the LS Control Group may transfer their shares of New Dynegy s Class B common stock to any person so long as such transfer would not result in such person, together with such person s affiliates and associates, owning more than 15% of shares of New Dynegy s common stock. All shares of New Dynegy s Class B common stock transferred to any person that is not a member of the LS Control Group shall automatically be converted into shares of New Dynegy s Class A common stock.

Composition of New Dynegy s Board of Directors

Immediately after the closing of the Merger, New Dynegy s board of directors will consist of 11 directors, three of which will have been nominated by the LS Shareholders and eight of which will have been nominated by Dynegy immediately prior to the closing of the Merger. See Directors and Management of New Dynegy. After the closing of the Merger, the composition of the board of directors and the election of directors will be in accordance with New Dynegy s Certificate of Incorporation. See Certificate of Incorporation of New Dynegy Special Voting Rights of the Class A and Class B Shares.

Blocking Rights

At any time when greater than 15% of the total combined voting of New Dynegy is owned by the LS Shareholders, New Dynegy shall not, and shall not permit its subsidiaries or controlled affiliates to take any

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action specified in Article III, Section 7(B) of New Dynegy s Bylaws if all Class B Directors present at the meeting at which such action is considered vote against such action. The actions subject to these blocking rights set forth in Article III, Section 7(B) of New Dynegy s Bylaws include:

- any amendments to New Dynegy s Certificate of Incorporation or the New Dynegy s Bylaws, or adoption of any provision of New Dynegy s Certificate of Incorporation or New Dynegy s Bylaws, after the date of the initial adoption of the New Dynegy s Bylaws;

- any merger or consolidation of New Dynegy, any disposition of assets or businesses of New Dynegy or any of its subsidiaries or affiliates where such sale has an aggregate fair market value in excess of $350 million, any acquisition, binding capital commitment, guarantee or investment (other than guarantees of obligations or investments in, wholly owned subsidiaries) by New Dynegy and its subsidiaries and affiliates, the aggregate amount, asset value or consideration for which is in excess of $350 million, or any joint venture involving New Dynegy or any of its subsidiaries or affiliates where the assets to be contributed by New Dynegy and/or its subsidiaries, at the time of the binding commitment to contribute or form such joint venture is entered into, have a fair market value in excess of $350 million;

- payment of dividends or similar distributions by New Dynegy or any change in policies regarding dividends or similar distributions, 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 an indicative rating that, after giving effect to such 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;

- engagement of New Dynegy or its subsidiaries or affiliates in any business other than its existing lines of business as of the date of the initial adoption of New Dynegy s Bylaws and lines of business reasonably related thereto;

- any liquidation or dissolution of New Dynegy, or bankruptcy with respect to New Dynegy or any of its subsidiaries or affiliates (other than any such event involving a subsidiary having an asset value of less than $50 million);

- issuance of (i) any New Dynegy s Class A common stock (including options, warrants, convertible securities and other rights to subscribe for any New Dynegy s Class A common stock) in any transaction the aggregate consideration for which is in excess of $500 million, or (ii) any New Dynegy s Class B common stock or any new series of common stock or preferred stock of New Dynegy (including options, warrants, convertible securities and other rights to subscribe for any New Dynegy s Class B common stock or any such new series of common stock or preferred stock);

- incurrence of any indebtedness by New Dynegy or any of its subsidiaries or affiliates that exceeds $500 million in the aggregate, except certain refinances;

- hiring, or terminating the employment of, the chief executive officer, other than Bruce A. Williamson;

- other than any joint venture arrangements with a holder of New Dynegy s Class B common stock or an affiliate thereof, entering into any agreement or other action which purports to or in fact limits the activities which may be conducted by any holders of New Dynegy s Class B common stock or any of its affiliates; and

any other transaction (or series of related transactions) that would result in the payment or receipt of consideration (including the incurrence or assumption of indebtedness and liabilities) by New Dynegy and its subsidiaries or affiliates having a fair market value in excess of $350 million.

No Poison Pill

New Dynegy shall not adopt a poison pill or similar agreement that prevents the LS Shareholders from exercising their rights under the Shareholder Agreement, New Dynegy s Certificate of Incorporation or the New Dynegy s Bylaws.

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Pre-emptive Rights

If New Dynegy issues shares of equity securities pursuant to an employee benefit plan, the LS Shareholders are entitled to purchase up to their proportionate share of equity securities of New Dynegy.

Change of Control

If persons holding interests in LS Power Development, LLC as of September 14, 2006, and any affiliate of such persons, cease to have direct or indirect control over a majority of the shares of New Dynegy s Class B common stock, the rights described under Auction Rights and Blocking Rights above shall cease to be in effect.

Effectiveness and Term

The Shareholder Agreement will be effective as of the closing of the Merger. The rights described under Auction Rights and Blocking Rights above shall cease to be in effect on and after the date that the LS Shareholders collectively own less than 15% of the total combined voting power of all outstanding voting securities of New Dynegy, and the remaining provisions of the Shareholder Agreement will terminate on the date when no shares of New Dynegy s Class B common stock are outstanding.

Voting Agreements

Voting Agreement with Dynegy s Executive Officers and Directors

Concurrently with the execution of the Merger Agreement, the LS Contributing Entities entered into the Officers Voting Agreement with Bruce A. Williamson, Stephen A. Furbacher, Holli C. Nichols, Lynn A. Lednicky and J. Kevin Blodgett (collectively, the Officers), solely in their capacities as shareholders of Dynegy. As of November 30, 2006, approximately 1% of Dynegy s outstanding shares were subject to the Officers Voting Agreement. The Officers Voting Agreement has been filed as an exhibit to the registration statement of which this proxy statement/prospectus forms a part and is incorporated herein by reference. The following summary of the material terms of the Officers Voting Agreement does not purport to be complete and may not contain all of the information that is important to you. You are encouraged to read the entire Officers Voting Agreement carefully.

The Officers entered into the Officers Voting Agreement as a condition to the LS Contributing Entities entry into the Merger Agreement, and the Officers will not receive additional compensation as a result of entering into the Officers Voting Agreement.

Under the Officers Voting Agreement, the Officers have agreed to vote their shares of Dynegy s Class A common stock:

- in favor of the approval of the Merger, the adoption of the Merger Agreement and, to the extent submitted to the shareholders of Dynegy for approval in connection with the Merger, other related transactions; and
- against any Dynegy takeover proposal and any related action reasonably required in furtherance thereof.

The Officers Voting Agreement will terminate upon the occurrence of any of the following:

- the withdrawal or amendment by Dynegy s board of directors of its recommendation in favor of the Merger;
- May 31, 2007, if the Merger has not been completed by such date;

the entry into any amendment to the Merger Agreement that (i) changes the exchange ratio, (ii) changes the amount or type of consideration to be paid to the LS Contributing Entities under the Merger Agreement or (iii) is materially disadvantageous to the Officers;

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- termination of the Merger Agreement; or
- completion of the Merger.

Voting Agreement with Chevron

Concurrently with the execution of the Merger Agreement, the LS Contributing Entities entered into the Chevron Voting Agreement with Chevron. As of November 30, 2006, approximately 19.4% of Dynegy s outstanding shares and 100% of Dynegy s outstanding Class B common stock were subject to the Chevron Voting Agreement. The Chevron Voting Agreement has been filed as an exhibit to the registration statement of which this proxy statement/prospectus forms a part and is incorporated herein by reference. The following summary of the Chevron Voting Agreement does not purport to be complete and may not contain all of the information that is important to you. You are encouraged to read the entire Chevron Voting Agreement.

Chevron will not receive additional compensation in connection with the Chevron Voting Agreement.

Under the Chevron Voting Agreement, Chevron has agreed to vote its shares of Dynegy s Class B common stock:

- in favor of the approval of the Merger, the adoption of the Merger Agreement and, to the extent submitted to the shareholders of Dynegy for approval in connection with the Merger, other related transactions; and
- against any Dynegy takeover proposal and any related action reasonably required in furtherance thereof.

In addition, at the effective time of the Merger, each of (i) the Second Amended and Restated Shareholder Agreement dated as of May 26, 2006 between Dynegy and Chevron and (ii) the Amended and Restated Registration Rights Agreement (Common Stock), dated August 11, 2003, between Dynegy and Chevron will be terminated. Chevron also agreed that it will not exercise any of the rights it was granted under Article III, Section 7(B) of Dynegy s bylaws with respect to the Merger Agreement Transactions and that it will not acquire any voting securities of Dynegy or New Dynegy until the Merger has been completed. See Comparison of Rights of Dynegy s Shareholders and New Dynegy s Stockholders Blocking Rights Dynegy.

The Chevron Voting Agreement will terminate upon the occurrence of any of the following:

- the withdrawal or amendment by the Dynegy Board of its recommendation in favor of the Merger;
- May 31, 2007, if the Merger has not been completed by such date;
- the entry into any amendment to the Merger Agreement that (i) changes the exchange ratio, (ii) changes the amount or type of consideration to be paid to the LS Contributing Entities under the Merger Agreement or (iii) is materially disadvantageous to Chevron;
- termination of the Merger Agreement; or
- completion of the Merger.

Corporate Opportunity Agreement

Concurrently with the execution of the Merger Agreement, New Dynegy entered into the corporate opportunity agreement, dated as of September 14, 2006, between New Dynegy and LS Power Development, LLC (LS PD) (the Corporate Opportunity Agreement). The Corporate Opportunity Agreement is attached as Annex E to this proxy statement/prospectus and is incorporated herein by reference. The following summary of the material terms of the Corporate Opportunity Agreement does not purport to be complete and may not contain all of the information that is important to you. You are encouraged to read the entire Corporate Opportunity Agreement.

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Acquisition Opportunities

Beginning at the effective time of the Merger, New Dynegy is required to notify LS PD of its intent to pursue an opportunity to acquire operating electrical power generating assets; provided that, if any time after such notification New Dynegy decides in good faith to cease pursuing such acquisition opportunity, New Dynegy is required to notify LS PD of such decision. LS PD and its controlled affiliates will be entitled to pursue such acquisition opportunity in accordance and subject to the following:

If LS PD notifies New Dynegy that the members of LS PD and its controlled affiliates do not intend to pursue such acquisition opportunity, New Dynegy may pursue such acquisition opportunity for itself and New Dynegy s Class B Directors may participate in all board discussions and activities (including voting) relating to New Dynegy s pursuit of such acquisition opportunity.

If, after New Dynegy s notification to LS PD of an acquisition opportunity, LS PD does not notify New Dynegy as to whether any member of LS PD and its controlled affiliates intends to pursue the acquisition opportunity, then, until LS PD notifies New Dynegy of its intentions, the Class B Directors will recuse themselves from all board discussions and activities relating to the acquisition opportunity. LS PD may designate one or more Class B Directors as representatives to participate in board discussions and activities and vote as directors with respect to the acquisition opportunity. The representative directors are required to keep all information relating to the acquisition opportunity confidential from members of LS PD and its controlled affiliates and the LS Control Group, and members of LS PD and its controlled affiliates and LS Control Group are required to keep all information relating to the acquisition opportunity confidential from the representative directors.

If LS PD notifies New Dynegy that any member of LS PD and its controlled affiliates intends to pursue the acquisition opportunity, then both New Dynegy and any member of LS PD and its controlled affiliates may pursue the acquisition opportunity for themselves and the Class B Directors will recuse themselves from all board discussions and activities relating to the acquisition opportunity. LS PD may designate one or more representative directors to participate in board discussions and activities and vote as directors with respect to the acquisition opportunity. The representative directors are required to keep all information relating to the acquisition opportunity confidential from members of LS PD and its controlled affiliates and the LS Control Group, and members of LS PD and its controlled affiliates and LS Control Group are required to keep all information relating to the acquisition opportunity confidential from the representative directors.

In the situations described above in which the Class B Directors must recuse themselves, New Dynegy must notify LS PD of a scheduled authorization vote by the board of directors regarding the acquisition opportunity. If LS PD then notifies New Dynegy that no member of LS PD and its controlled affiliates or LS Control Group intends to pursue the acquisition opportunity for itself, then all Class B Directors will be entitled to participate in board of director discussions and activities and vote as directors with respect to the acquisition opportunity.

Termination

The rights granted to LS PD and its controlled affiliates under the Corporate Opportunity Agreement will be suspended at any time when the outstanding shares of New Dynegy s Class B common stock represent less than 15% of New Dynegy s total combined voting power. The Corporate Opportunity Agreement will terminate when there are no shares of New Dynegy s Class B common stock outstanding or when the LS Holders cease to have direct or indirect control over a majority of shares of New Dynegy s Class B common stock.

Chevron-LS Lock-Up Agreement

Concurrently with the execution of the Merger Agreement, Chevron entered into a Lock-Up Agreement, dated as of September 14, 2006 (the Chevron-LS Lock-Up Agreement), with the LS Contributing Entities. The Chevron-LS Lock-Up Agreement has been filed as an exhibit to the registration statement of which this proxy

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statement/prospectus forms a part and is incorporated herein by reference. The following summary of the material terms of the Chevron-LS Lock-Up Agreement does not purport to be complete and may not contain all of the information that is important to you. You are encouraged to read the entire Chevron-LS Lock-Up Agreement.

Transfer Restrictions

If the Merger Agreement Transactions are completed and Chevron has voted in favor of the approval of the Merger and the adoption of the Merger Agreement, the LS Contributing Entities may not transfer any shares of New Dynegy s common stock until the expiration of the period (the LS Lock-Up Period) from the closing date of the Merger to the earliest to occur of (a) the second anniversary of the closing date of the Merger and (b) the expiration of the Lock-Up Period (as defined in the Shareholder Agreement); provided, however, that:

- beginning on the day that is 180 days after the closing of the Merger to the date that is 360 days after the closing of the Merger, the LS Contributing Entities may transfer up to 21,250,000 shares of New Dynegy s Class B common stock, with an additional 21,250,000 shares of New Dynegy s Class B common stock becoming transferable on and after the first day of each succeeding 180-day period thereafter. If the LS Contributing Entities collectively transfer fewer than the amount of New Dynegy s Class B common stock permitted to be transferred during any 180-day period, an unused amount of up to 21,250,000 shares of New Dynegy s Class B common stock may be carried over to the next succeeding 180-day period. In no event may more than 42,500,000 shares of New Dynegy s Class B common stock be transferred during any 180-day period;

- each LS Entity may tender all or any part of its shares of New Dynegy s common stock to a third party pursuant to a tender offer approved by New Dynegy s board of directors;

- each LS Entity may transfer all or any part of its shares of New Dynegy s common stock to a permitted transferee as set forth under the Shareholder Agreement; and

- on or after the 180th day after the closing of the Merger, each LS Entity may distribute all or any part of its shares of New Dynegy s common stock to its direct or indirect owners.

Piggyback Registration Rights

Rights to Piggyback

If any of the LS Contributing Entities or Chevron determines to effect an underwritten registered offering of New Dynegy s common stock at any time after 180 days from the closing date of the Merger and when a Form S-3 shelf registration statement is not available (the No-Shelf Period), then each LS Contributing Entity and Chevron have the right to participate in any underwritten registered offering of New Dynegy s common stock by any other party to the Chevron-LS Lock-Up Agreement.

Notice of Proposed Offerings

If any LS Contributing Entity or Chevron determines to effect an underwritten registered offering during the No-Shelf Period, then such initiating party will provide written notice of such intent at least 30 days prior to the proposed date of the underwritten registered offering. Any other party to the Chevron-LS Lock-Up Agreement has the right to include its shares of New Dynegy s common stock in any such underwritten registered offering by giving the party initiating the offering notice of such intent within 10 days after receipt of the notice of the proposed offering.

Priority in Piggyback Offerings

If the representatives of the underwriters of an underwritten registered offering advise the parties participating in such offering that the number of shares of New Dynegy s common stock requested to be included in such offering needs to be limited, the shares to be included in such offering shall be allocated as follows:

first, the right to include shares shall be allocated equally between Chevron and the LS Contributing Entities, until the number of shares allocated to the LS Contributing Entities equals the lesser of (x) the

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aggregate number of shares the LS Contributing Entities propose to include in such offering and (y) the maximum number of shares the LS Contributing Entities are permitted to sell in any given 180-day period, and

thereafter, Chevron will be entitled to include in the offering as many shares as it may elect in its sole discretion.

Lock-Up

If, during a No-Shelf Period, the LS Contributing Entities or Chevron make any underwritten offering of New Dynegy s common stock, the party to the Chevron-LS Lock-Up Agreement not making the underwritten offering will not effect any public offer, sale or distribution of New Dynegy s common stock for a period beginning on the day following the pricing of such offering and ending on the shorter of (i) the date the lock-up under the underwriting agreement for such underwritten offering expires or is waived and (ii) 60 days.

Termination

The Chevron-LS Lock-Up Agreement terminates upon the termination of the New Dynegy Chevron Registration Rights Agreement (as defined on page 182). See Other Agreements and Documents Chevron Registration Rights Agreements New Dynegy-Chevron Registration Rights Agreement

LS Registration Rights Agreement

Concurrently with the execution of the Merger Agreement, New Dynegy entered into a Registration Rights Agreement, dated as of September 14, 2006 (the LS Registration Rights Agreement), with the LS Contributing Entities. The LS Registration Rights Agreement has been filed as an exhibit to the registration statement of which this proxy statement/prospectus forms a part and is incorporated by reference herein. The following summary of the material terms of the LS Registration Rights Agreement does not purport to be complete and may not contain all of the information that is important to you. You are encouraged to read the entire LS Registration Rights Agreement.

Registration Rights

Under the terms of the LS Registration Rights Agreement, New Dynegy is required to:

promptly after the effective time of the Merger, prepare and file with the SEC, and thereafter use its best efforts to cause to be declared effective, (i) a shelf registration statement (the LS Registration Statement) covering the resale of shares of registrable common stock of New Dynegy by the LS Contributing Entities and their permitted transferees who are members of the LS Control Group (collectively, the LS Power Holders) and (ii) a shelf registration statement (the Limited Distributee Registration Statement) covering the resale of shares of registrable common stock of New Dynegy by any limited partner or investor in any LS Entity or any other member of the LS Control Group (Limited Distributee);

use its commercially reasonable efforts to keep the LS Registration Statement continuously effective until all of the registrable common stock covered thereby has been sold or is no longer restricted; and

use its commercially reasonable efforts to keep the Limited Distributee Registration Statement continuously effective for a period equal to the earlier of two years from the last date on which the LS Contributing Entities or their permitted transferees acquire registrable common stock or such shorter period that will terminate when all of the registrable common stock covered by the Limited Distributee Registration Statement (i) has been sold or (ii) is no longer restricted.

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Underwritten Offerings

The LS Power Holders have the right to cause New Dynegy to:

- effect up to two underwritten offerings during the first 24 months following the Merger, provided that no more than one underwritten offering may be completed during each of the first and second 12-month periods after the effective time of the Merger; and

- effect up to two underwritten offerings during each 12-month period following the first 24 months after the Merger.

The aggregate proceeds to be received by the LS Power Holders in any underwritten offering must not be less than $100 million. In addition, New Dynegy may defer once per calendar year the commencement of any such underwritten offering for up to 60 days. New Dynegy is not required to effect any underwritten offering for the benefit of any Limited Distributee.

Expenses

New Dynegy will pay all expenses incident to the performance of the LS Registration Rights Agreement; provided that New Dynegy will only be obligated to reimburse the LS Power Holders for the reasonable fees of one legal counsel incurred in connection with each underwritten offering contemplated by the LS Registration Rights Agreement.

Lock-Ups

LS Contributing Entities

Each of the LS Contributing Entities and their permitted transferees (as defined under the Shareholder Agreement) will, if required, enter into a lock-up agreement in connection with an underwritten public offering of equity securities of New Dynegy for the account of New Dynegy. The lock-up period will begin on the day following the pricing of such offering and end on the earlier of (i) the date the lock-up under the underwriting agreement for such underwritten offering expires or is waived and (ii) 60 days following the commencement of the offering. The LS Contributing Entities and their permitted transferees will not be obligated to enter into a lock-up more than once during any calendar year.

New Dynegy

New Dynegy will, if required, enter into a lock-up agreement in connection with an underwritten offering of equity securities of New Dynegy under an LS Registration Statement. The lock-up period will begin on the day following the pricing of such offering and end on the earlier of (i) the date the lock-up under the underwriting agreement for such underwritten offering terminates and (ii) 60 days after such offering.

Other Registration Rights Agreements

Any agreement entered into after the effective time of the Merger pursuant to which New Dynegy grants registration rights with respect to equity securities will contain a provision under which each party thereto (other than New Dynegy) will agree not to effect any public offer, sale or distribution of such securities for a period beginning on the day following the pricing of such offering and ending on the earlier of (i) the date the lock-up under the underwriting agreement for such underwritten offering expires or is waived and (ii) 60 days; provided that such party will not be obligated to enter into a number of lock-up agreements in any period that exceeds the number of underwritten offerings the LS Power Holders are entitled to effect during any period.

Blackout

During any calendar year, New Dynegy may suspend sales under the LS Registration Statement and the Limited Distributee Registration Statement for up to 45 days in the aggregate, of which no more than 30 days may be consecutive.

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Indemnification

In connection with the registration of registrable common stock pursuant to the LS Registration Rights Agreement:

- New Dynegy will indemnify each holder of registrable common stock and their respective affiliates against any losses, claims, damages or liabilities caused by any untrue or allegedly untrue statement of material fact in a registration statement or prospectus or any omission, or alleged omission, to state a material fact required or necessary to be stated to make the statements therein not misleading, subject to specified limitations; and

- each holder of registrable common stock will indemnify New Dynegy and its affiliates against any losses, claims, damages or liabilities caused by any untrue or allegedly untrue statement of material fact in a registration statement or prospectus or any omission, or alleged omission, to state a material fact required or necessary to be stated to make the statements therein not misleading, subject to specified limitations.

Limitations on Subsequent Registration Rights

New Dynegy has agreed that for five years it will not grant any other persons any registration rights more favorable than those granted under the LS Registration Rights Agreement without offering such more favorable rights to the LS Power Holders.

Chevron Registration Rights Agreements

New Dynegy Chevron Registration Rights Agreement

Concurrently with the execution with the Merger Agreement, New Dynegy entered into a Registration Rights Agreement, dated as of September 14, 2006 (the New Dynegy Chevron Registration Rights Agreement), with Chevron. The New Dynegy Chevron Registration Rights Agreement has been filed as an exhibit to the registration statement of which this proxy statement/prospectus forms a part and is incorporated herein by reference. The following summary of the material terms of the New Dynegy Chevron Registration Rights Agreement does not purport to be complete and may not contain all of the information that is important to you. You are encouraged to read the entire New Dynegy Chevron Registration Rights Agreement.

Registration Rights

Under the terms of the New Dynegy Chevron Registration Rights Agreement, New Dynegy is required to:

- promptly after the effective time of the Merger, prepare and file with the SEC, and thereafter use its best efforts to cause to be declared effective, a shelf registration statement (the New Dynegy-Chevron Registration Statement) covering the resale of shares of registrable common stock of New Dynegy by Chevron; and

- use its commercially reasonable efforts to keep the New Dynegy Chevron Registration Statement continuously effective until all of the registrable common stock covered thereby has been sold or is no longer restricted.

Underwritten Offerings

Chevron has the right to cause New Dynegy to:

effect up to two underwritten offerings during the period following the effective time of the Merger and ending December 31, 2007; and

one underwritten offering per calendar year thereafter.

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The aggregate proceeds to be received by Chevron in any such underwritten offering shall not be less than $100 million. In addition, New Dynegy may defer the commencement of any underwritten offering demanded by Chevron for up to 60 days; provided that New Dynegy may not exercise such deferral right during the first 90-day period following the closing of the Merger, nor may such deferral right be exercised more than once per calendar year thereafter. After the end of the first 90-day period following the closing of the Merger, New Dynegy has the right once per calendar year to lock up Chevron for up to 60 days in connection with an underwritten offering of New Dynegy s equity securities or debt convertible into equity securities.

Expenses

New Dynegy will pay all expenses incident to the performance of the New Dynegy Chevron Registration Rights Agreement; provided that New Dynegy will only be obligated to reimburse Chevron for the reasonable fees of one legal counsel incurred in connection with each underwritten offering contemplated by the New Dynegy Chevron Registration Rights Agreement.

Lock-Ups

Chevron

Chevron will, if required, enter into a lock-up agreement in connection with an underwritten public offering of equity securities of New Dynegy for the account of New Dynegy. The lock-up period will begin on the day following the pricing of such offering and end on the earlier of (i) the date the lock-up under the underwriting agreement for such underwritten offering expires or is waived and (ii) 60 days following the commencement of the offering. Chevron will not be obligated to enter into a lock-up more than once during any calendar year.

New Dynegy

New Dynegy will, if required, enter into a lock-up agreement in connection with an underwritten offering of equity securities of New Dynegy for the account of Chevron. The lock-up period will begin on the day following the pricing of such offering and end on the earlier of (i) the date the lock-up under the underwriting agreement for such underwritten offering terminates and (ii) 60 days after such offering.

Other Registration Rights Agreements

Any agreement entered into after the effective time of the Merger pursuant to which New Dynegy grants registration rights with respect to its equity securities will contain a provision under which each party thereto will agree not to effect any public offer, sale or distribution of such securities for a period beginning on the day following the pricing of such offering and ending on the earlier of (i) the date the lock-up under the underwriting agreement for such underwritten offering terminates and (ii) 60 days; provided that such party will not be obligated to enter into a number of lock-up agreements in any period that exceeds the number of underwritten offerings Chevron is entitled to effect during any period.

Blackout

During any calendar year, New Dynegy may suspend sales under the New Dynegy Chevron Registration Statement for up to 45 days in the aggregate, of which no more than 30 days may be consecutive.

Indemnification

In connection with the registration of registrable common stock pursuant to the New Dynegy Chevron Registration Rights Agreement:

New Dynegy will indemnify Chevron and its respective affiliates against any losses, claims, damages or liabilities caused by any untrue or allegedly untrue statement of material fact in any registration

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statement or prospectus or any omission, or alleged omission, to state a material fact required or necessary to be stated to make the statements therein not misleading, subject to specified limitations; and

Chevron will indemnify New Dynegy and its affiliates against any losses, claims, damages or liabilities caused by any untrue or allegedly untrue statement of material fact in any registration statement or prospectus or any omission, or alleged omission, to state a material fact required or necessary to be stated to make the statements therein not misleading, subject to specified limitations.

Limitations on Subsequent Registration Rights

Other than the rights granted under the LS Registration Rights Agreement, New Dynegy has agreed that for five years it will not grant any other persons any registration rights more favorable than those granted under the New Dynegy Chevron Registration Rights Agreement without offering such more favorable rights to Chevron.

Dynegy Chevron Registration Rights Agreement

Concurrently with the execution of the Merger Agreement, Dynegy and Chevron entered into a Registration Rights Agreement, dated as of September 14, 2006 (the Dynegy-Chevron Registration Rights Agreement), that grants Chevron certain registration rights with respect to its shares of Dynegy s Class B common stock if, and only if, Chevron s obligations under the Chevron Voting Agreement are terminated for any reason other than the completion of the Merger. The Dynegy-Chevron Registration Rights Agreement has been filed as an exhibit to the registration statement of which this proxy statement/prospectus forms a part and is incorporated herein by reference. The following summary of the material terms of the Dynegy-Chevron Registration Rights Agreement does not purport to be complete and may not contain all of the information that is important to you. You are encouraged to read the entire Dynegy-Chevron Registration Rights Agreement.

Registration Rights

Under the terms of the Dynegy-Chevron Registration Rights Agreement, if Chevron s obligations under the Chevron Voting Agreement are terminated for any reason other than the completion of the Merger, Dynegy is required to:

promptly prepare and file with the SEC, and thereafter use its best efforts to cause to be declared effective, a shelf registration statement covering the resale of shares of registrable common stock of Dynegy by Chevron; and

use its commercially reasonable efforts to keep the Dynegy-Chevron Registration Statement continuously effective until all of the registrable common stock covered thereby has been sold or is no longer restricted.

Underwritten Offerings

If Chevron s obligations under the Chevron Voting Agreement are terminated for any reason other than the completion of the Merger, Chevron has the right to cause Dynegy to effect:

up to two underwritten offerings during the period following the termination of Chevron s obligations under the Chevron Voting Agreement and ending December 31, 2007; and

one underwritten offering per calendar year thereafter.

The aggregate proceeds to be received by Chevron in any such underwritten offering shall not be less than $100 million. In addition, Dynegy may defer the commencement of any underwritten offering demanded by Chevron for up to 60 days; provided that Dynegy may not exercise such deferral right during the first 90-day period following the termination of the Chevron Voting Agreement (subject to extension in certain

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circumstances), nor may such deferral right be exercised more than once per calendar year thereafter. After the end of the first 90-day period following the termination of the Chevron Voting Agreement (subject to extension in certain circumstances), Dynegy has the right once per calendar year to lock up Chevron for up to 60 days in connection with an underwritten offering of Dynegy s equity securities or debt convertible into equity securities.

Expenses

Dynegy will pay all expenses incident to the performance of the Dynegy-Chevron Registration Rights Agreement; provided that Dynegy will only be obligated to reimburse Chevron for the reasonable fees of one legal counsel incurred in connection with each underwritten offering contemplated by the Dynegy-Chevron Registration Rights Agreement.

Lock-Ups

Chevron

Chevron will, if required, enter into a lock-up agreement in connection with an underwritten public offering of equity securities of Dynegy for the account of Dynegy. The lock-up period will begin on the day following the pricing of such offering and end on the earlier of (i) the date the lock-up under the underwriting agreement for such underwritten offering expires or is waived and (ii) 60 days following the commencement of the offering. Chevron will not be obligated to enter into a lock-up more than once during any calendar year.

Dynegy

Dynegy will, if required, enter into a lock-up agreement in connection with an underwritten offering of equity securities of Dynegy for the account of Chevron. The lock-up period will begin on the day following the pricing of such offering and end on the earlier of (i) the date the lock-up under the underwriting agreement for such underwritten offering terminates and (ii) 60 days after such offering.

Other Registration Rights Agreements

Any agreement entered into after September 14, 2006 pursuant to which New Dynegy grants registration rights with respect to equity securities will contain a provision under which each party thereto will agree not to effect any public offer, sale or distribution of such securities for a period beginning on the day following the pricing of such offering and ending on the earlier of (i) the date the lock-up on Chevron terminates and (ii) 60 days; provided that such party will not be obligated to enter into a number of lock-up agreements in any period that exceeds the number of underwritten offerings Chevron is entitled to effect during any period.

Blackout

During any calendar year, Dynegy may suspend sales under the Dynegy-Chevron Registration Statement for up to 45 days in the aggregate, of which no more than 30 days may be consecutive.

Indemnification

In connection with the registration of registrable common stock pursuant to the Dynegy Chevron Registration Rights Agreement:

Dynegy will indemnify Chevron and its respective affiliates against any losses, claims, damages or liabilities caused by any untrue or allegedly untrue statement of material fact in any registration statement or prospectus or any omission, or alleged omission, to state a material fact required or necessary to be stated to make the statements therein not misleading, subject to specified limitations; and

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Chevron will indemnify Dynegy and its affiliates against any losses, claims, damages or liabilities caused by any untrue or allegedly untrue statement of material fact in any registration statement or prospectus or any omission, or alleged omission, to state a material fact required or necessary to be stated to make the statements therein not misleading, subject to specified limitations.

Limitations on Subsequent Registration Rights

Dynegy has agreed that for five years it will not grant any other persons any registration rights more favorable than those granted under the Dynegy-Chevron Registration Rights Agreement without offering such more favorable rights to Chevron.

New Dynegy Notes

General

Upon completion of the Merger, New Dynegy will issue (i) $112,000,000 in aggregate principal amount of the New Dynegy Notes in exchange for the Kendall Interests and (ii) $163,000,000 in aggregate principal amount of the New Dynegy Notes in exchange for the Operating Entity Interests, the Plum Point Interests and 50% of the membership interests in the Development LLC. New Dynegy may prepay the New Dynegy Notes to be issued to the LS Contributing Entities at any time and may elect to do so in connection with the Merger or soon after the completion of the Merger. In addition, Dynegy s management regularly evaluates options related to Dynegy s capital structure, including refinancing certain of the project 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. Dynegy s ultimate capital structure to be established by New Dynegy will depend significantly 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.

Maturity and Interest Rate

Interest payments on the principal amount of New Dynegy Notes will be due and payable semi-annually (the Interest Payment Dates) as set forth in the New Dynegy Notes.

During the period from the date of the completion of the Merger to the date immediately preceding the Reset Date (defined below) (the Initial Period), New Dynegy Notes will accrue interest at 9.50% per annum with respect to interest to be paid on any Interest Payment Date and 10.50% per annum with respect to interest which is added to the principal amounts of the New Dynegy Notes on any Interest Payment Date.

From the second anniversary of the completion of the Merger (or such other earlier date as may be agreed) (the Reset Date) to the tenth anniversary of the Reset Date, interest will accrue at the rate established by the remarketing of the New Dynegy Notes prior to the Reset Date, which will be based on a price per remarketed New Dynegy Note equal to 102% of the outstanding principal balance of such note prior to such remarketing (Reset Rate).

Mandatory Redemption

If, during the Initial Period, New Dynegy receives net cash proceeds of at least $5 million from certain debt or equity issuances, certain asset sales, the monetization of the energy contract between Sithe Independence Power Partners, L.P. and Consolidated Edison Company of New York, Inc. or any other distributions from any subsidiary of New Dynegy that do not have to be applied to certain other indebtedness, Dynegy will be required to redeem the maximum amount of New Dynegy Notes that may be redeemed with such proceeds. The redemption price will be in cash and equal to 100% of the principal amount of the New Dynegy Notes to be purchased.

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Optional Redemption

New Dynegy may redeem all or a portion of the New Dynegy Notes any time prior to the Reset Date for cash at the redemption prices set forth below plus accrued and unpaid interest:

Measurement Period	Percentage of Principal Amount
From completion of the Merger through the date immediately preceding the first anniversary of the Merger	100%
From the date that is the first anniversary of the Merger to the date immediately preceding the second anniversary of the Merger	101%

After the Reset Date, New Dynegy may not redeem all or any portion of the New Dynegy Notes until the date that is the fifth anniversary of the Reset Date. On and after such date, New Dynegy may redeem the New Dynegy Notes for cash at the redemption prices set forth below plus accrued and unpaid interest:

Reset Anniversary Date	Percentage
5	100% + $^{1}/2$ (Reset Rate)
6	100% + $^{1}/3$ (Reset Rate)
7	100% + $^{1}/6$ (Reset Rate)
8 and thereafter	100%

Negative Covenant

The indenture governing the New Dynegy Notes restricts New Dynegy s ability to consolidate, merge or sell substantially all of its assets.

Ranking

The New Dynegy Notes will be New Dynegy s unsecured subordinated obligations and rank junior to all existing and future debt of New Dynegy except for debt that is pari passu with the New Dynegy Notes.

Events of Default

Events of default under the indenture governing the New Dynegy Notes include the following:

- default in the payment when due of interest on the New Dynegy Notes, which continues for 10 days;
- default in the payment when due of principal of or premium, if any, on the New Dynegy Notes;
- failure by New Dynegy to comply with specified covenants and agreements, subject to applicable grace periods; and
- bankruptcy or insolvency.

If an event of default occurs, other than bankruptcy or insolvency, the trustee under the indenture or the holders of at least 25% in principal amount of the then outstanding New Dynegy Notes may declare the principal of and premium, if any, of all the New Dynegy Notes and the interest accrued on the New Dynegy Notes due and payable. If a bankruptcy or insolvency event of default occurs, the principal and interest of the New Dynegy Notes will be automatically accelerated.

Kendall Agreement

Concurrently with the execution of the Merger Agreement, Kendall Power LLC, a newly formed indirect subsidiary of Dynegy (Kendall Power), entered into a Limited Liability Company Membership Interests and Stock Purchase Agreement, dated as of September 14, 2006 (the Kendall Agreement), with LS Associates, LS Equity Partners, LS Partners and PIE (collectively, the LS Sellers).

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The transactions contemplated by the Kendall Agreement will only be completed if the Merger is not completed. Following the satisfaction or waiver of the conditions in the Kendall Agreement (including the termination of the Merger Agreement), Kendall Power will purchase for cash all of the outstanding common and preferred limited liability company membership interests of LSP Kendall Holding, LLC, a Delaware limited liability company (Kendall Holding), which owns the Kendall generation facility. Kendall Power will also purchase all of the issued and outstanding common stock of LSP-Kendall Blocker, Inc., a Delaware corporation (Blocker).

As noted above, you are not being asked to vote on the transactions contemplated by the Kendall Agreement. 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.

Joint Venture Agreements

At the closing of the Merger, a subsidiary of New Dynegy and LS Associates or its subsidiaries will enter into two joint ventures, a Development Services Company and the Development LLC, each a 50/50 owned limited liability company. The Development LLC will own development projects directly or through subsidiaries, while the Development Services Company will own no material assets, but will provide development and other operational services to the Development LLC and evaluate opportunities presented by New Dynegy and LS Associates for potential contribution to the Development LLC. Pursuant to separate services agreements, LS Associates or an affiliate thereof will provide certain project development services to the Development Services Company and New Dynegy or an affiliate thereof will provide certain construction management and operation and maintenance services.

Concurrent with the closing of the Merger, the Development LLC will receive (1) from New Dynegy, $5 million in cash and the rights to development and expansion opportunities related to certain New Dynegy assets, and (2) from LS Associates, $5 million in cash and the rights to existing development projects of the LS Contributing Entities.

During the term of the Development Services Company, which will expire after either five or ten years at the option of either party, each of New Dynegy and the LS Contributing Entities will be obligated to offer to the Development Services Company certain types of power development opportunities before taking any such opportunities individually.

Neither New Dynegy nor LS Associates will be obligated to contribute any additional capital to either joint venture without its consent. Generally, if the parties disagree about whether to continue developing any particular project in the joint venture (other than expansion opportunities related to New Dynegy-owned assets), either party may choose to purchase that project for itself under the terms of the Development LLC s limited liability company agreement. If the parties disagree about whether to continue developing an expansion project related to New Dynegy-owned assets, then either party may choose to trigger a process whereby New Dynegy would purchase the project for its fair market value.

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SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS, DIRECTORS AND EXECUTIVE

OFFICERS OF DYNEGY AND NEW DYNEGY

The following table sets forth certain information, based on information available to Dynegy, regarding the beneficial ownership of:

Dynegy s common stock as of December 31, 2006; and

New Dynegy s Class A common stock on a pro forma basis to give effect to the Merger Agreement Transactions (based on the beneficial ownership of Dynegy s common stock as of December 31, 2006).

Except as otherwise noted, the table provides information with respect to (i) each person who Dynegy knows, based on filings with the SEC, to own beneficially 5% or more of its Class A common stock or Class B common stock or who, as a result of the completion of the Merger Agreement Transactions, will own beneficially 5% or more of New Dynegy s Class A common stock or Class B common stock, (ii) each director of Dynegy, (iii) each named executive officer of Dynegy and (iv) all directors and executive officers of Dynegy as a group. Beneficial ownership is determined according to the rules and regulations of the SEC and generally includes those shares that an individual or group has the power to vote or transfer and any stock options that are currently exercisable or that will become exercisable within 60 days of the relevant date of determination (regardless of whether such stock options are in the money). Shares that an individual or group beneficially owns but that are not actually issued and outstanding are not counted, however, for purposes of computing the percentage ownership of any other individual or group. Except as described in the footnotes to the table, each individual or group listed in the table below has sole investment and voting power over the shares which such individual or group beneficially owns.

	Beneficial Ownership of Dynegy			Pro Forma Beneficial Ownership of New Dynegy		
	Class A Common Stock	Class B Common Stock	Percent of Class A Common Stock (1)	Class A Common Stock	Class B Common Stock	Percent of Class A Common Stock (2)
Chevron Corporation (3) Chevron U.S.A. Inc. 6001 Bollinger Canyon Road, Bldg. A4 San Ramon, CA 94583		96,891,014	19.4%	96,891,014		11.6%
LS Power Associates, L.P.					48,842,270	5.8%
LS Power Equity Partners, L.P.					175,117,329	20.9%
LS Power Partners, L.P.					5,686,822	*
LS Power Equity Partners PIE I, L.P.					106,186,603	12.7%
LSP Gen Investors, L.P.					4,166,976	*
Bruce A. Williamson (4)	1,119,167		*	3,006,415		*
Stephen A. Furbacher (5)	664,544		*	980,153		*
Holli C. Nichols (6)	135,432		*	276,509		*
Lynn Lednicky (7)	259,849		*	404,266		*
J. Kevin Blodgett (8)	84,529		*	227,551		*

David W. Biegler (9)	51,298	*	51,298		*
Thomas D. Clark, Jr. (9)	48,321	*	48,321		*
Victor E. Grijalva (9)	19,078	*	19,078		*
Patricia A. Hammick (9)	51,298	*	51,298		*
George L. Mazanec (9)	44,772	*	44,772		*
Robert C. Oelkers (9)	57,419	*	57,419		*
William L. Trubeck (9)	51,298	*	51,298		*
Howard B. Sheppard (10)		*			
Rebecca Roberts (10)		*			
Mikhail Segal (11)				340,000,000	40.6%
Frank Hardenbergh (11)				340,000,000	40.6%
James Bartlett (11)				340,000,000	40.6%
Current Executive Officers and Directors as a Group (14 persons) (4)(5)(6)(7)(8)(9) (10)	2,587,005	*	5,218,378		*

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* Less than 1%.

(1) Based upon 401,360,498 shares of Dynegy s Class A common stock and 96,891,014 shares of Dynegy s Class B common stock outstanding as of December 31, 2006.

(2) Assumes that 498,251,512 shares of New Dynegy s Class A common stock and 340,000,000 shares of New Dynegy s Class B common stock will be outstanding immediately following the completion of the Merger Agreement Transactions.

(3) All outstanding shares of Dynegy s Class B common stock are held of record by Chevron (as defined on page 3). Chevron Corporation beneficially owns 100% of the capital stock of Chevron. Consequently, Chevron Corporation may be deemed to beneficially own all of the shares of Dynegy s Class B common stock owned of record by Chevron. For purposes of computing Chevron s beneficial ownership, the percentage of New Dynegy s Class A common stock beneficially owned assumes conversion of all shares of Dynegy s Class B common stock into New Dynegy s Class A common stock.

(4) Amounts shown include 435,268 shares of restricted Class A common stock which are currently scheduled to vest on February 10, 2007, 196,326 shares of restricted Dynegy s Class A common stock which are currently scheduled to vest on January 19, 2008, 163,935 shares of restricted Class A common stock which are currently scheduled to vest on March 16, 2009. Amounts shown also include approximately 9,638 shares of Dynegy s Class A common stock held by the Trustee of the Dynegy Inc. 401(k) Savings Plan, referred to as the 401(k) Plan, for the account of Mr. Williamson, based on the market value of units held by Mr. Williamson in the 401(k) Plan s Dynegy stock fund divided by the closing price of Dynegy s Class A common stock as of December 31, 2006. Pro forma beneficial amount of New Dynegy common stock also includes all of Mr. Williamson s 1,887,248 unvested stock options. In accordance with Dynegy s equity-based award plans, individual award agreements or otherwise, all unvested stock options and all shares of unvested restricted stock that have been granted to Mr. Williamson will immediately vest upon the completion of the Merger.

(5) Amounts shown include 527,988 shares of Dynegy s Class A common stock issuable upon the exercise of employee stock options held by Mr. Furbacher, 37,109 shares of restricted Dynegy s Class A common stock which are currently scheduled to vest on February 10, 2007, 27,267 shares of restricted Dynegy s Class A common stock which are currently scheduled to vest on January 19, 2008 and 40,984 shares of restricted Dynegy s Class A common stock which are currently scheduled to vest on March 16, 2009. Amounts shown also include 13,800 shares of Dynegy s Class A common stock held in an IRA for Mr. Furbacher s benefit, as well as approximately 17,396 shares of Dynegy s Class A common stock held by the Trustee of the 401(k) Plan for the account of Mr. Furbacher, based on the market value of units held by Mr. Furbacher in the 401(k) Plan s Dynegy stock fund divided by the closing price of Dynegy s Class A common stock as of December 31, 2006. Pro forma beneficial amount of New Dynegy common stock also includes all of Mr. Furbacher s 315,609 unvested stock options. In accordance with Dynegy s equity-based award plans, individual award agreements or otherwise, all unvested stock options and all shares of unvested restricted stock that have been granted to Mr. Furbacher will immediately vest upon the completion of the Merger.

(6) Amounts shown include 82,047 shares of Dynegy s Class A common stock issuable upon the exercise of employee stock options held by Ms. Nichols, 11,719 shares of restricted Dynegy s Class A common stock which are currently scheduled to vest on February 10, 2007, 8,180 shares of restricted Dynegy s Class A common stock which are currently scheduled to vest on January 19, 2008 and 20,492 shares of restricted Dynegy s Class A common stock which are currently scheduled to vest on March 16, 2009. Amounts shown also include approximately 12,974 shares of Dynegy s Class A common stock held by the Trustee of the 401(k) Plan for the account of Ms. Nichols, based on the market value of units held by Ms. Nichols in the 401(k) Plan s Dynegy stock fund divided by the closing price of Dynegy s Class A common stock as of December 31, 2006. Pro forma beneficial amount of New Dynegy common stock also includes all of Mr. Nichols 141,077 unvested stock options. In accordance with Dynegy s equity-based award plans, individual award agreements or otherwise, all unvested stock options and all shares of unvested restricted stock that have been granted to Ms. Nichols will immediately vest upon the completion of the Merger.

(7) Amounts shown include 211,071 shares of Dynegy s Class A common stock issuable upon the exercise of employee stock options held by Mr. Lednicky, 9,766 shares of restricted Dynegy s Class A common stock which vest on February 10, 2007, 10,362 shares of restricted Dynegy s Class A common stock which vest on January 19, 2008 and 20,492 shares of restricted Dynegy s Class A common stock which vest on March 16,

2009. Amounts shown also include approximately 5,958 shares of Dynegy s Class A common stock held by the Trustee of the 401(k) Plan for the account of Mr. Lednicky, based on the market value of units held by Mr. Lednicky in the 401(k) Plan s Dynegy stock fund divided by the closing price of Dynegy s Class A common stock as of December 31, 2006. Pro forma beneficial amount of New Dynegy common stock also includes all of Mr. Lednicky s 144,417 unvested stock options. In accordance with Dynegy s equity-based award plans, individual award agreements or otherwise, all unvested stock options and all shares of unvested restricted stock that have been granted to Mr. Lednicky will immediately vest upon the completion of the Merger.

(8) Amounts shown include 38,068 shares of Dynegy s Class A common stock issuable upon the exercise of employee stock options held by Mr. Blodgett, 7,813 shares of restricted Dynegy s Class A common stock which are currently scheduled to vest on February 10, 2007, 10,362 shares of restricted Dynegy s Class A common stock which are currently scheduled to vest on January 19, 2008 and 20,492 shares of restricted Dynegy s Class A common stock which are currently scheduled to vest on March 16, 2009. Amounts shown also include approximately 7,491 shares of Dynegy s Class A common stock held by the Trustee of the 401(k) Plan for the account of Mr. Blodgett, based on the market value of units held by Mr. Blodgett in the 401(k) Plan s Dynegy stock fund divided by the closing price of Dynegy s Class A common stock as of December 31, 2006. Pro forma beneficial amount of New Dynegy common stock also includes all of Mr. Blodgett s 142,022 unvested stock options. In accordance with Dynegy s equity-based award plans, individual award agreements or otherwise, all unvested stock options and all shares of unvested restricted stock that have been granted to Mr. Blodgett will immediately vest upon the completion of the Merger.

(9) Amounts shown include 6,000 shares of Dynegy s Class A common stock issuable upon the exercise of director stock options held by Mr. Oelkers. Amounts shown also include the following number of shares of Dynegy s Class A common stock payable upon termination of service as a director, at the election of the director and with respect to certain phantom stock units awarded under the Dynegy Deferred Compensation Plan for Certain Directors: 28,772 shares payable to Mr. Mazanec; 38,321 shares payable to Mr. Clark; 41,298 shares payable to Messrs. Biegler and Trubeck and Ms. Hammick; and 46,087 shares payable to Mr. Oelkers and 4,078 shares payable to Mr. Grijalva. Does not include certain stock units held by Ms. Hammick through Dynegy s Deferred Compensation Plan which are payable, upon retirement, exclusively in cash and not in shares of Dynegy s Class A common stock. For Mr. Mazanec, amount shown includes 3,000 shares held in two IRA s for his benefit, 1,000 shares held by the Mazanec Foundation, of which Mr. Mazanec is President and a director, and 1,000 shares held in two family trusts for the benefit of Mr. Mazanec s grandchildren.

(10) Mr. Sheppard and Ms. Roberts disclaim beneficial ownership of all shares of record held by Chevron.

(11) Messrs. Segal, Hardenbergh and Bartlett may each be deemed to share beneficial ownership of the shares of New Dynegy Class B common stock shown as beneficially owned by LS Associates, LS Equity Partners, LS Partners, PIE and Gen Investors. Messrs. Segal, Hardenbergh and Bartlett each disclaim beneficial ownership of all such shares.

Stock Ownership Guidelines

In early 2006, Dynegy adopted stock ownership guidelines for members of the executive management team and other Dynegy officers. These guidelines, which were developed by Mercer Human Resource Consulting LLC based on comparable guidelines employed by Fortune 500 companies, support Dynegy s corporate governance focus and provide further alignment of interests among its executive officers and shareholders. It is anticipated that New Dynegy will adopt these guidelines.

The shares counted for purposes of Dynegy s stock ownership guidelines include: shares owned outright, unvested restricted shares, in-the-money vested stock options, shares held pursuant to Dynegy s employee benefits plans and other share-based equivalents that may be used by Dynegy from time to time. The guidelines are expressed as a multiple of base salary and vary by level as follows:

Chief Executive Officer	5x annual base salary
President & Chief Operating Officer	4x annual base salary
Executive Vice President	3x annual base salary
Senior Vice President	2.5x annual base salary
Vice President	1x annual base salary

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There is a mandatory five-year compliance period, and executives are encouraged to accumulate 1/5 of their holding requirement during each year of the five-year ramp-up period. The Corporate Governance and Nominating Committee of Dynegy and New Dynegy will monitor each executive s progress toward the required ownership level on an annual basis. At the end of the five-year period, if any executive fails to attain the required level of stock ownership, action may be taken, including awarding annual incentive cash bonuses in the form of restricted shares or requiring an executive to refrain from disposing of any vested shares and shares realized from an option exercise.

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DESCRIPTION OF NEW DYNEGY CAPITAL STOCK

The following summarizes some, but not all, of the terms of the capital stock of New Dynegy immediately following the Merger. The following discussion is not meant to be complete and is qualified by reference to New Dynegy s Certificate of Incorporation and New Dynegy s Bylaws. Copies of New Dynegy s Certificate of Incorporation and New Dynegy s Bylaws are attached as Annex B and Annex C, respectively, to this proxy statement/prospectus.

Authorized Capital Stock

The authorized capital stock of New Dynegy consists of:

2.1 billion shares of Class A common stock, $0.01 par value per share;

850 million shares of Class B common stock, $0.01 par value per share; and

100 million shares of preferred stock, $0.01 par value per share.

Class A Common Stock and Class B Common Stock

Based on the number of outstanding shares as of February 6, 2007, immediately following the Merger, approximately 401,382,410 shares of New Dynegy s Class A common stock will be outstanding and 340 million shares of New Dynegy s Class B common stock will be outstanding. Issuance of shares of New Dynegy s Class B common stock is limited to issuances to the LS Contributing Entities, their permitted transferees and affiliates and associates of the LS Contributing Entities. Prior to the Merger, New Dynegy will apply to the NYSE to have New Dynegy s Class A common stock listed on the NYSE after the completion of the Merger.

Voting

Generally, holders of New Dynegy s Class B common stock vote together with holders of New Dynegy s Class A common stock as a single class on every matter acted upon by the stockholders except for the following matters:

the holders of New Dynegy s Class B common stock vote as a separate class for the election of up to three of New Dynegy s directors, while the holders of New Dynegy s Class A common stock vote as a separate class for the remaining directors;

any amendment to the provisions of New Dynegy s Certificate of Incorporation addressing the voting rights of holders of New Dynegy s Class A and Class B common stock or to Section 7 of Article III or Article X of New Dynegy s Bylaws requires the affirmative vote of a majority of the outstanding shares of New Dynegy s Class B common stock voting as a separate class, and the affirmative vote of a majority of the shares of New Dynegy s common stock, voting together as a single class, except that no such stockholder approval is required with respect to an amendment to Section 7 of Article III or Article X of New Dynegy s Bylaws if such amendment is approved by a majority of the Class B Directors present at a meeting where such amendment is considered and by a majority of all New Dynegy directors; and

any agreement of merger or consolidation if a party to such agreement is a member of the LS Control Group or an affiliate of such group requires the affirmative vote of a majority of the shares of New Dynegy s Class A common stock outstanding, voting as a separate class, and the affirmative vote of a majority of all shares of New Dynegy s common stock outstanding, voting together as a single class.

Holders of New Dynegy s Class A and Class B common stock are entitled to one vote per share on all matters submitted to a vote of stockholders. Holders of New Dynegy s common stock will not be entitled to cumulative voting. A majority of the outstanding shares entitled to vote on a matter, represented in person or by

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proxy, will constitute a quorum for consideration of the matter at any meeting of stockholders. Where a separate vote by a class or series is required, a majority of the shares of such class or series represented in person or by proxy will constitute a quorum to take the action with respect to that vote by that class or series on that matter. If a quorum is present, the affirmative vote of the majority of shares represented at the meeting and entitled to vote on a matter will be the act of the stockholders, unless the vote of a greater number or voting by classes is required by the DGCL, New Dynegy s Certificate of Incorporation or New Dynegy s Bylaws and except for the election of the Class A Directors of New Dynegy for which the affirmative vote of a plurality of the shares of New Dynegy s Class A common stock represented at the meeting and entitled to vote will be required.

The voting rights of any holders of New Dynegy s common stock will be subject to the voting rights of holders of any series of New Dynegy s preferred stock that may be issued from time to time.

Dividends; Liquidation

Subject to the preferences of any preferred stock, holders of New Dynegy s Class A and Class B common stock have equal ratable rights to dividends out of funds legally available for that purpose, when and if dividends are declared by the board. Holders of New Dynegy s Class A and Class B common stock are entitled to share ratably, as a single class, in all of New Dynegy s assets available for distribution to holders of shares of common stock upon New Dynegy s liquidation or dissolution or the winding up of New Dynegy s affairs, after payment of New Dynegy s liabilities and any amounts to holders of preferred stock. In the case of dividends or other distributions payable in New Dynegy s common stock, including distributions pursuant to reclassifications, stock splits or divisions of New Dynegy s common stock, only shares of New Dynegy s Class A common stock shall be paid or distributed with respect to New Dynegy s Class A common stock and only shares of New Dynegy s Class B common stock shall be paid or distributed with respect to New Dynegy s Class B common stock. The number of shares of New Dynegy s Class A common stock and New Dynegy s Class B common stock so distributed on each share shall be equal in number. Neither the shares of New Dynegy s Class A common stock nor the shares of New Dynegy s Class B common stock may be reclassified, subdivided or combined unless such reclassification, subdivision or combination occurs simultaneously and in the same proportion for each class.

Conversion

All shares of New Dynegy s Class B common stock transferred to any person other than a member of the LS Control Group will automatically be converted into shares of New Dynegy s Class A common stock. Furthermore, each share of New Dynegy s Class B common stock will automatically convert into one share of New Dynegy s Class A common stock when the outstanding shares of New Dynegy s Class B common stock represent less than 10% of the total outstanding shares of New Dynegy s common stock. As long as the outstanding shares of New Dynegy s Class B common stock represent at least 10% of the total outstanding shares, each share of New Dynegy s Class A common stock owned by the LS Control Group will automatically be converted into one share of New Dynegy s Class B common stock.

Additional Rights

Holders of New Dynegy s common stock generally are not entitled to preemptive rights, subscription rights or redemption rights, except that the LS Contributing Entities are entitled to preemptive rights under the Shareholder Agreement. See Other Agreements and Documents Shareholder Agreement. The rights and preferences of holders of New Dynegy s common stock are subject to the rights of any series of preferred stock that New Dynegy may issue.

Transfer Agent

Mellon Investor Securities L.L.C., the transfer agent and registrar for Dynegy s common stock, will serve as the transfer agent and registrar for New Dynegy s common stock.

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Preferred Stock

By resolution of the board, New Dynegy may, without any further vote by its stockholders, authorize and issue an aggregate of 100 millon shares of preferred stock. The preferred stock may be issued in one or more series. With respect to each series, the board may determine the designation and the number of shares, voting rights, preferences, limitations and special rights, including any dividend rights, conversion rights, redemption rights and liquidation preferences. Because of the rights that may be granted, the issuance of preferred stock may delay or prevent a change of control. In addition, at any time when greater than 15% of the total combined voting stock of New Dynegy is owned by the holders of New Dynegy s Class B common stock, New Dynegy has agreed not to issue any preferred stock (including options, warrants, convertible securities and other rights to subscribe for any such preferred stock), if all Class B Directors present at the meeting at which such action is considered vote against such action. See Comparison of Rights of Dynegy s Shareholders and New Dynegy s Stockholders Blocking Rights.

NYSE Listing of New Dynegy s Common Stock

It is a condition to the closing of the Merger that New Dynegy s Class A common stock is approved for listing on the NYSE, subject to official notice of issuance. If the Merger is completed, Dynegy s Class A common stock will no longer be listed on the NYSE and will be deregistered under the Exchange Act. Upon the completion of the Merger, New Dynegy s name will be changed to Dynegy Inc., and New Dynegy s 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 traded.

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COMPARISON OF RIGHTS OF DYNEGY S SHAREHOLDERS AND NEW DYNEGY S STOCKHOLDERS

The rights of Dynegy s shareholders are currently governed by the IBCA and Dynegy s articles of incorporation and bylaws. Under the Merger Agreement, at the closing of the Merger, the shareholders of Dynegy will be entitled to receive shares of common stock of New Dynegy, a Delaware corporation. Accordingly, after the Merger, the rights of any former shareholder of Dynegy who receives shares of stock of New Dynegy will be governed by the DGCL, New Dynegy s Certificate of Incorporation and New Dynegy s Bylaws.

Thus, 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 and, as a result of the differences between the IBCA and the DGCL, certain of your rights as a New Dynegy stockholder will be different from your rights currently as a Dynegy shareholder. 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.

The following discussions are of material differences between current rights of Dynegy s shareholders and those of New Dynegy s stockholders following the Merger. The following discussions are summaries only. They do not give you a complete description of the differences that may affect you. You should also refer to the IBCA and the DGCL, as well as Dynegy s articles of incorporation and bylaws and New Dynegy s Certificate of Incorporation and New Dynegy s Bylaws. Copies of New Dynegy s Certificate of Incorporation and New Dynegy s Bylaws are attached as Annex B and Annex C, respectively, to this proxy statement/prospectus. Dynegy s amended and restated articles of incorporation and amended and restated bylaws have been filed as exhibits to the registration statement of which this proxy statement/prospectus forms a part and are incorporated herein by reference. See Where You Can Find More Information. For a more detailed discussion of your rights as stockholders of New Dynegy, you should also see Description of New Dynegy Capital Stock, Other Agreements and Documents Certificate of Incorporation of New Dynegy and Other Agreements and Documents Bylaws of New Dynegy.

Authorized Capital Stock

Dynegy. The authorized common stock of Dynegy consists of:

900 million shares of Class A common stock, no par value;

360 million shares of Class B common stock, no par value; and

70 million shares of preferred stock, no par value.

As of December 5, 2006, Dynegy had outstanding 401,266,363 shares of Dynegy s Class A common stock, 96,891,014 shares of Dynegy s Class B common stock, all of which are owned by Chevron, and no shares of preferred stock.

New Dynegy. Upon completion of the Merger, the authorized capital stock of New Dynegy will consist of:

2.1 billion shares of Class A common stock, $0.01 par value per share;

850 million shares of Class B common stock, $0.01 par value per share; and

100 million shares of preferred stock, $0.01 par value per share.

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Based on the number of outstanding shares as of February 6, 2007, immediately following the Merger, approximately 401,382,410 shares of New Dynegy s Class A common stock will be outstanding and approximately 340 million shares of New Dynegy s Class B common stock will be outstanding. Issuance of shares of New Dynegy s Class B common stock is limited to issuances to the LS Contributing Entities, their permitted transferees and affiliates and associates of the LS Contributing Entities.

Number of Directors

Dynegy. Under the IBCA, the number of directors is fixed by the bylaws, or absent such provision, by the articles of incorporation or by resolution of the incorporator in the organizational minutes, and may provide for a range by prescribing a minimum and maximum (which may not exceed the minimum by more than five). Dynegy s articles of incorporation provide that the Dynegy Board has the authority to set the exact number of directors within the range of 12 to 15 members. So long as any shares of Dynegy s Class B common stock are outstanding, the holders of those shares are entitled to vote as a separate class for the election of three directors. The holders of Dynegy s Class A common stock vote for the remaining directors.

New Dynegy. The DGCL provides that a corporation s board of directors must consist of one or more members, with the number fixed by, or in the manner provided in, the bylaws, unless the certificate of incorporation fixes the number, in which case a change in the number of directors shall be made only by amendment of the certificate. New Dynegy s Certificate of Incorporation provides that, so 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 the Class B Directors and the remaining directors will be the 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%. After there are no outstanding shares of New Dynegy s Class B common stock, the number of directors, other than those who may be elected by the holders of one or more series of preferred stock, will be fixed from time to time exclusively by New Dynegy s board of directors pursuant to a resolution adopted by a majority of all of the members of the board of directors at such time.

Election, Removal and Vacancies of Directors

Dynegy. Nomination of persons for election to the Dynegy Board may be made at an annual meeting of shareholders. See Shareholder Proposals Dynegy for a discussion of procedures for a holder of Dynegy s Class A common stock to introduce a director nominee. Under the IBCA, shareholders are entitled to cumulative voting rights in the election of directors unless otherwise provided in the corporation s articles of incorporation. Dynegy s articles of incorporation do not provide otherwise and, as a result, Dynegy s shareholders are entitled to cumulative voting in the election of directors. Dynegy s bylaws do not require the election of directors to be by ballot.

The IBCA provides for a majority voting system for the election of directors and, consistent therewith, Dynegy s articles of incorporation provide that the affirmative vote of a majority of the shares of Dynegy s Class A common stock represented in person or by proxy and entitled to vote is required to elect a Class A director of Dynegy. The Class B directors of Dynegy are elected by the holder of Dynegy s Class B common stock.

Under the IBCA, a Dynegy director may be removed, with or without cause, by the approval of a majority of the outstanding shares of the class (Class A or Class B common stock) that elected such director. Removal may only occur at a meeting of shareholders pursuant to a notice that states that the purpose of the meeting is to vote upon the removal of one or more directors named in the notice and only the named directors may be

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removed at the meeting. Because Dynegy provides for cumulative voting, if less than the entire board is to be removed, no director may be removed, with or without cause, if the votes cast against his removal would be sufficient to elect him if then cumulatively voted at an election of the entire board of directors. Dynegy s articles of incorporation provide that the remaining directors of a class may fill any vacancy in the office of such class of director, unless the vacancy was caused by the removal of the director, in which case it may only be filled by the affirmative vote of the holders of the outstanding shares of the applicable class of common stock.

New Dynegy. As with Dynegy, nomination of persons for election to the New Dynegy board of directors may be made at an annual meeting of stockholders. See Shareholder Proposals New Dynegy for a discussion of procedures for a holder of New Dynegy s Class A common stock to introduce a director nominee. Under the DGCL, cumulative voting in the election of directors is only permitted if expressly authorized in a corporation s certificate of incorporation. New Dynegy s certificate of incorporation does not provide for cumulative voting. Thus, upon the completion of the Merger and the reincorporation, in effect, of Dynegy from Illinois to Delaware, former Dynegy shareholders will no longer be entitled to cumulative voting rights in the election of directors as stockholders of New Dynegy. New Dynegy s certificate of incorporation does not require voting by ballot.

A majority voting system for the election of directors presents several issues under the DGCL, many of which are incompatible with the DGCL. Thus, pursuant to the provisions of the DGCL, the affirmative vote of a plurality of the shares of New Dynegy s Class A common stock represented at the meeting and entitled to vote will be required to elect a Class A Director of New Dynegy. Thus, upon the completion of the Merger and the reincorporation, in effect, of Dynegy from Illinois to Delaware, former Dynegy shareholders, as stockholders of New Dynegy, will elect directors pursuant to a plurality voting system, not a majority voting system. The Class B Directors of New Dynegy will be elected by the holders of New Dynegy s Class B common stock.

Under the DGCL, any director or the entire board of directors may be removed, with or without cause, by the approval of a majority of the outstanding shares. If a director is elected by a class or series of shares, he may be removed without cause only by stockholders of that class or series. Under the DGCL, vacancies and newly created directorships may be filled by a majority of the directors then in office unless otherwise provided in the certificate of incorporation or bylaws and unless the certificate of incorporation directs that a particular class is to elect such director, in which case any other directors elected by such class, or a sole remaining director, shall fill such vacancy. Similar to Dynegy s articles of incorporation, New Dynegy s Certificate of Incorporation provides that the remaining directors of a class may fill any vacancy in the office of such class of director, unless the vacancy was caused by the removal of the director, in which case it may only be filled by the affirmative vote of the holders of the outstanding shares of the applicable class of common stock. If the number of Class B Directors decreases as a result of a decrease in the percentage of the total outstanding shares of New Dynegy s common stock that the outstanding shares of New Dynegy s Class B common stock represent, the terms of the applicable number of Class B Directors shall immediately end, at which time the vacancies will be filled by Class A Directors.

Directors Duties

The fiduciary duties of directors under Delaware case law are generally similar to the duties prescribed under Illinois case law. Unlike the IBCA, however, the DGCL does not include a provision specifically permitting directors, in discharging their duties, to consider the effects of any action (including, without limitation, actions that may involve or relate to a change or potential change in control of the corporation) upon employees, suppliers and customers of the corporation or its subsidiaries, and upon communities in which offices or other establishments of the corporation or its subsidiaries are located.

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Indemnification and Limitation of Liability

Illinois and Delaware have similar laws relating to indemnification by a corporation of its officers, directors, employees and other agents. The laws of both states permit corporations to adopt a provision in their charters eliminating the liability of a director to the corporation or its shareholders for monetary damages for breach of the director s fiduciary duty of care. Delaware and Illinois corporations are not permitted to eliminate monetary liability where such liability is based on:

any breach of the director s duty of loyalty to the corporation or its shareholders;

acts or omissions not in good faith or that involve intentional misconduct or a knowing violation of law;

liability of directors for unlawful payment of dividends or unlawful stock purchases or redemptions; or

any transaction from which the director derived an improper personal benefit.

Dynegy. Dynegy s articles of incorporation provide for broad mandatory indemnification, generally extending to any person who is or was a director or officer who acted in good faith and in a manner he reasonably believed to be in, or not opposed to the best interests of the corporation. Such articles also eliminate the liability of directors to the fullest extent permissible under the IBCA, as such law exists currently or as it may be amended in the future. Dynegy s bylaws permit the corporation to indemnify agents and employees against expenses incurred in connection with proceedings, where such agent or employee has acted in good faith and in a manner believed to be in, or not apposed to, the best interests of Dynegy.

New Dynegy. New Dynegy s Certificate of Incorporation eliminates the liability of directors to the fullest extent permitted under the DGCL. New Dynegy s Certificate of Incorporation provides mandatory indemnification to any party who is or was a director or officer of New Dynegy to the fullest extent permitted under the DGCL. New Dynegy s Bylaws permit the corporation to indemnify agents and employees against expenses incurred in connection with proceedings, where such agent or employee has acted in good faith and in a manner believed to be in, or not apposed to, the best interests of New Dynegy.

Dividend Rights

Dynegy. Under the IBCA, a corporation may make distributions to its shareholders, unless, after giving effect to the distribution, the corporation would be insolvent or the net assets of the corporation would be less than zero or less than the maximum amount then payable to shareholders having preferential rights in liquidation if the corporation were then liquidated. 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 financing agreements. Specifically, Dynegy has agreed not to pay any dividends on its common stock under the terms of the credit agreement under which Dynegy is a guarantor and Dynegy s wholly owned subsidiary, DHI, is the borrower.

New Dynegy. Under the DGCL, dividends are declared and paid as determined by the board of directors, but the payment of dividends is limited by certain restrictions. A corporation may pay dividends out of surplus or, if no such surplus exists. Surplus is generally defined as the amount by which the fair value of the corporation s assets exceeds the fair value of its liabilities plus its stated capital. Under certain circumstances, a corporation may also pay dividends out of net profits for the fiscal year in which such dividends are declared and for its preceding fiscal year. The distribution of dividends is not permitted, however, if the capital of such corporation is less than the aggregate amount of capital represented by the outstanding stock of all classes having a preference upon the distribution of assets. 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 the restrictions for Dynegy. For a more detailed discussion regarding your rights to dividends following the Merger, see Description of New Dynegy Capital Stock Dividends; Liquidation.

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Stock Repurchases or Redemption by the Corporation

Dynegy. Under the IBCA, a corporation may repurchase or redeem its shares, unless after giving effect to the repurchase or redemption the corporation would be insolvent or the net assets of the corporation would be less than zero or less than the maximum amount then payable to shareholders having preferential rights in liquidation if the corporation were then liquidated. No redemption is provided for with respect to Dynegy s common stock, but, the Dynegy Board may provide for redemption with respect to preferred stock.

New Dynegy. The DGCL generally provides that a corporation may repurchase its shares only if the repurchase would not impair the capital of the corporation (with certain exceptions). In addition, under the DGCL, a corporation may redeem its shares only if their redemption is authorized in its certificate of incorporation or resolutions which authorized issuance of such shares and the redemption would not impair the capital of the corporation. Similar to Dynegy, no redemption is provided for with respect to New Dynegy s common stock, but New Dynegy s board of directors may provide for redemption with respect to preferred stock which may be issued from time to time.

Shareholder Meetings

Dynegy. Special meetings of shareholders of an Illinois corporation may be called by the president, the board of directors, the holders of not less than one-fifth of all outstanding shares entitled to vote on the matter for which the meeting is called or by other persons as provided in the articles of incorporation or bylaws. Dynegy s bylaws also allow the chairman of the board or the chief executive officer to call a special shareholders meeting.

New Dynegy. Under the DGCL, a special meeting of stockholders may be called by the board of directors or any other person authorized to do so in the certificate of incorporation or bylaws. New Dynegy s Bylaws state that special meetings may be called by the chairman of the board of directors, the chief executive officer, the president, a majority of the board of directors or the holders of not less than 20% of all the outstanding shares entitled to vote on the matter for which the meeting is called.

Action by Written Consent of Shareholders

Dynegy. The IBCA allows shareholders to take action by unanimous written consent or by consent of the holders of shares having not less than the minimum number of votes necessary to take action at a meeting in which all shares entitled to vote on the matter were present and voting, unless such right is denied by the articles of incorporation. Dynegy s articles of incorporation do not deny such right. The IBCA provides for advance notice of the action contemplated (unless it will be unanimous) and prompt notice to non-consenting shareholders of the action taken.

New Dynegy. The DGCL also provides that stockholders may take action by unanimous written consent or by consent of the holders of shares having not less than the minimum number of votes necessary to take action at a meeting in which all shares entitled to vote on the matter were present and voting, unless such right is denied by the certificate of incorporation. New Dynegy s Certificate of Incorporation does not deny such right. If action is taken by less than unanimous written consent, the DGCL and New Dynegy s Certificate of Incorporation require prompt notice to non-consenting holders of the action taken.

Director s Meeting

Dynegy. Regular meetings of the Dynegy Board are held immediately after the annual meeting of the shareholders and at such other times, if any, as the board of directors may determine. Special meetings of the Dynegy Board may be called by the chairman, and shall be called upon the written request of any three directors. A majority of the directors then in office (but not less than a majority of the minimum number of directors specified by Dynegy s articles of incorporation) will constitute a quorum, and if a quorum is present the act of a

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majority of the directors present at the meeting will be the act of the board of directors, except that certain major actions may not be approved if all of Dynegy s Class B directors present at the meeting where such action is considered vote against it. See Blocking Rights Dynegy.

New Dynegy. New Dynegy s Bylaws provide for provisions similar to Dynegy s bylaws with respect to regular meetings of the board of directors. Special meetings of New Dynegy s board of directors may be called only by the chairman of the board of directors or the lead director and must be called by the chairman or the secretary upon the written request of any two directors. A majority of the directors then in office will constitute a quorum, and if a quorum is present the act of a majority of the directors present at the meeting will be the act of the board of directors, except that certain major actions may not be approved if all of the Class B Directors present at the meeting where such action is considered vote against it. See Blocking Rights New Dynegy.

Inspection of Corporate Records

Dynegy. The IBCA provides any shareholder, in person or by agent, with the right to inspect the corporation s books and records of account, minutes, any voting trust agreement filed with the corporation and record of shareholders for a proper purpose. A complete list of the shareholders entitled to vote at a shareholder meeting must be available for shareholder inspection by the earlier of 20 days after the record date for the meeting or 10 days before the meeting.

New Dynegy. The DGCL provides any stockholder, in person or by agent, with the right to inspect the corporation s stock ledger, stockholders lists and other books and records for a purpose reasonably related to the person s interest as a stockholder. A complete list of the stockholders entitled to vote at a stockholder meeting must be available for stockholder inspection at least 10 days before the meeting.

Shareholder Proposals

Dynegy. Dynegy s bylaws require advance notice of shareholder nominations of Dynegy s Class A directors or other proposals. Shareholders may nominate persons for election to the board of directors only as Dynegy s Class A directors and propose other business to be considered at a meeting only if the nomination or proposal is received not less than 90 days and not more than 120 days before the first anniversary of the preceding annual meeting or, if the meeting is more than 30 days before or 60 days after such anniversary, not earlier than 120 days before the meeting and not later than the later of 90 days before the meeting or 10 days following the public announcement of the meeting. The procedures provided in Dynegy s bylaws do not apply to the nominations of Dynegy s Class B directors, who are nominated by Chevron, which owns 100% of the outstanding shares of Dynegy s Class B common stock.

New Dynegy. New Dynegy s Bylaws require advance notice of stockholder nominations of directors or other proposals only from holders of New Dynegy s Class A common stock. In general, holders of New Dynegy s Class A common stock may nominate persons for election to the board of directors only as the Class A Directors and propose other business to be considered at an annual meeting only if the nomination or proposal is received not less than 90 days and not more than 120 days before the anniversary of the preceding year s annual meeting. To submit a nomination or make a proposal at a special meeting, stockholders must provide notice not earlier than 120 days before the meeting and not later than the later of 90 days before such meeting or 10 days following the day on which the meeting is publicly announced. New Dynegy s Class B Directors will be nominated by the holders of New Dynegy s Class B common stock.

Charter Amendments

Dynegy. Under the IBCA, except for enumerated matters which can be amended by majority director vote alone (removing the names and addresses of initial directors and the registered agent, altering par value, splitting shares, minor corporate name changes, reducing authorized shares and restating articles as amended),

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amendments to the articles of incorporation require a resolution of the board of directors submitting the amendment to a vote of shareholders and the approval of shareholders holding two-thirds of the voting power of the corporation, except in cases specified in the IBCA where class voting is required, in which case, approval of two-thirds of the voting power of each such class is required. The articles of incorporation may provide for a lower vote (but not less than a majority of the outstanding shares entitled to vote on the matter) or a higher vote. Dynegy s articles of incorporation provide that any amendment affecting the voting rights of Dynegy s Class A and Class B common stock must be approved by two-thirds of the outstanding shares of Dynegy s Class B common stock voting as a separate class, and a majority of the shares of Dynegy s Class A and Class B common stock voting together as a single class.

New Dynegy. To amend the certificate of incorporation, the DGCL generally requires board approval and the affirmative vote of the holders of a majority of the outstanding stock entitled to vote and, in some circumstances, a separate vote by class or series of each such class or series affected by the amendment. New Dynegy s Certificate of Incorporation also provides that any amendment affecting the voting rights of New Dynegy s Class A and Class B common stock must be approved by a majority of the outstanding shares of New Dynegy s Class B common stock voting as a separate class, and a majority of the shares of New Dynegy s Class A and Class B common stock voting together as a single class.

Therefore, upon the completion of the Merger and the reincorporation, in effect, of Dynegy from Illinois to Delaware and the resulting application of the DGCL in lieu of the IBCA, amendments to New Dynegy s Certificate of Incorporation, including amendments affecting the voting rights of New Dynegy s Class A and Class B common stock, will require only a majority vote of New Dynegy s stockholders, as compared to the two-thirds super-majority vote generally required under the IBCA with respect to amendments to Dynegy s articles of incorporation.

Amendments to Bylaws

Dynegy. The IBCA provides that both the board of directors and the shareholders have the power to alter or amend the corporation s bylaws, except that no bylaw adopted by shareholder action may be altered or amended by the board of directors if the bylaws so provide (as Dynegy s do, with certain exceptions) and unless the power is reserved to the shareholders by the corporation s articles of incorporation. Dynegy s bylaws may be altered, amended or repealed by either shareholders or the board of directors. Certain provisions that affect the holders of Dynegy s Class B common stock, however, may not be amended except upon the approval of a majority of Dynegy s Class B directors and a majority of the entire board.

New Dynegy. Under Delaware law, bylaws may be adopted, amended or repealed by holders of a majority of the voting power of the outstanding capital stock. A corporation may, in its certificate of incorporation, confer this power upon the directors, but it may not eliminate or limit the stockholders power. Subject to New Dynegy s Certificate of Incorporation, New Dynegy s Bylaws may be adopted, amended or repealed by New Dynegy s board, provided that no amendment or repeal of certain provisions of New Dynegy s Bylaws (or the adoption of any provision of New Dynegy s Bylaws which would substantially and adversely affect the rights of the holders of New Dynegy s Class B common stock) will be effective unless approved by a majority of the Class B Directors and a majority of the directors in office. Subject to the provisions of New Dynegy s Certificate of Incorporation, New Dynegy s Bylaws may also be altered, amended or repealed by New Dynegy s stockholders.

Mergers and Major Transactions

The DGCL generally requires the holders of a majority of the outstanding voting shares of the acquiring and target corporations to approve statutory mergers. The IBCA generally requires two-thirds of the outstanding voting shares (and, in some cases, two-thirds of the outstanding voting shares of each class) to approve most major transactions, unless the approval is reduced to as low as a simple majority or increased as provided in the

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articles of incorporation. Both of the DGCL and IBCA do not require a shareholder vote of the surviving corporation in a merger (unless the corporation s charter provides otherwise) if:

- the merger agreement does not amend in any respect the charter of such surviving corporation;
- each share of stock of such surviving corporation outstanding before the merger has the identical rights after the merger; and
- the number of shares of common stock to be issued by the surviving corporation does not exceed 20% of the number of shares outstanding immediately before the merger.

Dynegy. Dynegy s articles of incorporation require the affirmative vote of two-thirds of the shares of Dynegy Class A and Class B common stock outstanding, voting as a single class, to approve mergers, consolidations, reorganizations, dispositions of all or substantially all of Dynegy s assets or sales of assets requiring shareholder approval under the IBCA. See The Special Meeting Vote Required. In addition, under Dynegy s bylaws, as long as any shares of Dynegy s Class B common stock are outstanding, Dynegy s Class B directors may block certain major transactions, including mergers or consolidations, which would result in the payment or receipt of consideration having a fair market value exceeding the greater of (i) $1 billion or (ii) one-quarter of Dynegy s market capitalization.

New Dynegy. Pursuant to the DGCL, the affirmative vote of a majority of the shares of New Dynegy s Class A and Class B common stock outstanding, voting as a single class, will generally be required to approve mergers, consolidations, reorganizations, dispositions of all or substantially all of New Dynegy s assets or sales of assets requiring stockholder approval under the DGCL. Therefore, upon the completion of the Merger and the reincorporation, in effect, of Dynegy from Illinois to Delaware and the resulting application of the DGCL and New Dynegy s Certificate of Incorporation in lieu of the IBCA and Dynegy s articles of incorporation, mergers, consolidations, reorganizations, dispositions of all or substantially all of New Dynegy s assets and sales of assets requiring stockholder approval will require only a majority vote of New Dynegy s stockholders, as compared to the two-thirds super-majority vote generally required under the IBCA with respect to such transactions.

The DGCL generally does not require class voting, except in certain transactions involving an amendment to the certificate of incorporation that adversely affects a specific class of shares. However, New Dynegy s Certificate of Incorporation requires the affirmative vote of a majority of the shares of New Dynegy s Class A common stock, voting as a separate class, and the affirmative vote of a majority of all shares of New Dynegy s common stock outstanding, voting as a single class, to adopt any agreement of merger or consolidation if a party to such agreement is a member of the LS Control Group. In addition, New Dynegy s Bylaws provide certain blocking rights to New Dynegy s Class B Directors. For a more detailed discussion, see Blocking Rights.

Interested Director Transactions

Under both Delaware and Illinois law, certain contracts or transactions in which one or more of a corporation s directors has an interest are not void or voidable because of such interest, provided that certain conditions, such as obtaining the required approval and fulfilling the requirements of good faith and full disclosure, are met.

Under Illinois law, if a transaction is fair when authorized, approved or ratified, then the fact that a director has an interest in the transaction is not grounds for invalidating the transaction or the interested director s vote regarding such transaction. In any proceeding relating to such a transaction, the person asserting its validity will have the burden of proof unless, after full disclosure of such director s interest:

- a majority of the disinterested directors approved the transaction; or
- such transaction was approved by the shareholders without counting the votes of any shareholder who is an interested director.

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Under Delaware law, either:

- the stockholders or the disinterested members of the board of directors must approve any such contract or transaction after full disclosure of the material facts; or
- the contract or transaction must have been fair as to the corporation at the time it was approved.

Blocking Rights

Dynegy. As long as any shares of Dynegy s Class B common stock are outstanding and the holders of Dynegy s Class B common stock have not terminated their rights to block certain actions, Dynegy may not take any of the following actions if all Class B directors of Dynegy present at the meeting where such action is considered vote against such action:

- amendments to certain provisions of Dynegy s articles of incorporation or bylaws affecting the voting rights of Dynegy s Class A and Class B common stock and the rights of Class B directors, or adoption of any provision of Dynegy s articles of incorporation or bylaws which would substantially and adversely affect the rights of the holders of Dynegy s Class B common stock; and
- certain material transactions of Dynegy, such as authorization of new shares of any stock of Dynegy or any merger, consolidation, joint venture, liquidation, dissolution or bankruptcy, the aggregate consideration for which exceeds the greater of $1 billion or one-quarter of Dynegy s market capitalization.

New Dynegy. At any time when the holders of New Dynegy s Class B common stock collectively own 15% or more of the total combined voting power of New Dynegy s outstanding voting securities, New Dynegy and its subsidiaries and affiliates may not take any of the following actions if all of the Class B Directors present at the meeting where such action is considered vote against such action:

- any amendment to New Dynegy s Certificate of Incorporation or Bylaws, or adoption of any provision of New Dynegy s Certificate of Incorporation or New Dynegy s Bylaws, after the date of the initial adoption of New Dynegy s Bylaws;
- any merger or consolidation of New Dynegy, any disposition of assets or businesses of New Dynegy or any of its subsidiaries or affiliates where such sale has an aggregate fair market value in excess of $350 million, any acquisition, binding capital commitment, guarantee or investment (other than guarantees of obligations or investments in wholly owned subsidiaries) by New Dynegy and its subsidiaries and affiliates, the aggregate amount, asset value or consideration for which is in excess of $350 million, or any joint venture involving New Dynegy or any of its subsidiaries or affiliates where the assets to be contributed by New Dynegy and its subsidiaries, at the time of the binding commitment to contribute or form such joint venture is entered into, have a fair market value in excess of $350 million;
- payment of dividends or similar distributions by New Dynegy or any change in policies regarding dividends or similar distributions, 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 an indicative rating that, after giving effect to such 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;
- engagement of New Dynegy or its subsidiaries or affiliates in any business other than its existing lines of business as of the date of the initial adoption of New Dynegy s Bylaws and lines of business reasonably related thereto;

any liquidation or dissolution of New Dynegy, or bankruptcy with respect to New Dynegy or any of its subsidiaries or affiliates (other than any such event involving a subsidiary having an asset value of less than $50 million);

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issuance of (i) any shares of New Dynegy s Class A common stock (including options, warrants, convertible securities and other rights to subscribe for any shares of New Dynegy s Class A common stock) in any transaction the aggregate consideration for which is in excess of $500 million, or (ii) any shares of New Dynegy s Class B common stock or any new series of common stock or preferred stock of New Dynegy (including options, warrants, convertible securities and other rights to subscribe for any shares of New Dynegy s Class B common stock or any such new series of common stock or preferred stock);

incurrence of any indebtedness by New Dynegy or any of its subsidiaries or affiliates that exceeds $500 million in the aggregate, except certain refinances;

hiring, or terminating the employment of, the chief executive officer, other than Bruce A. Williamson;

other than any joint venture arrangements with a holder of New Dynegy s Class B common stock or an affiliate thereof, entering into any agreement or other action which purports to or in fact limits the activities which may be conducted by any holders of New Dynegy s Class B common stock or any of its affiliates; and

any other transaction (or series of related transactions) that would result in the payment or receipt of consideration (including the incurrence or assumption of indebtedness and liabilities) by New Dynegy and its subsidiaries or affiliates having a fair market value in excess of $350 million.

Transfer Restrictions

Dynegy. Dynegy s Class B common stock may only be held by Chevron or Chevron s affiliate (each, a Dynegy Class B Holder). All shares of Dynegy s Class B common stock transferred to any person other than a Dynegy Class B Holder will automatically convert into shares of Dynegy s Class A common stock. With respect to a Dynegy Class B Holder which holds shares by virtue of its status as an affiliate of Chevron, the subsequent loss of affiliate status will result in the automatic conversion of all of its shares of Dynegy s Class B common stock into shares of Dynegy s Class A common stock unless its shares of Dynegy s Class B common stock are transferred to another Dynegy Class B Holder.

New Dynegy. If any holder of shares of New Dynegy s Class B common stock purports to transfer such shares, then such shares will automatically convert to shares of New Dynegy s Class A common stock, unless the transfer is made to one or more of a limited number of permitted transferees. Permitted transferees include other parties who were holders of shares of New Dynegy s Class B common stock as of September 14, 2006 and certain affiliates, directors or officers of such persons. With respect to a holder of shares of New Dynegy s Class B common stock, which holds shares by virtue of its status as a member of the LS Control Group, the subsequent loss of such status will result in the automatic conversion of all of its shares of New Dynegy s Class B common stock into shares of New Dynegy s Class A common stock unless its shares of New Dynegy s Class B common stock are transferred to another permitted transferee.

Dissenters Rights; Appraisal Rights

Dynegy. Under the IBCA, shareholders of an Illinois corporation have dissenters rights entitling a shareholder to dissent from certain mergers, sales of assets or other specified corporate acts, described below, in order to obtain the corporation s assessment of the fair value of such shareholder s shares and to proceed with an action seeking the difference between the shareholder s estimate of fair value and interest due and the amount of the fair value payment by the corporation. Under Illinois law, dissenters rights are available only in the event of any of the following corporate transactions:

completion of a plan of merger or consolidation or a plan of share exchange to which the corporation is a party if shareholder authorization is required for such merger, consolidation or share exchange or the corporation is a 90% or more owned subsidiary that is merged with its parent or another subsidiary;

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- completion of a sale, lease or exchange of all, or substantially all, of the property and assets of the corporation other than in the usual and regular course of business;

- an amendment of the articles of incorporation that materially and adversely affects rights in respect of a dissenter s shares; or

- any other corporate action taken pursuant to a shareholder vote if the articles of incorporation, bylaws or a resolution of the board of directors of the corporation provide that shareholders are entitled to dissent and obtain payment for their shares in accordance with the procedures of the IBCA.

Dynegy s articles of incorporation and bylaws do not grant any additional dissenters rights. To exercise dissenters rights, among other procedural requirements, a shareholder must submit a written demand to the corporation prior to the taking of the vote on the matter giving rise to dissenters rights and must not vote in favor of the action from which the shareholder dissents. In the Merger, holders of Dynegy shares will be entitled to dissenters rights. See The Merger Rights of Dynegy s Shareholders Dissenting from the Merger Agreement and Merger Proposal.

New Dynegy. Under the DGCL, a stockholder of a corporation participating in certain merger transactions may, under varying circumstances, be entitled to dissenters rights pursuant to which such stockholder may receive payment of the fair value of his shares instead of the consideration he would otherwise receive in the merger. Under the DGCL, such dissenters rights are only available in connection with certain mergers and are thus not available:

- with respect to the sale, lease or exchange of all or substantially all of the assets of a corporation;

- with respect to a merger or consolidation by a corporation, the shares of which are listed on a national securities exchange, designated as a national market system security on an interdealer quotation system by the National Association of Securities Dealers, Inc., or are held of record by more than 2,000 holders, if the stockholders are not required to receive anything other than shares of the surviving corporation (or depository receipts in respect thereof) or shares of stock (or depository receipts in respect thereof) of any other corporation that are listed on a national securities exchange, designated as a national market system security on an interdealer quotation system by the National Association of Securities Dealers, Inc., or held of record by more than 2,000 holders, or cash instead of fractional shares; or

- to stockholders of a corporation surviving a merger if the merger did not require for its approval the vote of the stockholders of the surviving corporation as provided in Section 251(f) of the DGCL.

Because New Dynegy s common stock will be listed on the NYSE, if holders of New Dynegy s common stock are not required to accept cash as the consideration to be received in a merger, New Dynegy s stockholders will not be entitled to appraisal rights under the DGCL.

Anti-Takeover Provisions

Section 203 of the DGCL and Section 11.75 of the IBCA prohibit corporations from engaging in a business combination with an interested shareholder for three years following the date that such person becomes an interested shareholder.

With certain exceptions, under Section 203 of the DGCL and Section 11.75 of the IBCA an interested shareholder is a person or group who or which owns 15% or more of the corporation s outstanding voting stock (including any rights to acquire stock pursuant to an option, warrant, agreement, arrangement or understanding, or upon the exercise of conversion or exchange rights and stock with respect to which the person has voting rights only), or is an affiliate or associate of the corporation and was the owner of 15% or more of such voting stock at any time within the previous three years.

For purposes of Section 203 of the DGCL and Section 11.75 of the IBCA, the term business combination is defined broadly to include, among other things, mergers with or, in some cases, caused by the interested shareholder, sales or other dispositions to the interested shareholder (except proportionately with the corporation s other shareholders) of assets of the corporation or a subsidiary equal to ten percent or more of the aggregate market value of the corporation s consolidated assets or its outstanding stock, the issuance or transfer by the corporation or a subsidiary of stock of the corporation or such subsidiary to the interested shareholder (with certain exceptions), or receipt by the interested shareholder (except proportionately as a shareholder), directly or indirectly, of any loans, advances, guarantees, pledges or other financial benefits provided by or through the corporation or a subsidiary.

The three-year prohibition imposed on business combinations by Section 203 of the DGCL or Section 11.75 of the IBCA does not apply if:

- before the date on which such shareholder becomes an interested shareholder, the board of directors approves either the business combination or the transaction that resulted in the person becoming an interested shareholder;

- the interested shareholder owns 85% of the corporation s voting stock (excluding certain shares) upon completion of the transaction that made him an interested shareholder; or

- on or after the date such person becomes an interested shareholder, the board approves the business combination and it is also approved at a shareholder meeting by 66 2/3% of the voting stock not owned by the interested shareholder.

Section 7.85 of the IBCA provides extra protection to corporations subject to the reporting requirements of the Exchange Act, for business combinations with an interested shareholder (defined similarly to the definition in Section 11.75) transactions. Section 7.85 of the IBCA requires the approval of holders of at least 80% of the combined voting power of the then outstanding shares of all classes of the corporation s capital stock entitled to vote in the election of directors and the approval of a majority of the voting shares held by disinterested shareholders. The higher voting requirements are not required if certain procedural and price requirements are met or if the business combination is approved by at least two-thirds of the disinterested directors. Disinterested directors are directors who are not associated with the interested shareholder, were members of the board of directors prior to the time the interested shareholder became an interested shareholder or were recommended by a majority of the disinterested directors to succeed a disinterested director, and were not nominated by an interested shareholder or its affiliates.

Dynegy. An Illinois corporation may elect not to be governed by Sections 7.85 and 11.75 of the IBCA in its articles of incorporation or bylaws. Dynegy did not make this election. In addition, Dynegy may adopt a shareholder rights plan by issuing preferred stock with special voting rights and/or dividends made in the form of Dynegy s common stock, which may delay or prevent a change of control. However, the second amended and restated shareholder agreement, dated as of May 26, 2006, by and between Dynegy and Chevron, prohibits Dynegy from adopting a shareholder rights plan, poison pill or similar device that prevents Chevron from exercising its rights to acquire shares of Dynegy s common stock or from disposing of Chevron s shares when required by Dynegy.

New Dynegy. Delaware corporations may elect not to be governed by Section 203. New Dynegy has not made this election. Like Dynegy, New Dynegy may adopt stockholder rights plans by issuing preferred stock with special voting rights and/or dividends made in the form of New Dynegy s common stock, which may delay or prevent a change of control. However, the Shareholder Agreement prohibits New Dynegy from adopting a stockholder rights plan, poison pill or similar device that prevents the LS Shareholders (as defined on page 171) from exercising their rights under the Shareholder Agreement, New Dynegy s Certificate of Incorporation or New Dynegy s Bylaws.

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Dissolution

Dynegy. Under the IBCA, upon adoption of a board of directors resolution submitting a dissolution proposal to shareholders, or in the event that the board of directors fails to submit a dissolution proposal to shareholders for more than one year after being requested to do so by the holders or more than one-fifth of the shares entitled to vote on dissolution, shareholders holding at least two-thirds of the total voting power (or such lesser percentage not less than a simple majority or such greater number as may be provided in the articles of incorporation) may authorize a corporation s dissolution. Dynegy s articles of incorporation do not provide for any greater or lesser percentage.

New Dynegy. Under the DGCL, unless the board of directors approves a proposal to dissolve the corporation, the dissolution must be approved by stockholders holding 100% of the total voting power of the corporation. Only if the dissolution is initially approved by the board of directors may it be approved by a simple majority of the corporation s stockholders. Delaware law allows a corporation to include in its certificate of incorporation a supermajority voting requirement in connection with dissolutions. New Dynegy s Certificate of Incorporation does not contain a supermajority voting requirement.

Shareholder Derivative Suits

Dynegy. Illinois law provides that a shareholder bringing a derivative action on behalf of a corporation must have been a shareholder at the time of the transaction in question, provided that a shareholder not meeting that requirement may be permitted in the discretion of the court to bring the action if such shareholder can prove that he acquired the shares prior to disclosure of the wrongdoing complained of by the shareholder.

New Dynegy. Under Delaware law, a stockholder may only bring a derivative action on behalf of the corporation if the stockholder was a stockholder of the corporation at the time of the transaction in question or he was granted such stock thereafter by operation of law.

Waiver of Corporate Opportunity Doctrine

Dynegy. The IBCA does not expressly prohibit a corporation from renouncing in its articles of incorporation any interest, expectancy or opportunity to participate in specified business opportunities that are presented to the corporation or its officers, directors or shareholders, although the IBCA does prohibit provisions eliminating or limiting a director s liability for breach of his duty of loyalty to the corporation and its shareholders. Dynegy s articles of incorporation do not waive such corporate opportunities.

New Dynegy. The DGCL expressly permits a corporation to renounce, in its certificate of incorporation or by action of its board of directors, any interest, expectancy or opportunity to participate in specified business opportunities that are presented to the corporation or its officers, directors or stockholders. In New Dynegy s Certificate of Incorporation, New Dynegy waives any interest or expectancy in business opportunities that may be presented to members of the LS Control Group or any of their officers, directors, agents, stockholders and affiliates (other than New Dynegy and its subsidiaries) to the fullest extent permitted by the DGCL.

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LEGAL MATTERS

The validity of New Dynegy s common stock to be offered by this proxy statement/prospectus has been passed upon for New Dynegy by Akin Gump Strauss Hauer & Feld LLP. The LS Contributing Entities have been represented by Cravath, Swaine & Moore LLP, New York, New York.

EXPERTS

The consolidated financial statements and management s assessment of the effectiveness of internal control over financial reporting (which is included in Management s Report on Internal Control Over Financial Reporting) of Dynegy Inc., incorporated in this proxy statement/prospectus by reference to Dynegy Inc. s Annual Report on Form 10-K/A Amendment No. 1 for the year ended December 31, 2005, have been so incorporated in reliance on the report (which contains explanatory paragraphs that emphasize Dynegy s substantial litigation and restatement of its consolidated financial statements as described in the Restatement and Explanatory Notes to the consolidated financial statements and which contains an adverse opinion on the effectiveness of internal control over financial reporting) of PricewaterhouseCoopers LLP, an independent registered public accounting firm, given on the authority of said firm as experts in auditing and accounting.

The consolidated financial statements of West Coast Power LLC incorporated in this proxy statement/prospectus by reference to the Annual Report on Form 10-K/A Amendment No. 1 of Dynegy Inc. for the year ended December 31, 2005, have been so incorporated in reliance on the report (which contains an explanatory paragraph that emphasizes West Coast Power LLC s substantial litigation) of PricewaterhouseCoopers LLP, an independent registered public accounting firm, given on the authority of said firm as experts in auditing and accounting.

The combined financial statements of the Power Generation Business of LS Power Development, LLC and Affiliates as of December 31, 2005 and for the year then ended, have been included herein and in the registration statement in reliance upon the report of KPMG LLP, independent accountants, appearing elsewhere herein, and upon the authority of said firm as experts in accounting and auditing.

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FUTURE SHAREHOLDER PROPOSALS

Dynegy 2007 Annual Meeting of Shareholders

Dynegy expects that its 2007 annual meeting of shareholders will be held only if the Merger is not completed. For a shareholder proposal to be included in the proxy statement for Dynegy s 2007 annual meeting of shareholders (if held), under the rules of the SEC, the proposal must have been received by Dynegy s Secretary at Dynegy s principal executive offices on or before December 4, 2006.

If a Dynegy shareholder wishes to introduce a director nominee or other item of business for consideration at Dynegy s 2007 annual meeting of shareholders (if held), the shareholder must comply with the procedures specified in Dynegy s bylaws, as permitted by the rules of the SEC. These procedures require that director nominations or other items of business to be introduced at an annual meeting of shareholders must be submitted in writing to Dynegy s Secretary at Dynegy s principal executive offices. Pursuant to these procedures, Dynegy must receive notice of a shareholder s intention to introduce a nomination or proposed item of business at Dynegy s 2007 annual meeting of shareholders:

- not later than the close of business on February 16, 2007, nor earlier than the close of business on January 17, 2007, if the 2007 annual meeting of shareholders is held within 30 days before or 60 days after the anniversary date (May 17, 2007) of Dynegy s 2006 annual meeting of shareholders; or

- not earlier than 120 days prior to such annual meeting and not later than 90 days prior to such annual meeting or the tenth day following the public announcement of the meeting date, if Dynegy s 2007 annual meeting of shareholders is not held within 30 days before or 60 days after the anniversary date (May 17, 2007) of this year s meeting.

New Dynegy 2007 Annual Meeting of Stockholders

If the Merger is completed, it is expected that New Dynegy s 2007 annual meeting of stockholders will be held in 2007. For a stockholder proposal to be included in the proxy statement for New Dynegy s 2007 annual meeting of stockholders (if held), the proposal must be received by New Dynegy at its principal executive offices no later than , 2007.

If a New Dynegy stockholder wishes to introduce a director nominee or other item of business for consideration at New Dynegy s 2007 annual meeting of stockholders (if held), the stockholder must comply with the procedures specified in New Dynegy s Bylaws, as permitted by the rules of the SEC. These procedures require that director nominations or other items of business to be introduced at an annual meeting of stockholders must be submitted in writing to New Dynegy s Secretary at New Dynegy s principal executive offices. Pursuant to these procedures, New Dynegy must receive notice of a stockholder s intention to introduce a nomination or proposed item of business at New Dynegy s 2007 annual meeting of stockholders not later than the close of business on , 2007, nor earlier than the close of business on , 2007.

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WHERE YOU CAN FIND MORE INFORMATION

Dynegy files annual, quarterly and special reports, proxy statements and other information with the SEC. You may read and copy any reports, statements or other information Dynegy files at the SEC s public reference room located at 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. These SEC filings are also available to the public at the web site maintained by the SEC at *http://www.sec.gov* and by Dynegy at *http://www.dynegy.com.*

New Dynegy filed a registration statement on Form S-4 to register with the SEC New Dynegy s Class A common stock that New Dynegy will issue to Dynegy s shareholders in the Merger. This proxy statement/prospectus is part of that registration statement and constitutes a prospectus of New Dynegy in addition to being a proxy statement for Dynegy for the special meeting. As allowed by SEC rules, this proxy statement/prospectus does not contain all of the information you can find in the registration statement or the exhibits to the registration statement.

If you are a shareholder of Dynegy, you can obtain copies of Dynegy s annual and quarterly reports from Dynegy or the SEC. These documents are available from us without charge, excluding all exhibits. Shareholders may obtain reports of Dynegy by requesting them in writing from Dynegy at the following address:

Dynegy Inc.

1000 Louisiana Street, Suite 5800

Houston, TX 77002

(713) 507-6400

Attention: Investor Relations Department

If you would like to request documents from Dynegy, please do so by March 22, 2007 so that you may receive them before the special meeting.

You should rely only on the information contained in this proxy statement/prospectus to vote on the proposal submitted by the Dynegy Board. Dynegy has not authorized anyone to provide you with information that is different from what is contained in this proxy statement/prospectus. This proxy statement/prospectus is dated February , 2007. You should not assume that the information contained in this proxy statement/prospectus is accurate as of any date other than such date, and neither the mailing of this proxy statement/prospectus to Dynegy s shareholders nor the issuance of New Dynegy s Class A common stock in the Merger shall create any implication to the contrary.

Dynegy provided all of the information contained in this proxy statement/prospectus with respect to Dynegy and New Dynegy, and the LS Contributing Entities provided all of the information contained in this proxy statement/prospectus with respect to the LS Contributing Entities.

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INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

The SEC allows Dynegy to incorporate by reference business and financial information that is not included in or delivered with this proxy statement/prospectus, which means that Dynegy can disclose important information to you by referring to another document filed separately with the SEC. The Dynegy information incorporated by reference is deemed to be part of this proxy statement/prospectus, except for any information superseded by information in this proxy statement/prospectus. Dynegy incorporates by reference the documents listed below and all documents Dynegy subsequently files with the SEC under Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act (other than information furnished to the SEC pursuant to Item 2.02 or Item 7.01 of Form 8-K).

This proxy statement/prospectus incorporates by reference the documents set forth below:

- Dynegy s Annual Report on Form 10-K for the fiscal year ended December 31, 2005 filed on March 15, 2006;
- Dynegy s Amendment No. 1 to its Annual Report on Form 10-K/A for the fiscal year ended December 31, 2005 filed on May 1, 2006;
- Dynegy s Proxy Statement for its 2006 Annual Meeting of Shareholders dated April 3, 2006;
- Dynegy s Quarterly Reports on Form 10-Q for the quarters ended March 31, 2006 filed on May 10, 2006; June 30, 2006 filed on August 10, 2006; and September 30, 2006 filed on November 8, 2006;
- Dynegy s Current Reports on Form 8-K filed with the SEC on January 6, 2006, March 9, 2006, March 16, 2006, March 17, 2006, March 29, 2006, March 30, 2006 (as amended April 3, 2006), April 12, 2006, April 20, 2006, April 21, 2006, May 1, 2006, May 2, 2006, May 16, 2006, May 22, 2006, May 25, 2006, June 1, 2006, June 15, 2006, July 24, 2006, September 15, 2006, September 18, 2006, September 19, 2006 (two Forms 8-K filed), September 25, 2006, September 27, 2006, October 6, 2006, October 10, 2006, November 8, 2006, November 13, 2006 (two Forms 8-K filed), November 15, 2006, November 28, 2006, December 4, 2006, December 13, 2006, December 15, 2006, January 23, 2007, January 25, 2007, February 2, 2007 and February 6, 2007; and
- The description of Dynegy s common stock set forth in the Registration Statement on Form 8-A filed pursuant to Section 12 of the Exchange Act on February 2, 2000, as amended January 16, 2004 and March 15, 2006.

Dynegy is also incorporating by reference additional documents that may be filed with the SEC between the date of the filing of this proxy statement/prospectus and the date of the special meeting.

You can obtain any of the Dynegy documents listed above from Dynegy or the SEC. Documents listed above are available from Dynegy without charge, excluding all exhibits unless the exhibits have specifically been incorporated by reference in this proxy statement/prospectus. Holders of this proxy statement/prospectus may obtain documents listed above by requesting them upon written or oral request from us at the following address:

Dynegy Inc.

1000 Louisiana Street, Suite 5800

Houston, TX 77002

(713) 507-6400

Attention: Investor Relations Department

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GLOSSARY OF POWER INDUSTRY TERMS

AC	Alternating current. An electric current that reverses its direction of flow regularly.
baseload	The minimum amount of electric power delivered or required over a given period of time at a steady rate.
baseload facility	An electric generation facility that operates nearly continuously.
bilateral contract	A direct contract between a buyer and a seller outside of a centralized power pool or power exchange.
BTU (british thermal unit)	A standard unit for measuring the quantity of heat energy equal to the quantity of heat required to raise the temperature of 1 pound of water by 1 degree Fahrenheit.
CAISO	The California Independent System Operator.
capacity	The maximum load for which a generating unit, generating station, or other electrical apparatus is rated either by the manufacturer or by utilizing standard testing methods.
combined cycle	An electric generating technology in which electricity is produced from otherwise lost waste heat exiting from one or more gas (combustion) turbines. The exiting heat is routed to a conventional boiler or to a heat recovery steam generator for utilization by a steam turbine in the production of electricity. This process increases the efficiency of the electric generating unit.
control area	Can be comprised of one or several contiguous utilities. The primary responsibility is to ensure that power generation and loads are always in balance. Control areas maintain an interchange schedule with other control areas and regulate and stabilize AC frequency across the interconnections with those other control areas.
cooling tower	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. Cooling towers transfer exhaust heat into the air instead of into a body of water.
cost-of-service rates	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.
dispatch type	A baseload, intermediate or peaking facility.
dual-fuel capability	Dual-fuel capability is the ability to switch from one fuel source to another for generating energy, thus reducing dependence on any one source of supply. A facility with dual capability can switch relatively easily and quickly to a second fuel if the first fuel is either unavailable or more expensive per delivered BTU than the second fuel.
ERCOT	Electric Reliability Council of Texas.
financial contract	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.
forward contract/sales	A contract which generally establishes future prices and quantities of electricity that will apply regardless of future spot market prices; forward contracts can be for physical or financial products.
generating/generation unit	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.

greenfield development project	A project that is 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.
grid	The interconnected layout of an electrical transmission and distribution system.
heat rate	A measure of generating thermal efficiency, generally expressed in Btu per net kilowatt-hour. It is computed by dividing the total Btu content of fuel burned for electric generation by the resulting net kilowatt-hour generation.
interconnection	Facilities that create a direct connection between two utilities, systems or control areas.
intermediate facility	An intermediate facility meets electric system requirements that are greater than baseload but less than peak load.
intermediate load	Power demand between baseload and peak demand.
ISO	Independent System Operator. An independent, federally-regulated entity that coordinates regional transmission in a non-discriminatory manner and ensures the safety and reliability of the electric system. Some ISOs may also be responsible for the central dispatch of the generation and load within the ISO footprint, which dispatch creates price points for physical and financial settlement.
ISO-NE	The New England Independent System Operator.
LMP	Locational marginal price. The energy price that is paid or received (as the case may be) at a specified point of delivery, and which takes into account congestion in the transmission in certain ISO systems. Each generation facility has it own LMP, and sometimes there are multiple LMPs at a given generation facility.
load	The electric current being transmitted or demanded.
market-based pricing	Electric service prices 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. Such prices could recover less or more than full costs, depending upon what the buyer and seller see as their relevant opportunities and risks.
MISO	The Midwest Independent System Operator.
must run units	Generating units, usually designated by an ISO, that are required to be available full time to maintain the reliability and integrity of an electric system.
megawatt (MW)	One million watts.
megawatthour (MWh)	One million watthours.
NERC	North American Electric Reliability Council. Formed by the electric utility industry in 1968 to promote the reliability and adequacy of bulk power supply in the electric utility systems of North America. NERC consists of eight Regional Reliability Councils encompassing virtually all of the power systems in the United States and Canada.
NPCC	Northeast Power Coordinating Council.

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NYISO	The New York Independent System Operator.
offtake contract	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.
outage	The period during which a generating unit, transmission line, or other facility is out of service.
peaking facility	A generating unit which, because of its cost of production, is normally operated only during periods of maximum electric demand.
peakload	The greatest amount of electric power delivered or required during a specified period of time.
PJM	PJM Interconnection. A Regional Transmission Organization (RTO) that is responsible for the central dispatch and transmission reliability in 11 states in the Midwest and Mid-Atlantic areas.
QF	Qualifying Facility. A cogeneration or small power production facility that meets certain ownership, operating, and efficiency criteria established by the FERC pursuant to the Public Utility Regulatory Policies Act.
real-time optionality	The ability to capture incremental value due to market volatility and changes in supply/demand balances on an intraday and instantaneous basis through changes in generation, fuel supply and transmission utilization.
reliability	Electric system reliability has two components--adequacy and security. Adequacy is the ability of the electric system to supply to aggregate electrical demand and energy requirements of the customers at all times, taking into account scheduled and unscheduled outages of system facilities. Security is the ability of the electric system to withstand sudden disturbances, such as electric short circuits or unanticipated loss of system facilities. The degree of reliability may be measured by the frequency, duration, and magnitude of adverse effects on consumer services.
reliability-must-run or RMR arrangement	A contract between an ISO and a must-run facility establishing the terms and conditions under which the facility will operate.
repowering	A means of increasing the output and efficiency of conventional thermal generating facilities. For example, adding combustion turbines to supplement or replace steam from fuel combustion used to power steam turbines.
retail market	Market in which electricity and other energy services are sold directly to the end-use customer including industrial, commercial and residential customers.
RTO	Regional Transmission Organization. An independent, federally-regulated entity that coordinates regional transmission in a non-discriminatory manner and ensures the safety and reliability of the electric system. Some RTOs may also be responsible for the central dispatch of the generation and load within the RTO footprint, which dispatch creates price points for physical and financial settlement.
SERC	Southeastern Electric Reliability Council.
simple cycle	Also known as open cycle. A turbine process whereby air is heated and compressed to spin the turbine; the heated air is passed through the turbine one time only.

spot market	A day-ahead or real-time market that determines the prices buyers and sellers are willing to accept near the actual delivery/consumption period.
System Resource Adequacy (RA)	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. System Resource Adequacy capacity contracts supplied from generating units provide the required demonstration that planned resource commitments are secured to match to load forecasts.
turbine	A machine for generating rotary mechanical power from the energy of a stream of fluid (such as water, steam, or hot gas). Turbines convert the kinetic energy of fluids to mechanical energy through the principles of impulse and reaction, or a mixture of the two.
unforced capacity (UCAP)	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.
Variable operations and maintenance (VOM) reimbursement	Payment of incremental costs associated with the production of MW. The reimbursement amount may be based upon actual costs or a contractually defined amount per MWh.
WECC	Western Electricity Coordinating Council.
wholesale market	Market 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.

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POWER GENERATION BUSINESS OF

LS POWER DEVELOPMENT, LLC AND AFFILIATES

Combined Balance Sheets

(Unaudited)

(In thousands of dollars)

	September 30, 2006	December 31, 2005
Assets		
Current assets:		
Cash and cash equivalents	$ 49,359	$ 3,892
Restricted cash	212,649	29,751
Accounts receivable-trade, net of allowance for doubtful accounts of $700 and $436, respectively	44,298	8,082
Accounts receivable-other	1,558	654
Inventory	35,452	5,184
Prepaid expenses	10,799	2,092
Derivative instruments	51,481	
Other current assets	295	296
Total current assets	405,891	49,951
Property, plant, and equipment, net	2,145,383	349,329
Acquired intangible assets, net	274,634	253,847
Goodwill	6,556	
Derivative instruments	12,444	
Restricted cash	288,284	
Other non-current assets	71,523	1,255
Deferred income taxes	2,569	
Deferred financing costs, net	64,667	10,175
Total assets	$ 3,271,951	$ 664,557
Liabilities and Owners Equity		
Current liabilities:		
Current portion of long-term debt	$ 30,550	$ 19,835
Short-term debt		125,000
Notes payable-affiliate, including accrued interest	1,449	
Accounts payable	17,336	2,911
Accounts payable-affiliate	385	1,640
Accrued interest payable	611	811
Accrued expenses	55,371	7,412
Income taxes payable	6,187	
Deferred revenue	8,881	
Total current liabilities	120,770	157,609
Long-term debt	2,171,945	401,110

Bonds payable	100,000	
Notes payable-affiliate, including accrued interest	2,262	1,376
Derivative instruments	63,428	95
Asset retirement obligations	31,386	
Other long-term liabilities	28,175	11,666
Total liabilities	2,517,966	571,856
Commitments and contingencies (notes 7 and 14)		
Minority interest	5,287	
Owners equity		
Ownership interests	791,933	167,891
Accumulated other comprehensive loss	(7,786)	(95)
Accumulated deficit	(35,449)	(75,095)
Total owners equity	748,698	92,701
Total liabilities and owners equity	$ 3,271,951	$ 664,557

See accompanying notes to unaudited combined financial statements.

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POWER GENERATION BUSINESS OF

LS POWER DEVELOPMENT, LLC AND AFFILIATES

Combined Statements of Operations

(Unaudited)

(In thousands of dollars)

	Nine Months Ended September 30,	
	2006	2005
Energy and capacity revenues	$ 650,825	$ 53,658
Ancillary revenues	14,421	
Total revenues	665,246	53,658
Operating expenses:		
Fuel and operations and maintenance expenses	506,686	34,625
Depreciation	33,062	3,512
Project development expenses	14,090	9,269
General and administrative expenses	17,919	2,040
Total operating expenses	571,757	49,446
Income from operations	93,489	4,212
Interest expense and amortization of deferred financing costs	(105,027)	(33,725)
Interest income	15,003	693
Other income, net	33,830	12,119
Minority interest	5,969	
Income (loss) before income taxes	43,264	(16,701)
Income tax expense	(3,618)	
Net income (loss)	$ 39,646	$ (16,701)

See accompanying notes to unaudited combined financial statements.

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POWER GENERATION BUSINESS OF

LS POWER DEVELOPMENT, LLC AND AFFILIATES

Combined Statements of Owners Equity and Comprehensive Income (Loss)

(Unaudited)

(In thousands of dollars)

	Owners interests	Accumulated deficit	Accumulated other comprehensive loss	Total owners equity (deficit)
Balances at December 31, 2004	$ 26,370	$ (25,882)	$	$ 488
Net loss		(49,213)		(49,213)
Change in unrealized loss on derivatives			(95)	(95)
Total comprehensive loss				(49,308)
Distributions	(144,939)			(144,939)
Capital contributions	286,460			286,460
Balances at December 31, 2005	167,891	(75,095)	(95)	92,701
Net income		39,646		39,646
Change in unrealized loss on derivatives			(7,691)	(7,691)
Total comprehensive income				31,955
Distributions	(95,235)			(95,235)
Capital contributions	719,277			719,277
Balances at September 30, 2006	$ 791,933	$ (35,449)	$ (7,786)	$ 748,698

See accompanying notes to unaudited combined financial statements.

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POWER GENERATION BUSINESS OF

LS POWER DEVELOPMENT, LLC AND AFFILIATES

Combined Statements of Cash Flows

(Unaudited)

(In thousands of dollars)

	Nine Months Ended September 30,	
	2006	2005
Cash flows from operating activities:		
Net income (loss)	$ 39,646	$ (16,701)
Adjustments to reconcile net income (loss) to cash provided by operating activities:		
Increase in accrued interest income receivable on deposits for electrical transmission service	(166)	(47)
Non cash interest expense	599	
Depreciation	33,062	3,512
Deferred income taxes	(2,569)	
Amortization of intangible assets	27,654	21,894
Amortization of debt discount		12,118
Amortization of deferred financing costs	4,281	
Write-off of deferred financing costs	766	
Bad debt expense	2,336	
Gain on sale of assets	(35,258)	
Unrealized gain on derivative instruments	(8,282)	(8,032)
Accretion of asset retirement obligations	1,550	
Minority interest in net income of subsidiary	(5,969)	
Change in assets and liabilities net of effects from business combinations:		
Increase in accounts receivable-trade	(17,684)	(1,957)
Increase in accounts receivable-other	(977)	
Increase in inventory	(881)	(206)
Increase in prepaid expenses	(6,384)	(196)
Decrease in other current assets	23	14
Decrease (increase) in other non-current assets	788	(111)
(Decrease) increase in accounts payable	(9,857)	1,195
(Decrease) increase in accounts payable-affiliates	(1,253)	135
(Decrease) increase in accrued interest payable	(444)	86
Decrease in accrued expenses	(946)	(1,590)
Increase in income taxes payable	6,187	
Increase in other liabilities	2,405	
Increase in deferred revenue	8,881	
Decrease in other long-term liabilities	(528)	(528)
Cash provided by operating activities	36,980	9,586
Cash flows from investing activities:		
Acquisition of assets and liabilities assumed, net of cash acquired	(1,717,173)	
Capital expenditures	(3,496)	(89)
Purchases of land	(5,382)	
Proceeds from sale of assets	41,965	
Payments on construction in progress	(69,212)	
Deposits for electrical transmission service	(2,245)	
Change in restricted cash	(471,182)	7,921

Cash provided by (used in) investing activities	(2,226,725)	7,832
Cash flows from financing activities:		
Principal payments on long-term debt	(163,628)	(25,626)
Principal payments on short-term debt	(214,000)	
Debt issuance costs and deferred financing costs	(60,277)	
Proceeds from issuance of long-term debt	1,887,450	
Proceeds from issuance of working capital loans	89,000	
Proceeds from issuance of affiliate loans	2,169	
Proceeds from issuance of bonds	100,000	
Premium payment on option contract	(40,800)	
Proceeds from minority interest	11,256	
Capital contributions	719,277	9,189
Distributions	(95,235)	(775)
Cash provided by (used in) financing activities	2,235,212	(17,212)
Increase in cash and cash equivalents	45,467	206
Cash and cash equivalents:		
Cash and cash equivalents, beginning of period	3,892	120
Cash and cash equivalents, end period	$ 49,359	$ 326
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 93,370	$ 21,521

See accompanying notes to unaudited combined financial statements.

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NOTES TO UNAUDITED COMBINED FINANCIAL STATEMENTS

(1) Basis of Presentation and Organization

LS Power Development, LLC and affiliates (the LS Power Group) is a group of integrated development, investment and management companies focusing on the power generation industry. LS Power Development, LLC (Development), a Delaware limited liability company, is the general partner of LS Power Associates, LP (LS Associates), a Delaware limited partnership, through which the LS Power Group develops, manages and invests in power generation projects. In addition, Development is the general partner of LS Power Partners, L.P. (LS Power), a Delaware limited partnership. LS Power is the general partner of LS Power Equity Partners, L.P. (LS Equity Partners) and LS Power Equity Partners PIE I, LP (PIE), both Delaware limited partnerships. LS Equity Partners and PIE co invest in companies engaged in the power industry.

The accompanying combined financial statements include the financial statements of: LSP Kendall Blocker, Inc.; LSP Kendall Holding, LLC and its wholly owned subsidiaries of LSP Kendall Energy, LLC and LSP Equipment, LLC; LSP Services Kendall, LLC; LSP ONT Blocker, Inc.; LSP Ontelaunee Holding, LLC and its wholly owned subsidiary of Ontelaunee Power Operating Company, LLC; LSP Plum Point Blocker, Inc.; LSP Plum Point Holdings, LLC and its subsidiaries; LSP Services Plum Point, LLC; and 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.; (collectively the Blockers); LSP Generation Holdings, LLC and its subsidiaries; and certain power generation development projects, which are in early stages of development and are owned directly or indirectly by LS Associates. As of September 30, 2006, only one of the power generation development projects (the Plum Point Project), had reached the construction phase of development. The entities listed in this paragraph, excluding LS Associates, are collectively referred to within the accompanying combined financial statements as the Company.

On December 1, 2004, LSP Kendall Holding, LLC (Kendall Holding), a wholly owned subsidiary of LS Associates acquired 100% of the outstanding membership interests of LSP Kendall Energy, LLC (Kendall) and LSP Equipment, LLC (Equipment) (the Kendall Acquisition). Kendall Holding was formed to acquire 100% of the outstanding membership interests of Kendall and Equipment. The acquisition was accounted for under the purchase method of accounting and the results of Kendall s operations have been included in the combined financial statements since the date of acquisition. The current members of Kendall Holding are LS Associates, LS Equity Partners and LSP Kendall Blocker, Inc. (Kendall Blocker). LS Equity Partners and Kendall Blocker were admitted as members in October 2005.

On October 6, 2005, LSP Ontelaunee Holding, LLC (Ont Holding), acquired 100% of the outstanding membership interests of Ontelaunee Power Operating Company, LLC (Ontelaunee) (the Ontelaunee Acquisition). Ont Holding was formed to acquire 100% of the outstanding membership interests in Ontelaunee. The acquisition was accounted for under the purchase method of accounting and the results of Ontelaunee s operations have been included in the combined financial statements since the date of acquisition. The members of Ont Holding are LS Equity Partners and LSP ONT Blocker, Inc. (ONT Blocker).

On May 4, 2006, LSP Generation Holdings, LLC (Gen Holdings), through its subsidiary LS Power Generation, LLC (LSP Gen), acquired 100% of Duke Energy North America s ownership interests in eight power generation facilities located in the western and northeastern United States (the Generation Acquisition) (see note 3). At the time of the acquisition, 50% of one of the power generation facilities was owned by PP&L Corporation. LSP Gen purchased the remaining PP&L Corporation 50% ownership interest on June 30, 2006. The members of Gen Holdings are LS Equity Partners and the Blockers. The members of LSP Gen are Gen Holdings and LSP Gen Investors, LP which owns approximately 1.7%.

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As of September 30, 2006, the LS Power Group controlled the following power generation facilities:

Facility	Location	Year Operational	Size in MW
Moss Landing	California	1967-2002	2,529
Morro Bay	California	1963	650
South Bay	California	1960-71	706
Oakland	California	1978	165
Arlington Valley	Arizona	2002	585
Griffith	Arizona	2002	558
Bridgeport	Connecticut	1998	527
Casco Bay	Maine	2000	540
Ontelaunee	Pennsylvania	2002	580
Kendall	Illinois	2002	1,200
Plum Point	Arkansas	In Construction	665

(2) Summary of Significant Accounting Policies

The unaudited combined financial statements contained in this report include all material adjustments of a normal and recurring nature that, in the opinion of management, are necessary for a fair statement of the results for the interim periods. The results of operations for the interim periods presented in this report are not necessarily indicative of the results to be expected for the full year or any other interim period due to seasonal fluctuations in demand for our energy products and services, changes in commodity prices, timing of maintenance and other expenditures and other factors.

(a) Basis of Combination

The combined financial statements include the financial statements of Kendall Blocker; Kendall Holding and its wholly owned subsidiaries of Kendall and Equipment; LSP Services Kendall, LLC; ONT Blocker; LSP Ontelaunee Holding, LLC and its wholly owned subsidiary of Ontelaunee Power Operating Company, LLC; LSP Plum Point Blocker, Inc.; LSP Plum Point Holding, LLC and its subsidiaries; LSP Services Plum Point, LLC; and 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 Generation Holdings, LLC and its subsidiaries; and certain power generation development projects, which are in early stages of development and are owned directly or indirectly by LS Associates. Each of the aforementioned entities is owned directly or indirectly by LS Associates, LS Equity Partners or PIE. The Company is under common control of Development by virtue of Development s direct and indirect ownership interests and management control of the entities. Minority interest represents minority members proportionate share of the membership interests in a subsidiary of LSP Plum Point Holdings, LLC and a subsidiary of LSP Generation Holdings, LLC. All significant intercompany transactions and balances have been eliminated in combination.

(b) Use of Estimates

Management makes estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities and reported amounts of revenues and expenses to prepare the combined financial statements in conformity with U.S. generally accepted accounting principles. The most significant of these estimates and assumptions relate to the recoverability of reported amounts of acquired property, plant and equipment and intangible assets, valuation of deferred tax assets, valuation of derivative instruments and valuation of assets acquired and liabilities assumed in purchase business combinations. Actual results could differ materially from those estimates.

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(c) Cash and Cash Equivalents

The Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

(d) Restricted Cash

Restricted cash consists of amounts that are restricted under the terms of the Company s financing agreements from transfer or dividend until such time as certain conditions are met. Such restricted cash is used primarily for construction costs, operating and maintenance expenses and debt service. A portion of restricted cash used for construction costs and debt service is classified as noncurrent at September 30, 2006 in the accompanying 2006 combined balance sheet.

(e) Allowance for Doubtful Accounts

Management establishes reserves on accounts receivable if it becomes probable that the Company will not collect part of the outstanding accounts receivable balance. Management reviews collectibility and establishes or adjusts its allowance using the specific identification method.

(f) Inventory

Inventory consists of spare parts and oil. Spare parts inventory is stated at the lower of weighted average cost or market and oil inventory is stated at the lower of cost or market.

(g) Property, Plant and Equipment

Property, plant and equipment are stated at cost (fair value at the acquisition dates) less accumulated depreciation. 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 7 years, software is 3 years, computer hardware is 5 years and plant and equipment is 30-35 years, except for the leased South Bay facility which is 4 years. Additions and improvements extending asset lives are capitalized, while repairs and maintenance, including planned major maintenance, are charged to expense as incurred.

(h) Construction in Progress

All costs directly related to the acquisition and construction of long lived assets are capitalized. A portion of interest costs (including amortization of debt issuance and financing costs) from loans and bonds has been capitalized during ongoing construction of a 665 megawatt coal fired electric generating facility (the Plum Point Project), near the city of Osceola, Arkansas. As of September 30, 2006, cumulative capitalized interest including amortization of debt issuance and financing costs was approximately $3.1 million. Cash paid for interest in connection with such construction was approximately $27.9 million for the nine months ended September 30, 2006.

(i) Impairment of Long Lived Assets and Acquired Intangible Assets

In accordance with Statement of Financial Accounting Standards (SFAS) No. 144, *Accounting for the Impairment or Disposal of Long Lived Assets*, long lived assets and intangible assets with determinable useful lives are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. 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. Assets to be disposed of are reported at the lower of the carrying amount or fair value less the costs to sell. Intangible assets are amortized over their respective estimated useful lives.

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(j) Goodwill

Goodwill represents, at the time of an acquisition, the amount of purchase price paid in excess of the fair value of net assets acquired. In connection with the Company s June 2006 acquisition of the remaining 50% of an electric generating facility from PPL Corporation, the Company recognized goodwill of $6.6 million. In accordance with SFAS No. 142, *Goodwill and Other Intangible Assets*, the Company will evaluate goodwill for impairment on an annual basis and when events warrant an assessment.

(k) Asset Retirement Obligations

The Company recognizes the fair value of the liability for an asset retirement obligation 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 asset. 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. In connection with the Generation Acquisition in May 2006, the Company recognized liabilities of $29.6 million for asset retirement obligations to provide for the future removal of asbestos from certain of its electric generating facilities, pond closures and dismantling of an electric generating facility.

(l) Leases

Due to the criteria set forth in SFAS No. 13, *Accounting for Leases*, certain agreements or leases are classified as capital leases. The individual agreements or leases are identified in note 8.

(m) Debt Issuance and Financing Costs

Debt issuance and financing costs are amortized over the term of the related debt using the effective interest method. The amortization of these costs is reflected as a component of interest expense on the accompanying statement of operations. For the nine months ended September 30, 2006 and 2005, amortization of these costs totaled $4.3 million and zero, respectively.

(n) Revenue Recognition

Revenue from sales of electricity are recorded 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. When a long-term power purchase agreement conveys the right to use the generating capacity of the Company s facility to the buyer of the electric power, that agreement is evaluated to determine if it is a lease of the generating unit rather than a sale of electric power. Operating lease revenue for the Company s generating units is recorded as capacity revenue and included in energy and capacity revenues in the combined financial statements. Revenues from sales of electricity not covered under power purchase agreements are recorded as delivered at current market prices.

(o) Power Purchase Agreements

In connection with the acquisitions described in note 3, the Company recorded the fair value of long-term power purchase agreements as intangible assets and liabilities. The intangible assets and liabilities are amortized over the term of the respective contracts as a reduction or increase in energy and capacity revenues in the combined statements of operations for the nine months ended September 30, 2006 and 2005.

(p) Derivative Financial Instruments

The Company enters into interest rate swaps and other contracts to reduce its 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 balance sheet as either an asset or liability and are measured at fair value regardless of the purpose or intent for holding them. On the date a derivative contract is entered into, the Company may designate hedging relationships.

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The Company documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy. This process includes linking all derivatives that are designated as hedges to specific assets or liabilities on the balance sheet or to forecasted transactions. The Company 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, the Company 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 affects earnings. Otherwise any gains and losses resulting from changes in the market value of the contracts are recorded in income in the current period.

The interest rate swap agreements are used to convert the floating interest rate component of a portion of our long term debt obligations to fixed rates. Changes in the fair value of the interest rate swap agreements that qualify as hedges are recorded in other comprehensive income; otherwise, such changes are recorded in other income, net. In addition, the Company has entered into heat rate call option contracts on generating capacity of a number of its electric generating facilities. Changes in the fair value of the heat rate call option contracts are recorded in energy and capacity revenues.

As of September 30, 2006 and December 31, 2005, the net fair value of derivative instruments totaled $0.5 million and a liability of $95,000, respectively (see note 9).

(q) Fair Value of Financial Instruments

The carrying amount of cash and cash equivalents, restricted cash, accounts receivable, accounts payable and accrued expenses equals or approximates fair values due to the short term maturity of those instruments. The fair value of long term debt approximated its book value at September 30, 2006 and December 31, 2005 as the interest rates are variable.

(r) Project Development Costs

Project development costs consisting of start up and organization costs are expensed as incurred. Project development costs directly related to the acquisition or construction of long lived assets are capitalized when it is determined that it is probable that such project development costs will be realized through the ultimate construction of a power generation plant. These costs are primarily funded and paid for by LS Associates.

(s) Income Taxes

The majority of the entities comprising the Company have been organized as limited liability companies or limited partnerships. Therefore, federal and state income taxes are assessed at the member or partner level. However, the Blockers, LSP Plum Point Blocker, Inc, Kendall Blocker and ONT Blocker are Delaware corporations and any related income tax is accounted for under the asset and liability method. 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.

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(t) Concentrations of Credit Risk

Financial instruments, which potentially subject the Company to concentrations of credit risk, consist primarily of restricted cash and accounts receivable. Restricted cash accounts are generally held in federally insured banks. Accounts receivable are concentrated within entities engaged in the energy industry and the Company s operations are concentrated in California and the northeastern United States. These industry and geographic concentrations may impact the Company s overall exposure to credit risk, either positively or negatively, in that customers may be similarly affected by changes in economic, industry, weather or other conditions. For the nine months ended September 30, 2006, three customers California ISO, ISO New England and PJM ISO accounted for 24%, 22% and 13%, respectively, of the Company s revenues. For the nine months ended September 30, 2005 three customers accounted for all of the Company s revenues. The loss of any of these customers could result in an adverse impact on the Company s results of operations, financial position and cash flows.

The Company is exposed to credit losses in the event of noncompliance by counterparties on its derivative financial instruments. The counterparties to these transactions are major financial institutions. The Company does not require collateral or other security to support the financial instruments with credit risk.

(u) Risks and Uncertainties

The Company believes there are many development and investment opportunities to pursue. However, development and investment opportunities are dependent upon a variety of factors, including the economy, the regulatory environment, the electricity markets, and the availability of capital resources.

As with any power generation facility, operation and construction of the Company s electric generating facilities involves risk, including the performance of the facility below expected levels of efficiency and output, shut downs due to the breakdown or failure of equipment or processes, violations of permit requirements, operator error, labor disputes, weather interferences or catastrophic events such as fires, earthquakes, floods, explosions, or other similar occurrences affecting a power generation facility or its power purchasers. The occurrence of any of these events could significantly reduce or eliminate revenues generated by the facilities or significantly increase the expenses of each of the facilities, adversely impacting the Company s ability to make payments of principal and interest on its debt when due.

(v) Commitments and Contingencies

The Company is a party to a number of claims and proceedings arising in the normal course of business. Management assesses each matter and determines the probability that a gain or loss has been incurred and the amount of such gain or loss if it can be reasonably estimated. Management reviews such matters on an ongoing basis. Any gain or loss contingencies are based on estimates and judgments made by management with respect to the likely outcome of such matters. Management s estimates could change based on new information.

The Company follows the guidance of Financial Accounting Standards Board (FASB) Interpretation (FIN) No. 45 *Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others* for disclosing and accounting of guarantees and indemnifications entered into during the course of business. When a guarantee or indemnification subject to FIN No. 45 is entered into the estimated fair value of the guarantee or indemnification is assessed. Some guarantees and indemnifications could have financial impact under certain circumstances. Management considers the probability of such circumstances occurring when estimating fair value.

(w) Recent Accounting Pronouncements

In June 2006, 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

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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 Company does not expect the impact of this pronouncement to have a material impact on its combined financial statements.

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 Company must adopt SFAS 155 no later than January 1, 2007. The Company is 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 Company 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.

(3) Generation Acquisition

Generation Acquisitions

On May 4, 2006, Gen Holdings, through its subsidiary LSP Gen acquired 100% of Duke Energy North America s ownership interests in eight power generation facilities located in the western and northeastern United States. At the time of the acquisition, 50% of one of the power generation facilities was owned by PP&L Corporation. On June 30, 2006, a subsidiary of LSP Gen purchased the remaining 50% ownership interest from PPL Corporation for approximately $116 million.

The two acquisitions include eight power generation facilities (the Generation Facilities) in four states in the western and northeastern United States with a nominal net operating capacity of 6,260 MW as follows:

(1) Natural gas fired combined cycle facilities located in Moss Landing (units 1 and 2), California; Griffith, Arizona; Arlington Valley, Arizona; Bridgeport, Connecticut and Casco Bay, Maine representing 51% of total net operating capacity;

(2) Natural gas fired conventional steam facilities located in Moss Landing (units 6 and 7), California; Morro Bay, California and San Diego, California representing 46% of total net operating capacity; and

(3) An oil fired, simple cycle facility located in Oakland, California representing 3% of total net operating capacity.

The cost of the Generation Acquisition was approximately $1,618 million, consisting of $1,613 million of cash and $5 million of direct acquisition costs. The acquisition was partially funded by the issuance of debt (see note 8) and capital contributions from the current owners. The cost of the acquisition was allocated to the assets acquired and liabilities assumed based on estimates of their fair values at the date of acquisition. Fair values were determined primarily by an independent third party valuation. The Company is in the process of obtaining the final third-party valuation report and finalizing its own internal assessment of the purchase price allocation; thus, the allocation of the purchase price may change.

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The following table summarizes the estimated fair value of assets acquired and liabilities assumed at the date of acquisition (May 4, 2006).

	(in thousands)
Current assets	$ 65,874
Property, plant and equipment	1,668,265
Acquired intangible assets	48,565
Other non-current assets	581
Total assets acquired	1,783,285
Current liabilities	122,571
Asset retirement obligations	29,551
Other long-term liabilities	13,143
Total liabilities assumed	165,265
Net assets acquired	$ 1,618,020

The acquired intangible assets represent the above market portion of a number of power purchase agreements. Such agreements have a weighted average term of four and one half years. At September 30, 2006, the gross carrying value, accumulated amortization and net carrying value of the power purchase agreements were approximately $48.6 million, $5.2 million and $43.4 million, respectively. The estimated annual amortization expense for each of the next five years is approximately $12.3 million for 2007, $9.6 million for 2008, $9.6 million for 2009, $8.8 million for 2010 and zero for 2011.

Current liabilities included a $32 million reserve for major maintenance and a $55.9 million capital lease obligation. Such maintenance was completed and paid for and the capital lease obligation was deemed repaid as the result of the defeasance of a related bond obligation prior to September 30, 2006. Asset retirement obligations of $29.6 million were provided for the future removal of asbestos from certain of our electric generating facilities, pond closures, and dismantling of an electric generating facility. Accretion expense related to the asset retirement obligations during the nine months ended September 30, 2006 totaled $1.6 million.

(4) Property, Plant and Equipment

Property, plant and equipment at September 30, 2006 and December 31, 2005 consisted of the following:

	2006	2005
	(In thousands)	
Land and improvements	$ 11,163	$ 6,295
Computer software and hardware	358	282
Office furniture and equipment	84	74
Plant and equipment	2,101,688	348,603
Construction in progress	72,111	1,035
	2,185,404	356,289
Accumulated depreciation	(40,021)	(6,960)
Property, plant and equipment, net	$ 2,145,383	$ 349,329

(5) Other Non Current Assets

As of September 30, 2006, other noncurrent assets included the following:

(a) a $40.8 million upfront option premium paid in connection with a 5 year gas option agreement (the Option Agreement) entered into by Plum Point Energy Associates, LLC (PPEA). The Option Agreement

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economically hedges gas volumes equivalent to 84% of the on peak output of the future net capacity of the Plum Point power plant after giving effect to the sale of undivided interests and to the power purchase agreements described in notes 7 and 8. In October 2006, PPEA unwound approximately 82% of such option and received $37.1 million. PPEA recorded a loss of $4.7 million on the transaction which is recorded in other income, net in the combined statements of operations. Proceeds of $28.1 million were used to repay a portion of PPEA s outstanding term loans (see note 8);

(b) a $26.5 million prepaid related to an interconnection agreement with the Western Area Power Administration (WAPA). The prepaid represents amounts paid by the Company in connection with the construction of improvements to the WAPA transmission system that were necessary to enable transmission of electricity from the Griffith facility. The amount is refunded in the form of a monthly credit applied to Griffith s transmission service charge; and

(c) refundable cash deposits of $3.3 million. The deposits were paid to electric utilities in connection with applications for firm point to point electric transmission service. The deposits are refundable, with interest, upon the occurrence of certain events, including among others, withdrawal of the application for transmission service by the Company, or inability of the transmission provider to complete new facilities needed to provide the transmission service. Interest income on the deposit is computed from the date the deposit is received by the utility until the date a refund is made, compounded quarterly, in accordance with the Federal Energy Regulatory Commission s guidelines. Such guidelines require the use of monthly prime interest rates published by the Federal Reserve Board. Accrued interest income on deposits aggregated approximately $322,000 and $156,000 as of September 30, 2006 and December 31, 2005, respectively and has been included in the related deposits on the combined balance sheets.

(6) Accrued Expenses

Accrued expenses at September 30, 2006 and December 31, 2005 consisted of the following:

	2006	2005
	(In thousands)	
Property taxes	$ 9,655	$ 5,894
Construction in progress	14,968	
RMR contract reserve (see note 14)	6,500	
Option contract settlements	6,796	
Other	17,452	1,518
Total accrued expenses	$ 55,371	$ 7,412

(7) Facility and Project Development Contract Commitments

(a) Power Purchase Agreements

Kendall

Under the terms of a Power Purchase Agreement (the DPM PPA), with Dynegy Power Marketing, Inc. (DPM), Kendall is obligated to sell and DPM is obligated to purchase approximately 550 MW of electric generating capacity and associated energy from two of the four electric generating units (the Units) at the facility at prices set forth in the DPM PPA. The initial term of the DPM PPA is ten years, beginning on June 1, 2001. DPM has the option of extending the DPM PPA for two additional five year terms by providing Kendall written notice at least two years prior to the expiration of the initial term and the first additional five year extension. Kendall may, if DPM does not extend the DPM PPA prior to the end of the initial term, extend the DPM PPA for a period of five years.

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The terms of the DPM PPA require DPM to make payments to Kendall including a reservation payment, an energy payment, a guaranteed heat rate payment and a system upgrade payment.

The DPM PPA is a tolling arrangement, whereby DPM is obligated to arrange, procure, supply, nominate, balance, transport, pay for and deliver the amount of natural gas necessary for each DPM Unit to generate its net electrical output. DPM s obligations under the DPM PPA are guaranteed by DPM s parent company, Dynegy Inc. In November 2004, DPM entered into a back to back power purchase agreement (the Dynegy/Constellation PPA) with Constellation Energy Commodities Group, Inc. (Constellation) with respect to the DPM Units. Under the terms of the Dynegy/Constellation PPA, DPM paid Constellation to assume its fixed obligations under the Dynegy PPA through November 2008.

Under the terms of a Power Purchase Agreement (the Rainy River PPA) with Rainy River Energy Corporation (Rainy River) Kendall was obligated to sell and Rainy River was obligated to purchase approximately 275 MW of electric generating capacity and associated energy from one of the four Units at the Kendall facility at prices set forth in the Rainy River PPA. On April 1, 2005, Rainy River assigned its interest to Constellation. Constellation thereby assumed all of Rainy River s rights and obligations arising under the Rainy River PPA, restating the agreement to the Constellation PPA (the Constellation PPA). In connection with this assignment, Kendall received a consent fee of $4.1 million which has been recorded in other income, net in the accompanying combined statements of operations for the nine months ended September 30, 2005. The initial term of the Constellation PPA expires on September 16, 2017. Constellation may extend the term of the agreement for additional one year periods under certain circumstances.

The terms of the Constellation PPA require Constellation to make payments to Kendall including a reservation payment, an energy payment, a guaranteed heat rate payment and a system upgrade payment.

The Constellation PPA is a tolling arrangement, whereby Constellation is obligated to arrange, procure, supply, nominate, balance, transport, pay for and deliver the amount of natural gas necessary for the Constellation Unit to generate its net electrical output. Constellation s obligations under the Constellation PPA are guaranteed by Constellation s parent company, Constellation Energy Group, Inc.

Plum Point

During 2006, PPEA entered into 30 year power purchase agreements (each a PPA or together the PPAs) with Empire District Electric Company (Empire), Municipal Energy Agency of Mississippi (MEAM) and South Mississippi Electric Power Association (SMEPA) for the sale of 50 MW, 40 MW and 200 MW, respectively, of capacity and associated energy from the Plum Point Project. Pursuant to the PPAs, PPEA will receive capacity payments and fixed and variable payments. The fuel charge under the PPAs will be based on the delivered cost of coal (inclusive of transportation costs) and an assumed heat rate.

The PPAs provide both MEAM and Empire with a buyout option. Empire has the right to buy out its 50 MW of contract capacity at five years after the commencement of commercial operations of the Plum Point Project. Upon exercising these options, the PPA counterparties would become Plum Point Project Co Owners and parties to the Participation Agreement (the Participation Agreement). Should Empire or MEAM exercise its respective PPA buy out option, the relevant PPA would be cancelled and the respective party would become the owner of undivided interests in the Plum Point Project commensurate with the capacity purchased under the contract. In June 2006, MEAM exercised its buy out option and acquired a 6% undivided interest in the Plum Point Project from PPEA for $11.2 million. As a result of the MEAM buy in, PPEA repaid $66.8 million of outstanding term loans to align its borrowings under such term loans to its proportionate share of total construction costs. Amounts were repaid from PPEA s existing restricted cash balance (see note 8).

The Empire and SMEPA PPAs are subject to specified construction and energy delivery milestone deadlines, including achieving commercial operations by August 1, 2010.

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Generation Facilities

The Company entered into two consecutive (May 1, 2006 until December 31, 2006 and January 1, 2007 until December 31, 2010) tolling agreements for the two electric generation units at Moss Landing 6&7 with Pacific Gas and Electric Company (PG&E). The unit contingent contracts include energy conversion, capacity and ancillary services with a price tied to a guaranteed availability rate and an expected heat rate. These contracts are on a unit contingent basis whereby if the unit is not operational, it is not expected to deliver power or make the contractor whole. These tolling agreements also provide for the reimbursement by PG&E of gas transportation costs. PG&E has exclusive full dispatch rights to the applicable generating units, limited by the rules of the California ISO, the contracted capacity and other operating restrictions.

The Company has provided letters of credit in the aggregate amount of $85 million to secure its obligations under the Moss Landing 6&7 tolling agreement. In addition, the Company has entered into additional arrangements whereby a financial institution is required to make cash deposits to PG&E which are secured by certain collateral under the Gen Finance credit agreements (see note 8) to the extent its mark to market exposure exceeds the posted letter of credit.

The Company s Morro Bay electric generating facility has a three year tolling agreement with PG&E for two of the facility s units. The term of the tolling agreement began in January 2005 and is effective through December 31, 2007. Under this tolling agreement, PG&E pays Morro Bay a fixed capacity payment as well as a reimbursement for variable O&M expenses. The tolling agreement contracts the plant on a unit contingent basis. Under the contract, PG&E has the right to ancillary services as well as the contracted capacity of the plant. Collateral in the form of a $32.5 million letter of credit has been provided to PG&E.

The Company s South Bay and Oakland electric generating facilities operate under renewable Reliability Must Run (RMR) agreements with the California ISO. Bridgeport operates under an RMR agreement with the ISO NE, which is subject to modification by the Federal Energy Regulatory Commission (FERC). The ISOs rely upon must run resources to ensure reliability in areas where the supply of electricity may be constrained due to transmission congestion and to maintain the voltage power and stability of the overall power grid. The purpose of the RMR agreements is to maintain sufficient power generation that can be dispatched by the ISO to ensure the reliability of the electricity transmission grid. Under an RMR agreement, the ISO, for certain fixed and variable payments, has the right to call on the generation facility to generate energy or provide ancillary services when required to ensure the reliability of the power grid.

The Bridgeport facility operates under a cost of service agreement to provide the ISO NE with the required reliability services. The Bridgeport RMR agreement was accepted but remains subject to ongoing proceedings before FERC. Unless terminated, the RMR agreement will be in place until May 31, 2010 (see note 14).

In connection with the Company s Kendall Acquisition and Generation Acquisition, the Company recognized certain of these power purchase contracts as intangible assets with a fair value totaling $279.1 million and $48.6 million, respectively. As a result of the Kendall purchase price allocation adjustment made in 2005, the value of these power sales agreements was increased by $7.1 million. At September 30, 2006 and December 31, 2005, the gross carrying value, accumulated amortization and net carrying value of the power purchase agreements was approximately $334.8 million and $286.2 million, $60.2 million and $32.4 million and $274.6 million and $253.8 million, respectively. The estimated annual amortization expense for each of the next five years is approximately $42.2 million for 2007, $39.5 million for 2008, $39.5 million for 2009, $38.7 million for 2010 and $23.4 for 2011.

(b) Heat Rate Options

Generation Facilities

The Company has entered into several heat rate call option contracts with respect to energy from its electric generating units at Moss Landing 1 and 2, Arlington Valley, Griffith and Casco Bay. These contracts were entered into with high quality, investment grade counterparties.

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The counterparties to such agreements pay a monthly fixed fee to the Company and receive payments based on the prevailing energy price based on certain energy price indices and the sum of the applicable facility s fuel costs based on a specified price and a strike price for each hour of generation actually called for. The heat rate at which the contracts are priced incorporates start up costs, variable operating costs, including transmission losses, if any, gas taxes and certain adjustments to gas prices to reflect basis differentials. The contracts are settled between the parties on a monthly basis. The Company retains dispatch control over all of the contracted units and receives all proceeds from the physical sale of energy, capacity (including resource adequacy) and ancillary services.

The Company s counterparties received letters of credit in the aggregate amount of $179.3 million and a first priority lien on the same collateral as the Gen Finance credit agreements for a portion of the mark to market exposure under the call options. In addition, they also received a third priority lien on the same collateral as the Gen Finance credit agreements to secure the remaining portion of the mark to market exposure under the call options that is not secured under the first lien. Also, the Company has the right to substitute lien collateral for letters of credit, investment grade guaranties or liens on other assets.

The options expire as follows: Arlington Valley and Griffith on September 30, 2008, Moss Landing 1&2 on September 30, 2010 and Casco Bay on December 31, 2010.

Ontelaunee

On November 22, 2005, Ontelaunee and a third party entered into a heat rate call option agreement effective for the period January 1, 2006 through December 31, 2008. The counterparty pays Ontelaunee a monthly charge during the term and the counterparty receives payments based on the prevailing energy price based on certain energy price indices and the sum of the facility s fuel costs based on a specified price and a strike price for each hour of generation actually called for. The heat rate at which the contracts are priced incorporates start up costs, variable operating costs, including transmission losses, if any, gas taxes and certain adders to gas prices to reflect basis differentials. The Company retains dispatch control over the facility and receives all proceeds from the physical sale of energy, capacity (including resource adequacy) and ancillary services. As of September 30, 2006, the Company had issued a $13.6 million ($11.5 million at December 31, 2005) letter of credit for the benefit of the counterparty as security under this agreement.

The fair value of all the heat rate options at September 30, 2006 totaled $8.3 million (see note 9).

(c) Energy and Fuel Services Agreements

Generation Facilities

The Company has an Energy Management and Marketing Agreement with Bear Energy, LP (the Bear EMA). Under the terms of the Bear EMA, Bear Energy, LP (Bear) provides energy, ancillary services, fuel and risk management services for the Generation Facilities. Among other things, Bear markets power and capacity, schedules dispatch and supplies the natural gas required to operate the facilities. Each of the managed facilities retains the ability to sell power, capacity or ancillary services to third parties. Bear s obligations under this agreement are guaranteed by The Bear Stearns Companies. The Company has the right to terminate the Bear EMA upon 30 days notice.

Each month during the term of the Bear EMA, Bear is required to issue to the Company monthly invoices setting forth for the prior month all related revenues earned and costs incurred. The invoice is paid on a net basis. Bear receives a monthly management fee equal to a percentage of the value created above each of the Generation Facilities indexed spark spread margin. The management fee has a floor calculated over a 12 month period. The Company issued a $6 million letter of credit for the benefit of Bear as security under this agreement.

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Kendall

During 2005 Kendall had an Energy Management and Marketing Agreement with Progress Ventures, Inc. (the EMA). Under the terms of the EMA, Progress Ventures, Inc. (Progress) provided energy, fuel and risk management services for one of the units at the Kendall facility. Progress received a monthly management fee equal to a fixed percentage of the gross margin of the Unit subject to a minimum fee.

During the term of the EMA, Kendall was required to provide Progress security for Kendall s obligations under the EMA. To satisfy this obligation, in 2005, the Company funded an escrow account in the amount of $2 million from its restricted cash. Under the terms of the escrow agreement, Progress was the beneficiary of the escrow account.

The EMA expired on February 28, 2006. At that time the EMA expired, the escrow agreement was terminated and the related funds were then released to Kendall.

On February 28, 2006, an Energy Management Agreement (the Cinergy EMA) with Cincinnati Gas & Electric Company (Cinergy) became effective. This agreement expires on December 31, 2006 but can be extended for an additional one year term. In accordance with the terms of the agreement, Cinergy provides power management, fuel management and risk management services. Cinergy receives a monthly management fee equal to a fixed percentage of the gross margin of the unit subject to a minimum fee. As security for its obligations under the Cinergy EMA, the Company issued to Cinergy a standby letter of credit in the amount of $1 million. Effective November 1, 2006, the Cinergy EMA was assigned to Fortis Energy Marketing & Trading GP.

Ontelaunee

Ontelaunee had an Energy Services Agreement (the ESA) with Calpine Energy Services, L.P. (CES). Under the terms of the ESA, CES provided energy and risk management services for the Ontelaunee facility. CES received a monthly management fee equal to a fixed percentage of the monthly generation margin subject to a minimum fee. The ESA expired on August 31, 2006.

On August 31, 2006, Ontelaunee and Eagle Energy Partners I, L.P. (Eagle) entered into an agreement that requires Eagle to provide energy and risk management services for the Ontelaunee facility. Eagle receives a fee comprised of fixed and variable components. The agreement was amended and restated on December 1, 2006 to include fuel management services for the Ontelaunee facility. As security, funds owed to Ontelaunee from PJM for power sold during the prior month will be sent directly to Eagle on a monthly basis. Eagle will forward any remaining funds to Ontelaunee after any outstanding invoices to Ontelaunee have been paid. The term of the agreement expires on August 31, 2007, unless the parties mutually agree to an extension of one additional year.

Ontelaunee had a natural gas supply management contract with Cinergy Marketing and Trading LP (CMT) that expired on May 31, 2006. A natural gas supply management contract with BG Energy Merchants, LLC (BG) was in effect from June 1, 2006 to November 30, 2006. Under the agreement, BG provided fuel management services for the Ontelaunee facility.

The Company has incurred costs of $4.2 million for the nine months ended September 30, 2006 under all these energy and fuel services agreements.

(d) Transportation Agreements

Generation Facilities

The Company has several firm natural gas transportation contracts for firm reserved service to a number of the Company s facilities. The Company is required to pay rates per dekatherm of natural gas delivered based on current gas tariffs and two of these agreements are subject to minimum annual fees. Costs incurred under these agreements totaled $4.1 million for the nine months ended September 30, 2006.

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(e) Operations and Maintenance Agreements

Generation Facilities

The Company has entered into several O&M contracts which provide for the operation and maintenance of the Generation Facilities. Several of these contracts have five year terms expiring in 2011, with the earliest contract term set to expire in 2010, but can be automatically extended by the Company for up to five years. The Company pays a fixed monthly management fee and reimburses the operator for all labor costs, including payroll and taxes, and other costs.

Kendall

Under the terms of a long term operations and maintenance agreement with respect to the Kendall facility (Kendall O&M Agreement), the Company is required to pay the operator a fixed annual fee to operate the Kendall facility. Kendall is also required to reimburse the operator for all labor costs, including payroll and taxes, subcontractor costs and other costs. The annual fee is adjusted annually based on specified indices published by the United States Government. The Kendall O&M Agreement expires on March 28, 2012.

Ontelaunee

Under the terms of an operations and maintenance agreement with respect to the Ontelaunee facility (the Ont O&M Agreement), the Company is required to pay the operator a fixed monthly fee to operate the Ontelaunee facility. The Company is also required to reimburse the operator for all labor costs, including payroll and taxes, subcontractor costs and other costs. The monthly fee is adjusted annually based on specified indices. The initial term of the Ont O&M Agreement is 5 years commencing on October 6, 2005.

The Company incurred costs of $19.8 million and $2.8 million under all of the operations and maintenance agreements for the nine months ended September 30, 2006 and 2005, respectively.

(f) Long Term Parts and Service Agreements

Generation Facilities

The Company has five Long Term Service Agreements (the Gen LTSAs) which provide for planned and unplanned major maintenance services including parts, repairs, and other services to a number of the Generation Facilities. The majority of the costs incurred under these agreements vary, and are based on factored hours and starts. Fixed and variable payments consist of fees and performance related bonuses, as well as specified amounts paid upon the occurrence of certain maintenance events. The Company issued letters of credit in the aggregate amount of $94 million for the benefit of the counterparty as security under these agreements.

Kendall

Pursuant to the terms of a Long Term Service Agreement with respect to the Kendall facility (the Kendall LTSA) the service provider provides long term parts and services for each of the four combustion turbine units located at the Kendall facility. The term of the Kendall LTSA will expire on a Unit by Unit basis after the later of (i) the date on which a Unit has attained either 96,000 factored hours or 5,400 factored starts, as defined in the Kendall LTSA, whichever occurs first, or (ii) the date on which the service provider has completed the second major inspection, as defined in the Kendall LTSA, for such Unit. In no event shall the term of the Kendall LTSA extend beyond the 21st anniversary of the effective date.

Fees for the Kendall LTSA are comprised primarily of (i) a variable quarterly payment based upon each Unit s operational parameters and (ii) a fixed payment based upon each Unit s actual hours and starts incurred. All payments are adjusted annually based upon specified indices published by the United States Government.

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Ontelaunee

Pursuant to the terms of a Long Term Service Agreement with respect to the Ontelaunee facility (the Ont LTSA), the service provider provides long term parts and services for each of the two combustion turbine units located at the Ontelaunee facility. The term of the Ont LTSA expires on October 5, 2015.

Fees for the Ont LTSA are comprised primarily of (i) purchases of parts to support planned and unplanned maintenance on the units, (ii) purchase of field service visits to support planned and unplanned maintenance on the units and (iii) purchase of maintenance management assistance services. Purchases for parts and field services are paid when parts and required field services are received. Maintenance management services are paid for on a monthly basis.

The Company incurred costs of approximately $7.3 million and $3.8 million under all these long term parts and service agreements for the nine months ended September 30, 2006 and 2005, respectively.

(g) Electric Interconnection Agreements

Generation Facilities

The Company has an interconnection agreement with the WAPA which provides for the interconnection of the Griffith facility to WAPA s transmission system. The Company was required to pay for certain improvements to the WAPA transmission system to enable transmission of electricity from the Griffith facility. The amount paid is refunded to the Company in the form a monthly credit of $252,000 to Griffith s transmission service charge through June 2018. At September 30, 2006 the Company had a noncurrent asset of $26.5 million for such reimbursement.

Ontelaunee

The Company has an Interconnection Agreement with Metropolitan Edison Company (GPU) to transmit the electricity generated by the Ontelaunee facility to the transmission grid so that it may be sold in the open market. The agreement is in effect for the life of the Ontelaunee facility. In order to bring the transmission lines up to capacity, GPU had to upgrade the lines and network. GPU recovers its cost of the upgrades through a monthly fee of approximately $112,000 that is fixed for 25 years, at which time the rate will be renegotiated. If Ontelaunee terminates the contract prior to its expiration, it will be responsible for an early termination charge as outlined in the agreement. The Company issued a letter of credit of approximately $5.7 million for the benefit of GPU as security under this agreement.

Upon termination of this agreement, Ontelaunee may be required to pay for the removal of the upgrades, less salvage. The upgrades are critical to Ontelaunee s ability to transmit energy and are integral to the operations of GPU s transmission network. As a result, Ontelaunee does not believe it will be required to remove the upgrades upon termination. Accordingly, Ontelaunee has not recognized an asset retirement obligation related to this provision of the agreement as of September 30, 2006 and December 31, 2005.

Project Development Agreements

The Company entered into an option agreement pursuant to which the Company acquired an option to acquire all or a portion of an interest in a certain transmission line and related facilities. Under the terms of the agreement, the Company is obligated to make fixed payments over a two year period totaling $1.5 million. For the nine months ended September 30, 2006 and 2005, the Company made payments of $400,000 and $300,000 under such agreement.

Pursuant to an Asset Purchase Agreement (the Asset Purchase Agreement) and a Participation Agreement (the Participation Agreement), dated March 14, 2006, PPEA sold 37.15% of its ownership interest in the Plum

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Point Project to the three unaffiliated investors (the Project Co-Owners). The Company recognized a gain of approximately $30 million in connection with such sale. The gain is recorded in other income, net on the combined statement of operations. Each Project Co-Owner owns an undivided tenancy in common interest in the Plum Point Project and participates in the construction and operation of the Plum Point Project with PPEA. Each Project Co-Owner is separately financing its pro rata share of the total construction cost of the project.

On June 8, 2006, PPEA sold 6% of its ownership in the Plum Point Project to the Municipal Energy Agency of Mississippi (MEAM). The Company recognized a gain of approximately $5.5 million in connection with such sale. The gain is recorded in other income, net in the combined statement of operations. MEAM has assumed all of the ongoing costs associated with the construction and operation of its portion of the Plum Point Project.

As of September 30, 2006, PPEA held a 56.85% undivided interest in the Plum Point Project.

In December 2005, PPEA entered into an Engineering, Procurement and Construction Agreement (the Plum Point EPC), to construct the Plum Point Project, with Plum Point Power Partners (the Plum Point Contractor), a joint venture of Zachry Construction Corporation, Overland Contracting Inc., and Gilbert Central Corporation, which provides for the Contractor to design, engineer and construct the Plum Point Project on a turnkey, fixed cost basis. The total fixed price of the Plum Point EPC is $875 million. Construction of the Plum Point Project began in March 2006. In March 2006, pursuant to the Asset Purchase Agreement, PPEA assigned an undivided tenancy in common interest in the Plum Point EPC to the Project Co Owners.

If substantial completion has not occurred before or on the guaranteed completion date, Contractor must pay to PPEA and the Project Co Owners delayed liquidated damages, which are PPEA s and the Project Co Owners sole and exclusive remedy for delay. Performance liquidated damages and performance bonuses will be payable to the extent that the results of the performance test for the Plum Point Project differ from the performance guarantees. Availability liquidated damages shall be payable to the extent the result of the availability test is less than the availability guarantee.

As of September 30, 2006, total costs incurred by PPEA under the Plum Point EPC were $64.3 million, including contract retainage payable of $2.9 million.

PPEA and Entergy Arkansas, Inc. (Entergy) are parties to the Entergy Interconnection and Operating Agreement (the Entergy Interconnection Agreement) which provides for the interconnection of the Plum Point Project to Entergy s electric transmission system. The Entergy Interconnection Agreement binds the parties until the termination by mutual consent of the parties, not to exceed the date on which the Plum Point Project ceases commercial operations. In March 2006, pursuant to the Asset Purchase Agreement, PPEA assigned an undivided tenancy in common interest in the Entergy Interconnection Agreement to the Project Co Owners.

Entergy shall be responsible for performing system upgrades, as necessary to accept electrical energy from the Plum Point Project at the point of interconnection, which shall include a new 500 kV substation and two 500 kV transmission line segments approximating 1.5 miles. PPEA and the Project Co Owners shall be responsible for paying for the cost of the interconnection system upgrades but will receive certain transmission service credits. PPEA and the Project Co Owners agree to reimburse Entergy for all interconnection costs reasonably incurred by Entergy under the Entergy Interconnection Agreement in connection with the testing, metering and upgrade of the Interconnection facilities.

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The contracts discussed in this footnote resulted in the Company having various long term firm commitments with the approximate contractual obligations for the next five years at September 30, 2006 as follows:

	2007	2008	2009	2010	2011
			(In thousands)		
Interconnection agreements	$ 7,744	$ 7,745	$ 7,748	$ 7,750	$ 7,752
Gas transportation agreements	9,884	9,884	9,884	9,884	9,884
Energy and fuel services agreements	2,227				
Long-term service agreements	23,291	24,403	16,833	39,835	76,186
Total contractual obligations	$ 43,146	$ 42,034	$ 34,465	$ 57,469	$ 93,822

(8) Financing Arrangements

As of September 30, 2006 and December 31, 2005, outstanding principal balances under the Company s financing agreements described below are as follows:

	2006	2005	Maturity Date
	(In thousands)		
Plum Point term loans	$ 532,992	$	2014
Plum Point bonds	100,000		2036
Generation Facilities first lien term loans	964,602		2013
Generation Facilities second lien term loans	150,000		2014
Kendall loans	404,901	420,945	2013
Ontelaunee loans	150,000	125,000	2009
Total outstanding principal	$ 2,302,495	$ 545,945	

As of September 30, 2006, minimum principal payments under the Company s financing agreements described below for the next five years are as follows:

	2007	2008	2009	2010	2011	Thereafter
			(In thousands)			
Plum Point	$	$	$	$ 2,115	$ 4,230	$ 626,647
Generation Facilities	9,895	9,895	9,895	9,895	9,895	1,065,127
Kendall	4,220	4,220	4,220	4,220	4,220	383,801
Ontelaunee			150,000			
Total principal payments	$ 14,115	$ 14,115	$ 164,115	$ 16,230	$ 18,345	$ 2,075,575

(a) Plum Point

Effective March 14, 2006, PPEA closed its financing for the Plum Point Project with a consortium of financial institutions (the PPEA Lenders). The financing consists of (1) (a) a $423 million term loan, (b) a $50 million revolver and (c) a $102 million letter of credit facility (collectively, the First Lien Facility) and (2) a $175 million term loan (the Second Lien Facility), (and collectively with the First Lien Facility, the PPEA Credit Facility).

On March 14, 2006, PPEA borrowed $423 million under the First Lien Facility and $175 million under the Second Lien Facility. The proceeds of the loans issued under the PPEA Credit Facility will be used to fund PPEA s pro rata portion of the construction costs for the development of the Plum Point Project, fund interest expense during construction, provide for a six month debt service reserve when commercial operations are achieved and provide PPEA s pro rata portion of working capital for the operations of the Plum Point Project.

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In conjunction with the sale to MEAM on June 8, 2006, the principal amount of the outstanding loans under the First Lien Facility and the Second Lien Facility was repaid pro rata by $66.8 million and the amount of the letters of credit issued under an Equity Contribution Agreement (the Equity Agreement) were reduced by $14.6 million.

Outstanding loans under the First Lien Facility and Second Lien Facility at September 30, 2006 totaled $376 million and $157 million, respectively. The interest rates in effect on loans under the First Lien Facility and Second Lien Facility at September 30, 2006 was 8.62% and 10.62%, respectively.

Concurrent with the financing under the PPEA Credit Facility, PPEA entered into two interest rate swap agreements. The terms of the swaps require PPEA to pay a fixed rate and receive a floating rate. The swaps mature in March 2014. The fixed rate is 5.15% while the floating rate is based on 3 month LIBOR rate (see note 9).

The loans are secured by all of the assets and contract rights of PPEA. The PPEA Credit Facility and the Depositary Agreement (the Depositary Agreement), (collectively, the Credit Documents) set forth, among other things: (a) terms and conditions upon which loans and disbursements are to be made under the PPEA Credit Facility; (b) the mechanism for which loan proceeds, operating revenues, equity contributions and other amounts received by PPEA are disbursed to pay construction costs, operations and maintenance costs, debt service and other amounts due from PPEA; (c) the conditions that must be satisfied prior to making distributions from PPEA; and (d) the covenants and reporting requirements PPEA is required to be in compliance with during the terms of the loans.

The Credit Documents require compliance with covenants, relating to among other things, compliance with reporting requirements, limitations on the use of the proceeds under the PPEA Credit Facility, additional indebtedness, and disposition of assets. The Credit Documents also describe events of default which include, among others, failure to make payments in accordance with the terms of the PPEA Credit Facility and failure to comply with agreements entered into by PPEA.

Principal payments of the loans under the First Lien Facility and Second Lien Facility are not due until the project achieves commercial operations (COD), currently projected to be in the summer of 2010. At COD, annual mandatory amortization of the term loan under the First Lien Facility is 1.0%, payable quarterly. Subject to the priority allocation of cash described in the Credit Documents, after the payment of, among other things, operating expenses, repayment of borrowings under the revolver, funding of certain reserve accounts, and payment of mandatory interest and principal, all excess cash generated is applied to pay down principal. The term loan and letter of credit facility under the First Lien Facility mature in March 2014. The revolver matures in March 2012. The term loan under the Second Lien Facility matures in September 2014.

Under the terms of the Equity Agreement, PPEA Holding Company, LLC (PPEA Holding) is required to make an aggregate equity contribution to PPEA in the amount of $210 million prior to the completion of construction of the Plum Point Project. As security for this obligation, each member of PPEA Holding or its affiliate has issued separate letters of credit in favor of the PPEA Lenders. Letters of credit in the amount of $118 million and $17 million were issued by LSP Plum Point Holding, LLC and LS Associates, respectively.

PPEA, the City of Osceola, Arkansas (the City), Mississippi County, Arkansas, the Osceola School District No. 1 of Mississippi County and the Mississippi County Community College District entered into an agreement (the PILOT Agreement) whereby the City agreed to issue Industrial Development Revenue Bonds for the purpose of acquiring, constructing and equipping certain industrial facilities within or near the City that make up the Plum Point Project. Pursuant to the PILOT Agreement, the City agreed to enter into a lease agreement whereby the Plum Point Project would be leased from the City to PPEA. In return, PPEA agreed to make (i) a one time donation to the City, the School District and the Community College and (ii) payments in lieu of certain ad valorem taxes over the term of the lease or any extension term of the lease.

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On March 1, 2006, the City and PPEA entered into a Lease Agreement, Trust Indenture and Guaranty Agreement and other ancillary documents (collectively, the Taxable Bond Documents). Pursuant to the Trust Indenture, the City issued the City of Osceola, Arkansas Taxable Industrial Development Revenue Bonds, Series 2006, in the aggregate principal amount of up to $980 million (the Taxable Bonds) for the purpose of acquiring, constructing and equipping certain industrial facilities that make up the Plum Point Project. Pursuant to the Lease Agreement, the City leased the project to PPEA for a term to match the maturity of the Taxable Bonds (March 1, 2036).

Under the Lease Agreement, PPEA is required to pay, as rent, amounts equal to any amounts payable from time to time as principal and accrued interest on the Taxable Bonds. Under the Trust Indenture, the Taxable Bonds are not full recourse obligations of the City but are rather limited recourse obligations that are payable only out of amounts received as rent under the Lease Agreement. PPEA is the sole holder of the Taxable Bonds. Consequently, PPEA is both the payor and the ultimate payee of the amounts payable by PPEA as rent under the Lease Agreement. In recognition of this fact: (i) the Taxable Bond Documents permit PPEA 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 Taxable Bonds, and (ii) 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 and PPEA entered into a loan agreement authorizing that the proceeds of the City of Osceola, Arkansas Solid Waste Disposal Revenue Bonds (Plum Point Energy Associates, LLC Project) in the aggregate amount of $100 million (the Tax Exempt Bonds) will be loaned by the City to PPEA. The Tax Exempt Bonds are issued pursuant to and secured by a Trust Indenture dated April 1, 2006 between the City, PPEA and Regions Bank as Trustee. The purpose of the Tax Exempt Bonds is to finance certain of PPEA s undivided interests in various sewage and solid waste collection and disposal facilities. These systems are eligible for tax exempt financing. To support the payment of the Tax Exempt Bonds, an irrevocable letter of credit was issued for the benefit of the owners of the Tax Exempt Bonds in the amount of $101 million. The letter of credit was issued pursuant to the PPEA Credit Facility.

(b) Generation Facilities

A portion of the purchase price of the Generation Acquisition was funded through the issuance of term loans by Gen Finance, a wholly owned subsidiary of LSP Gen, under two credit agreements, the First Lien Loan Facility and the Second Lien Loan Facility (collectively, the Gen Finance Credit Facilities). The Gen Finance Credit Facilities consist of:

(1) a $950 million 7 year first lien term loan, a $40 million 7 year first lien delayed draw term loan, and a $150 million 8 year second lien term loan; all used to (i) fund a portion of the Generation Acquisition and (ii) pay a portion of the fees and expenses associated with the transaction;

(2) a $100 million 5 year first lien revolving and letter of credit facility that is used for general corporate, liquidity and working capital purposes (the Working Capital Facility);

(3) a $500 million 7 year first lien funded letter of credit facility (the Special LC Facility). The Special LC Facility is used to (i) support obligations under certain agreements and (ii) satisfy certain collateral requirements with respect to maintenance, operations, fuel purchase, transportation and transmission services; and

(4) a $150 million 5 year incremental letter of credit facility, which may be used to provide support to permitted project related agreements and other uses which are necessary for the operation of the business.

The interest rate on loans under the Gen Finance Credit Facilities adjusts for each interest period based on the adjusted LIBO rate. The interest rates in effect at September 30, 2006 for the first lien term loans and second lien term loans were 7.12% and 8.87%, respectively.

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Annual mandatory amortization of the term loans under the First Lien Loan Facility is 1.0%, payable quarterly. Subject to the priority allocation of cash described in the Gen Finance Credit Facilities after the payment of, among other things, operating expenses, repayment of borrowings under the Working Capital Facility, funding of certain reserve accounts, and payment of mandatory interest and principal, between 75% and 95% of excess cash generated, depending on attainment of certain debt amortization targets, is applied to pay down principal. The term loans under the First Lien Loan Facility mature in May 2013. The term loans under the Second Lien Loan Facility mature in May 2014. The Working Capital Facility matures in May 2011.

In connection with the Gen Finance Credit Facilities, Gen Finance entered into three interest rate swap agreements. The terms of the swaps require Gen Finance to pay a fixed rate and receive a floating rate. The floating rate is based on 3 month LIBO rate (see note 9).

The Gen Finance Credit Facilities require that proceeds from borrowings, the receipt of revenues, debt service payments and the payments for certain categories of expenses each be segregated into separate bank accounts. Under the terms of a security deposit agreement (the Security Deposit Agreement), Gen Finance has established the required bank accounts and has pledged all its rights, title and interest in the bank accounts as security for its payment obligations under the Gen Finance Credit Facilities. Gen Finance has also established a liquidity reserve account which may be funded at Gen Finance s option with cash, equity commitments or through commitments under the Working Capital Facility. The liquidity reserve is to be in an amount equal to the lesser of (A) $50 million and (B) an amount equal to the sum of (i) six months of scheduled debt service plus (ii) a portion of certain projected major maintenance costs.

All obligations of Gen Finance under the Gen Finance Credit Facilities are guaranteed by all of the wholly owned existing subsidiaries and certain other affiliates of Gen Finance.

In August 2006, Gen Finance entered into an agreement with a financial institution, under which the financial institution agreed to provide credit support in the form of cash deposits, up to a specified amount. This credit support may be required under the Moss Landing 6&7 tolling agreement (see note 7). The agreement expires on December 31, 2010 unless terminated earlier in accordance with the terms of the agreement. Gen Finance is required to pay to the financial institution three commitment fee payments of approximately $2.6 million on each of February 1, 2007, August 1, 2007 and February 1, 2008.

In April 1999, the California Maritime Infrastructure Authority (CMIA) issued $115 million of Taxable Lease Revenue Bonds (the South Bay Bonds) due November 1, 2009 and loaned the proceeds to the San Diego Unified Port District (SDUPD) to acquire the South Bay facility. Simultaneous with the purchase of the facility, SDUPD entered into a lease agreement with Duke Energy South Bay, LLC (South Bay). South Bay s obligations under the lease, which expires on February 1, 2010, include the payment of rent in an amount sufficient to cover principal and interest under the South Bay Bonds. In connection with the Generation Acquisition, the Company assumed the remaining lease obligation of $55.9 million. Effective August 1, 2006, the Company defeased the lease through the purchase and deposit of $55.9 million of United States Treasury securities into an escrow account. These funds will be used by the escrow agent to pay, when due, interest and principal on the South Bay Bonds. The remaining lease obligation was removed from the Company s books as it was deemed repaid and South Bay was relieved of its obligation to make future lease payments. The Company will continue to operate the facility through February 1, 2010 and is in the process of negotiating a new lease agreement with SDUPD.

(c) Kendall

The Company refinanced Kendall s credit facility on October 7, 2005 with a new 8 year $422 million Senior Secured Term Loan Facility (the Term Loan Facility) and a 6 year $10 million Senior Secured Liquidity Facility (the Liquidity Facility and collectively with the Term Loan Facility, the Credit Facility). The interest rate for the Term Loan Facility adjusts each interest period based on an adjusted LIBO rate. The interest rates in

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effect at September 30, 2006 and December 31, 2005, were 7.367% and 6.527%, respectively. The proceeds were used to retire outstanding debt of $440.9 million, pay interest rate swap breakage fees of $5.5 million, pay accrued interest of approximately $600,000 and debt issuance costs of $10.5 million.

The terms of the Credit Facility require Kendall to hedge a minimum of 50% of the Term Loan Facility. Accordingly, concurrent with the refinancing, the Company entered into an interest rate swap agreement. The terms of the swap require the Company to pay a fixed rate and receive a floating rate. The floating rate is based on the three month LIBO rate (see note 9).

For the nine months ended September 30, 2006 and 2005, Kendall made principal payments of approximately $16.1 million and $25.6 million, respectively. Interest payments of $22.5 million and $21.5 million were made for the nine months ended September 30, 2006 and 2005, respectively.

Kendall may, at its option, prepay the outstanding term loan in whole or in part at any time, subject to payment of a premium equal to 3.00% of the amount being prepaid if the prepayment occurs during the first year of the Kendall credit facility (which has passed) and 1.00% of the amount being prepaid if the prepayment occurs during the second year of the Kendall credit facility, with no premium required thereafter. Mandatory principal payments are payable quarterly at the rate of 1% per annum of the original outstanding principal amount of the Term Loan Facility of $422 million. If the outstanding principal amount of the Term Loan Facility exceeds the Targeted Principal Outstanding (defined below), (i) 100% of the amount, if any, of Excess Cash Flow (as defined) for the quarter up to the amount required for the outstanding principal amount of the Term Loan Facility to equal the Targeted Principal Outstanding, and (ii) 50% of the amount, if any, of the Excess Cash Flow (as defined) for the quarter remaining after the application of (i) shall be used to prepay the outstanding principal amount of the Term Loan Facility. The Targeted Principal Outstanding refers to the aggregate principal amount of Term Loans specified to be outstanding as of a certain date, as detailed below.

	Mandatory Principal Payments	Principal Outstanding	
		Minimum	Targeted
		(In thousands)	
2006	$ 4,220	$ 416,725	$ 402,130
2007	4,220	412,505	380,595
2008	4,220	408,285	350,946
2009	4,220	404,065	310,396
2010	4,220	399,845	256,349
Thereafter	399,845		

In addition to the $4.2 million mandatory principal payments, the Company estimates that additional principal payments of $16.4 million will be made from Excess Cash Flow (as defined) during the next twelve months and has included such amount in current portion of long-term debt in the accompanying combined balance sheet as of September 30, 2006.

There were no amounts outstanding under the Liquidity Facility as of September 30, 2006 and December 31, 2005. A commitment fee of 0.50% per annum is payable on the average daily unused amount of the Liquidity Facility.

All of the assets and contract rights of Kendall are collateral for outstanding loans.

The Credit Facility requires that proceeds from borrowings, the receipt of revenues, debt service payments and the payments for certain categories of expenses each be segregated into separate bank accounts. Under the terms of a depositary agreement dated October 7, 2005, Kendall has established the required bank accounts and has pledged all its rights, title and interest in the bank accounts as security for its payment obligations under the Credit Facility. The Credit Facility requires Kendall to maintain a $20 million debt service reserve account.

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The Credit Facility requires compliance with certain covenants, relating to among other things, financial ratios, certain reporting requirements, additional indebtedness, certain new and existing agreements and other activities.

(d) Ontelaunee

On December 7, 2005, Ontelaunee entered into a $125 million term loan agreement (the Credit Agreement) with a financial institution. The proceeds were used to refinance a portion of the debt incurred in connection with the Ontelaunee Acquisition. At December 31, 2005, $125 million was outstanding under the Credit Agreement, bearing interest at a variable rate (7.83% at December 31, 2005).

On May 5, 2006, Ontelaunee refinanced its existing Credit Agreement with a new 3 year $100 million term loan (the First Lien Term Loan) and a 3 year $50 million term loan (the Second Lien Term Loan). Approximately $22 million of the proceeds from the new loans were distributed to the owners. The loans expire on May 4, 2009. There were no principal paydowns during 2006. Substantially all of Ontelaunee s assets and contract rights are pledged as collateral on the First Lien Term Loan and Second Lien Term Loan. The interest rates in effect at September 30, 2006 for First Lien Term Loan and Second Lien Term Loan were 7.37% and 9.37%, respectively.

The First Lien Term Loan and Second Lien Term Loan require compliance with certain covenants, relating to among other things, compliance with certain reporting requirements, additional indebtedness, certain new and existing agreements and other activities.

(9) Derivative Instruments and Hedging Activities

The Company enters into interest rate swaps and other contracts to reduce its exposure to market risks from changing interest, commodity, and energy rates. Interest rate swap agreements are used to convert the floating interest rate component of a portion of the Company s long term debt obligations to fixed rates (see note 8). Such interest rate swap agreements qualify as cash flow hedges.

The following table summarizes the Company s outstanding interest rate swap agreements as of September 30, 2006:

Entity	Notional Amount	Fair Value	Fixed Rate	Termination Date
	(In thousands)			
Plum Point	$ 123,000	$ (3,658)	5.15%	March 2014
Generation Facilities	1,002,000	(7,667)	5.19%	March 2016
Kendall	386,173	3,539	4.80%	September 2015
Total	$ 1,511,173	$ (7,786)		

The Company expects $1.9 million of deferred net gains on interest rate swaps accumulated in OCI to be recognized in earnings during the next twelve months. No ineffectiveness was recognized on interest rate swaps that qualify as hedges during the nine months ended September 30, 2006 and 2005.

In addition, the Company has entered into heat rate call option contracts for a number of its electric generating facilities (see note 7). Such option contracts do not qualify for hedge accounting and therefore the Company records any changes in the fair value of the heat rate call option contracts in current period earnings. The fair value of all the heat rate call option contracts at September 30, 2006 and December 31, 2005 totaled $8.3 million and zero, respectively. For the nine months ended September 30, 2006, the Company recorded income of $8.3 million in energy and capacity revenues in the combined statement of operations.

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(10) Other Long Term Liabilities

As of September 30, 2006 and December 31, 2005, other long term liabilities included approximately $11.1 million and $11.7 million, respectively, of accrued state sales tax. Equipment purchased certain generating equipment used in the construction of the Kendall facility totaling approximately $225.1 million. State sales tax on these equipment purchases was deferred and estimated annual sales tax payments for the next five years will approximate $696,000 per year.

(11) Related Party Transactions

The Company has notes payable to an affiliate (LS Associates) in the amount of $3.4 million and $1.2 million at September 30, 2006 and December 31, 2005, respectively. The notes bear interest at the prime interest rates published by the Federal Reserve Board as adjusted quarterly. The average interest rates at September 30, 2006 and December 31, 2005 on the notes were 8.17% and 6.23%, respectively. The notes are unsecured with $1.2 million due February 6, 2007 and the remaining outstanding amounts due in 2010.

Project development costs, including salaries and general and administrative costs, are primarily funded and paid for by LS Associates. Such fundings are reflected as capital contributions in the combined financial statements.

(12) Income Taxes

Income tax expense for the nine months ended September 30, 2006 consisted of:

	(in thousands)
Current:	
U.S. Federal	$ 4,694
State and local	1,493
Total current	6,187
Deferred:	
U.S. Federal	(1,889)
State and local	(680)
Total deferred	(2,569)
Total income tax expense	$ 3,618

As of September 30, 2005, there were no corporations included in the combined financial statements. At September 30, 2006, gross deferred tax assets totaled $6.2 million which consisted of $3.6 million related to federal and state net operating losses and $2.6 million related to an investment basis difference.

The Company assesses the realization of its deferred tax assets to determine whether a valuation allowance is required on its deferred tax assets. Based on all available evidence, both positive and negative, and the weight of that evidence, the Company determines whether it is more likely than not that all or a portion of the deferred tax assets will be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the period in which those temporary differences become deductible. The Company considers the scheduled reversals of deferred tax liabilities, projected taxable income, and tax planning strategies in making the assessment of the amount of valuation allowance.

At September 30, 2006, the Company 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 management s inability to affect a tax planning strategy to utilize such net operating losses due to the planned merger agreement with Dynegy Inc. (see note 14).

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Based upon the level of taxable income and projections for future taxable income over the period in which the Company s deferred tax assets are deductible, management believes it is more likely than not that the Company will realize the benefits of these deductible differences, net of the existing valuation allowances, at September 30, 2006.

At September 30, 2006 the Company had available federal and state net operating loss carry forwards of $9.2 million and $9.2 million, respectively. The net operating loss carry forwards, if unutilized, will expire in the years 2011 through 2026.

Income taxes payable at September 30, 2006 totaled $6.2 million. No income taxes were paid during the nine months ended September 30, 2006.

(13) Owners Equity

Profits, losses and distributions are allocated in accordance with the provisions of the applicable organizational documents.

In October 2005, Kendall Holding issued 610 Class A preferred units (the Class A Units) and 610 Class B preferred units (the Class B Units) to LS Equity Partners for approximately $9.2 million and $12.2 million, respectively, and 390 Class A Units and 390 Class B Units to Kendall Blocker for approximately $5.8 million and $7.8 million, respectively. Proceeds from the issuance of all the Class B Units were used to temporarily fund a debt service reserve account at Kendall.

The Class A Units earn a 12% per annum preferred return. Such preferred return is required to be paid prior to any other distributions. No applicable distributions were paid as of December 31, 2005. Preferred return in arrears totaled $450,000 and $415,000 at September 30, 2006 and December 31, 2005, respectively. In July 2006, $802,000 and $513,000 of such preferred distributions were paid to LS Equity Partners and Kendall Blocker, respectively. Kendall Blocker distributed such funds to PIE.

(14) Commitments and Contingencies

Kendall

Concurrent with the Kendall Acquisition, a receivable in the amount of $12 million had been recorded which represented management s estimate of the fair value related to claims for (i) reservation payments under the DPM PPA due Kendall for the periods from July 21, 2001 through March 26, 2002 and from July 21, 2001 through April 4, 2002 for Unit 1 and Unit 2, respectively; and (ii) an adjustment to prior invoices for replacement power obligations for the months of July and August 2001. In addition, Kendall invoiced DPM for reservation payments under the DPM PPA based upon Kendall s interpretation of the start date of the initial contract year. DPM has disputed these claims. In 2005, management revised its estimate for these claims to be $2 million which was reflected as an adjustment to the purchase price allocation. In February 2005, DPM issued a notice of default under the DPM PPA claiming that Kendall has failed to construct the plant in order to provide power that could be dispatched in accordance with the DPM PPA. Kendall has disputed this claim. In May 2005, DPM filed a demand for arbitration claiming (i) Kendall breached and is in breach of the DPM PPA by failing to construct, operate and maintain the plant and dedicated units in accordance with prudent industry practices and the terms of the DPM PPA and (ii) the payments demanded by Kendall are not due or payable under the terms of the DPM PPA. Kendall has filed an answering statement and counterclaim in the arbitration denying DPM s claims and seeking payment for the claims identified above. In light of the execution of an agreement on September 14, 2006 to enter into a merger with Dynegy Inc. (as described below), Kendall and DPM entered into a letter agreement dated October 31, 2006 regarding the arbitration whereby the claims and counterclaims have been dismissed voluntarily without prejudice. All applicable periods of limitations regarding the claims and defenses are tolled through the date of the closing of the merger transaction or June 30, 2007, whichever occurs first. DPM

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and Kendall have agreed to execute final and mutual releases within seven days of the merger transaction closing. As a result, Kendall charged to expense the $2 million receivable for claims under the DPM PPA as of September 30, 2006.

During the development of the Kendall facility, Kendall entered into a tax agreement (the Tax Agreement) with Kendall County, Illinois and Seward Township, Illinois. The Tax Agreement specified an allocation of 10-20% of the direct construction costs of the Kendall facility to be treated as real property, and thus taxed as such, and the remainder to be treated as personal property, and not subject to real estate taxes. Two local school districts (the School Districts) that were not parties to the Tax Agreement filed an appeal of Kendall s 2001 and 2002 tax assessments at the county level. The School Districts argue that the entire Kendall facility, including all construction costs and generating equipment, is assessable. Kendall contends that only the land, buildings and site improvements are assessable. The School Districts 2001 appeal at the county level was unsuccessful. The School Districts appeal of the Kendall 2002 assessment at the county level was successful and, as a result, the assessments for 2002, 2003 and 2004 were increased and the related taxes were expensed and paid by Kendall. Kendall s assessment for all years (2001-2004) is currently under appeal at the state level in front of the Illinois Property Tax Appeal Board (the PTAB). In April 2005, the PTAB held a hearing in connection with Kendall s 2001 real estate taxes. In February 2006, the PTAB ruled in favor of Kendall for the 2001 tax year. On April 21, 2006, the School Districts filed a record of appeal. On June 30, 2006, the PTAB declared that the refund due to Kendall for 2001 taxes needed to be held in an escrow account until further court review.

National Energy Production Corporation (NEPCO) and Dick Corporation (DC) (collectively, the Kendall Contractor) had entered into an Engineering Procurement and Construction contract (the Kendall EPC) to design, engineer and construct the Kendall facility. In 2002, Kendall filed a proof of claim against Enron Corp. (Enron) with respect to a guaranty of the contractor s obligations to Kendall under the EPC Agreement and a proof of claim against NEPCO relating to the EPC Agreement. Pursuant to a Stipulation and Consent Order entered on January 25, 2006, Kendall s claims with Enron and NEPCO were settled in the amount of $6.5 million and $6.5 million, respectively. Enron and certain of its affiliates, including NEPCO had filed voluntary petitions for relief under bankruptcy laws. Accordingly, the settlement was approved by the bankruptcy court on February 7, 2006. As of September 30, 2006 and December 31, 2005, no receivable had been recorded related to this matter.

Effective March 30, 2006, Kendall Holding assigned all of its rights in future distributions from Kendall arising under these claims to a third party for approximately $3.1 million. Such amount is recorded in other income, net on the combined statement of operations. In October 2006, Kendall received $835,000 under these claims and such proceeds were paid to the third party.

Generation Facilities

Bridgeport Energy, LLC (Bridgeport) is currently in settlement negotiations with other New England parties principally, the Connecticut Department of Public Utility Control (CDPUC), the Connecticut Office of Consumer Counsel (CT OCC), the Connecticut Municipal Electric Energy Cooperative (CMEEC), ISO New England, and the FERC Trial Staff (collectively the Parties) to establish a cost of service revenue requirement for the Bridgeport facility under a cost of service RMR Agreement (the Bridgeport RMR Agreement) filed with FERC on February 18, 2005. Bridgeport has been operating under that filed, but as yet unapproved, contract since June 1, 2005. On July 19, 2005, FERC conditionally allowed the Bridgeport RMR Agreement to go into effect, but set Bridgeport s eligibility for the Agreement and the amount of cost of service for hearing and settlement procedures. The Bridgeport RMR Agreement provides for an annual fixed revenue requirement of $57.8 million and certain variable operating cost reimbursements (the VOM). After negotiations, on April 19, 2006, a Partial Settlement Agreement among most of the above parties was submitted to FERC, and is still pending approval. This Partial Settlement Agreement would resolve all issues in the proceeding, except for the amount of the cost of service revenue requirement, and called for the parties to expeditiously negotiate the remaining issue, the amount of the cost of service.

The parties and Bridgeport have been conducting ongoing discussions to settle the cost of service issue with certain downward adjustments and modification to the VOM. A potential settlement will include a refund for the period beginning June 1, 2005 to the effective settlement date. If a settlement is not achieved, Bridgeport and the Parties will likely require on going hearings and formal FERC resolution. As of September 30, 2006, the Company has reserved $6.5 million for a potential refund.

South Bay is party to a Lease Agreement (the South Bay Lease) with SDUPD pursuant to which South Bay is currently leasing the existing South Bay facility from SDUPD. The South Bay Lease will terminate on February 1, 2010 (or, if later, the date on which South Bay is no longer subject to a reliability must run contract with the California ISO). Upon termination of the 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 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 SDUPD purchased the South Bay facility and related properties from SDG&E, SDG&E indemnified 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 were required to perform under such guaranties, Duke Capital would be permitted to draw upon letters of credit issued to Duke Capital pursuant to the Gen Finance credit facilities totaling $38 million. In addition, LSP Gen 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 Company has recorded a $22.5 million liability for its decommissioning, dismantling and removal obligations.

Each of the Morro Bay, Moss Landing and Oakland facilities were purchased from 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 pursuant to the Gen Finance credit facilities totaling $15 million (capped at $5 million per project). In addition, LSP Gen 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.

Other

To satisfy certain of the Company s contractual obligations the Company has issued letters of credit in favor of counterparties totaling approximately $797.4 million and $38.2 million as of September 30, 2006 and December 31, 2005, respectively.

The Company enters into contracts that contain various representations, warranties, indemnifications and guarantees. Some of the agreements contain indemnities that cover the other party s negligence or limit the other party s liability with respect to third party claims, in which event the Company effectively indemnifies the other party. While there is the possibility of a loss related to such representations, warranties, indemnifications and guarantees in the contracts and such loss could be significant, the Company considers the probability of loss to be remote.

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The Company is a party to certain other claims arising in the ordinary course of business. The Company is of the opinion that final disposition of these claims will not have a material adverse effect on the Company s financial position, results of operations or cash flows.

Planned Merger

On September 15, 2006, the LS Power Group announced that LS Associates, LS Power, LS Equity Partners, PIE and LSP Gen Investors, L.P. (collectively, the LS Entities) had entered into a Plan of Merger, Contribution and Sale Agreement dated as of September 14, 2006 (the Dynegy Merger Agreement) with Dynegy Inc. (Dynegy), Dynegy Acquisition Inc. (New Dynegy) and Falcon Merger Sub Co. (Merger Sub), a wholly owned subsidiary of New Dynegy. Pursuant to the Dynegy Merger Agreement, (a) Merger Sub will be merged (the Merger) with and into Dynegy and Dynegy will become a wholly owned subsidiary of New Dynegy (b) the LS Entities will contribute certain interests in power generation entities to New Dynegy in exchange for (i) 340 million shares of New Dynegy Class B common stock, par value $0.01 per share, and (ii) $163 million in aggregate principal amount of notes to be issued by New Dynegy; and (c) the LS Entities will sell Kendall Holding and LSP Kendall Blocker, Inc. to New Dynegy in exchange for (i) $100 million in cash and (ii) $112 million in aggregate principal amount of notes to be issued by New Dynegy. Each share of Dynegy s common stock outstanding at the time of the Merger will be converted into the right to receive one share of New Dynegy Class A common stock, par value $0.01 per share, following the Merger.

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Independent Auditors Report

The Members

LS Power Development, LLC:

We have audited the accompanying combined balance sheet of the Power Generation Business of LS Power Development, LLC and Affiliates as of December 31, 2005, and the related combined statements of operations, owners equity and comprehensive loss, and cash flows for the year then ended. These combined financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these combined financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of the Power Generation Business of LS Power Development, LLC and Affiliates as of December 31, 2005, and the results of their operations and their cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

/s/ KPMG LLP

Short Hills, New Jersey

December 6, 2006

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POWER GENERATION BUSINESS OF

LS POWER DEVELOPMENT, LLC AND AFFILIATES

Combined Balance Sheets

December 31, 2005 and 2004

(In thousands of dollars)

	2005	2004 (Unaudited)
Assets		
Current assets:		
Cash and cash equivalents	$ 3,892	$ 120
Restricted cash	29,751	36,456
Accounts receivable-trade, net of allowance for doubtful accounts of $436 and $0, respectively	8,082	17,106
Accounts receivable-other	654	
Inventory	5,184	902
Prepaid expenses	2,092	
Other current assets	296	363
Total current assets	49,951	54,947
Property, plant, and equipment, net	349,329	142,196
Acquired intangible assets, net	253,847	276,733
Other noncurrent assets	1,255	1,188
Deferred financing costs, net	10,175	
Total assets	$ 664,557	$ 475,064
Liabilities and Owners Equity		
Current liabilities:		
Current portion of long-term debt	$ 19,835	$ 655
Short-term debt	125,000	
Accounts payable	2,911	1,441
Accounts payable-affiliate	1,640	66
Accrued interest payable	811	51
Accrued expenses	7,412	6,506
Total current liabilities	157,609	8,719
Long-term debt, net of discount	401,110	438,752
Note payable-affiliate, including accrued interest	1,376	1,304
Derivative instruments	95	13,431
Other long-term liabilities	11,666	12,370
Total liabilities	571,856	474,576
Commitments and contingencies (notes 7 and 14)		
Owners equity		
Ownership interests	167,891	26,370
Accumulated other comprehensive loss	(95)	

Accumulated deficit	(75,095)	(25,882)
Total owners equity	92,701	488
Total liabilities and owner s equity	$ 664,557	$ 475,064

See accompanying notes to combined financial statements.

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POWER GENERATION BUSINESS OF

LS POWER DEVELOPMENT, LLC AND AFFILIATES

Combined Statements of Operations

(In thousands of dollars)

	Year Ended December 31, 2005	Period from December 1, 2004 through December 31, 2004 (Unaudited)
Revenues:		
Energy and capacity revenues	$ 65,537	$ 2,680
Ancillary revenues	373	
Total revenues	65,910	2,680
Operating expenses:		
Fuel and operations and maintenance expenses	43,985	1,396
Depreciation	6,573	387
Project development expenses	16,097	1,171
General and administrative expenses	5,215	161
Total operating expenses	71,870	3,115
Loss from operations	(5,960)	(435)
Interest expense and amortization of deferred financing costs	(57,160)	(3,828)
Interest income	1,121	87
Other income, net	12,786	2,375
Net loss	$ (49,213)	$ (1,801)

See accompanying notes to combined financial statements.

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POWER GENERATION BUSINESS OF

LS POWER DEVELOPMENT, LLC AND AFFILIATES

Combined Statements of Owners Equity and Comprehensive Loss

Year Ended December 31, 2005 and

Period from December 1, 2004 through December 31, 2004 (Unaudited)

(In thousands of dollars)

	Owners interests	Accumulated deficit	Accumulated other comprehensive loss	Total owners equity (deficit)
Balances at December 1, 2004 unaudited	$ 23,833	$ (24,081)	$	$ (248)
Capital contributions	2,537			2,537
Net loss and comprehensive loss		(1,801)		(1,801)
Balances at December 31, 2004 unaudited	$ 26,370	$ (25,882)		$ 488
Net loss		(49,213)		(49,213)
Change in unrealized loss on derivatives			(95)	(95)
Total comprehensive loss				(49,308)
Distributions	(144,939)			(144,939)
Capital contributions	286,460			286,460
Balances at December 31, 2005	$ 167,891	$ (75,095)	$ (95)	$ 92,701

See accompanying notes to combined financial statements.

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POWER GENERATION BUSINESS OF

LS POWER DEVELOPMENT, LLC AND AFFILIATES

Combined Statements of Cash Flows

(In thousands of dollars)

	Year Ended December 31, 2005	Period from December 1, 2004 through December 31, 2004 (Unaudited)
Cash flows from operating activities:		
Net loss	$ (49,213)	$ (1,801)
Adjustments to reconcile net loss to cash provided by (used in) operating activities:		
Increase in accrued interest income receivable on deposits for electrical transmission service	(67)	(16)
Increase in accrued interest expense affiliate loans	72	
Depreciation	6,573	387
Amortization of intangible assets	29,998	2,432
Amortization of debt discount	27,116	1,562
Amortization of deferred financing costs	366	
Bad debt expense	436	
Gain on derivative instruments	(7,979)	(2,376)
Realized gain on option	(667)	
Swap breakage costs	(5,452)	
Change in assets and liabilities, net of effects from business combinations:		
Increase in accounts receivable trade	(1,422)	(70)
Increase in accounts receivable other	(64)	
Increase in inventory	(506)	(19)
Increase in prepaid expenses	(1,073)	
Decrease (increase) in other current assets	206	(50)
Increase in accounts payable	733	954
Increase in accounts payable affiliates	1,639	67
Increase in accrued interest payable	761	
Increase (decrease) in accrued expenses	567	(5,149)
Decrease in other long-term liabilities	(704)	(59)
Cash provided by (used in) operating activities	1,320	(4,138)
Cash flows from investing activities:		
Acquisition of assets and liabilities assumed, net of cash acquired	(212,548)	(1,293)
Capital expenditures	(1,340)	(59)
Change in restricted cash	6,705	5,451
Cash provided by (used in) investing activities	(207,183)	4,099
Cash flows from financing activities:		
Principal payments on long-term debt	(467,578)	(2,498)
Debt issuance costs	(11,308)	
Proceeds from issuance of term loans	547,000	

Capital contributions	286,460	2,537
Distributions	(144,939)	
Cash provided by financing activities	209,635	39
Increase in cash and cash equivalents	3,772	
Cash and cash equivalents:		
Cash and cash equivalents, beginning of period	120	120
Cash and cash equivalents, end period	$ 3,892	$ 120
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 28,828	$ 6,403

See accompanying notes to combined financial statements.

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NOTES TO AUDITED COMBINED FINANCIAL STATEMENTS

(1) Basis of Presentation and Organization

LS Power Development, LLC and affiliates (the LS Power Group) is a group of integrated development, investment and management companies focusing on the power generation industry. LS Power Development, LLC (Development), a Delaware limited liability company, is the general partner of LS Power Associates, LP (LS Associates), a Delaware limited partnership, through which the LS Power Group develops, manages and invests in power generation projects. In addition, Development is the general partner of LS Power Partners, L.P. (LS Power), a Delaware limited partnership. LS Power is the general partner of LS Power Equity Partners, L.P. (LS Equity Partners) and LS Power Equity Partners PIE I, LP (PIE), both Delaware limited partnerships. LS Equity Partners and PIE co invest in companies engaged in the power industry.

The accompanying combined financial statements include the financial statements of LSP Kendall Holding, LLC and its wholly owned subsidiaries of LSP Kendall Energy, LLC and LSP Equipment, LLC; LSP Services Kendall, LLC; LSP Kendall Blocker, Inc.; LSP Ontelaunee Holding, LLC and its wholly owned subsidiary of Ontelaunee Power Operating Company, LLC; LSP ONT Blocker, Inc.; and certain power generation development projects, including Plum Point Energy Associates, LLC, which are in early stages of development and are owned directly or indirectly by LS Associates. As of December 31, 2005, none of the power generation development projects had reached the construction phase of development. The entities listed in this paragraph, excluding LS Associates, are collectively referred to within the accompanying combined financial statements as the Company.

On December 1, 2004, LSP Kendall Holding, LLC (Kendall Holding), a wholly owned subsidiary of LS Associates acquired 100% of the outstanding membership interests of LSP Kendall Energy, LLC (Kendall) and LSP Equipment, LLC (Equipment) (the Kendall Acquisition). Kendall Holding was formed to acquire 100% of the outstanding membership interests of Kendall and Equipment. The acquisition was accounted for under the purchase method of accounting and the results of Kendall s operations have been included in the combined financial statements since the date of acquisition (see note 3). The current members of Kendall Holding are LS Associates, LS Equity Partners and LSP Kendall Blocker, Inc. (Kendall Blocker). LS Equity Partners and Kendall Blocker were admitted as members in October 2005 (see note 3).

On October 6, 2005, LSP Ontelaunee Holding, LLC (Ont Holding), acquired 100% of the outstanding membership interests of Ontelaunee Power Operating Company, LLC (Ontelaunee) (the Ontelaunee Acquisition). Ont Holding was formed to acquire 100% of the outstanding membership interests in Ontelaunee. The acquisition was accounted for under the purchase method of accounting and the results of Ontelaunee s operations have been included in the combined financial statements since the date of acquisition (see note 3). The members of Ont Holding are LS Equity Partners and LSP ONT Blocker, Inc. (ONT Blocker).

Kendall operates an electric generating facility consisting of four gas fired combustion turbines and related equipment located in the city of Minooka, Illinois. These turbines became operational in 2002. Equipment was formed to purchase and resell electric generating equipment to Kendall. Ontelaunee operates an electric generating facility consisting of two gas fired combustion turbines and related equipment located in Ontelanuee Township, Pennsylvania. These turbines became operational in 2002.

(2) Summary of Significant Accounting Policies

(a) Basis of Combination

The combined financial statements include the financial statements of Kendall Holding and its wholly owned subsidiaries of Kendall and Equipment; LSP Services Kendall, LLC; Kendall Blocker; LSP Ontelaunee Holding, LLC and its wholly owned subsidiary of Ontelaunee Power Operating Company, LLC; ONT Blocker; and certain power generation development projects, owned directly or indirectly by LS Associates. Each of the

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aforementioned entities are owned directly or indirectly by LS Associates, LS Equity Partners or PIE. The Company is under common control of Development by virtue of Development s direct and indirect ownership interests and management control of the entities. All significant intercompany transactions and balances have been eliminated in combination.

(b) Use of Estimates

Management makes estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities and reported amounts of revenues and expenses to prepare the combined financial statements in conformity with U.S. generally accepted accounting principles. The most significant of these estimates and assumptions relate to the recoverability of reported amounts of acquired property, plant and equipment and intangible assets, valuation of deferred tax assets and valuation of assets acquired and liabilities assumed in purchase business combinations. Actual results could differ materially from those estimates.

(c) Cash and Cash Equivalents

The Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

(d) Restricted Cash

Restricted cash consists of amounts that are restricted under the terms of the Company s financing agreements from transfer or dividend until such time as certain conditions are met. Such restricted cash is used primarily for operating and maintenance expenses and debt service. Restricted cash at December 31, 2005 includes $19.2 million posted to support letters of credit required under various contracts and agreements.

(e) Allowance for Doubtful Accounts

Management establishes reserves on accounts receivable if it becomes probable the Company will not collect part of the outstanding accounts receivable balance. Management reviews collectibility and establishes or adjusts its allowance using the specific identification method.

(f) Inventory

Inventory consists of spare parts and is stated at the lower of weighted average cost or market.

(g) Property, Plant, and Equipment

Property, plant, and equipment are stated at cost (fair value at the acquisition dates) less accumulated depreciation. 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 7 years, software is 3 years, computer hardware is 5 years and plant and equipment is 30-35 years. Additions and improvements, extending asset lives are capitalized, while repairs and maintenance, including planned major maintenance, are charged to expense as incurred.

(h) Impairment of Long Lived Assets and Acquired Intangible Assets

In accordance with Statement of Financial Accounting Standards (SFAS) No. 144, *Accounting for the Impairment or Disposal of Long Lived Assets*, long lived assets and intangible assets with determinable useful lives are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. 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.

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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. Assets to be disposed of are reported at the lower of the carrying amount or fair value less the costs to sell. Intangible assets are amortized over their respective estimated useful lives.

(i) Asset Retirement Obligations

The Company recognizes the fair value of the liability for an asset retirement obligation 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 asset. 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.

(j) Debt Issuance and Financing Costs

Debt issuance and financing costs are amortized over the term of the related debt using the effective interest method. The amortization of these costs is reflected as a component of interest expense on the accompanying statement of operations. For the year ended December 31, 2005 and for the period December 1, 2004 to December 31, 2004, amortization of these costs totaled approximately $366,000 and $0, respectively.

(k) Revenue Recognition

Revenues from sales of electricity are recorded 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 (see Power Sales Agreements below). When a long-term power purchase agreement conveys the right to use the generating capacity of the Company s facility to the buyer of the electric power, that agreement is evaluated to determine if it is a lease of the generating unit rather than a sale of electric power. Operating lease revenue for the Company s generating units is recorded as capacity revenue and included in energy and capacity revenues in the combined financial statements. Revenues from sales of electricity not covered under power purchase agreements are recorded as delivered at current market prices.

(l) Power Purchase Agreements

In connection with the Kendall Acquisition, the Company recorded the fair value of the long term power purchase agreements as intangible assets (see note 3). The intangible assets are amortized over the term of the respective contracts as a reduction in energy and capacity revenues in the combined statements of operations for the year ended December 31, 2005 and for the period from December 1, 2004 through December 31, 2004.

(m) Derivative Financial Instruments

The Company does not use derivative financial instruments for trading purposes. The Company enters into interest rate swap agreements to reduce its exposure to market risks from changing interest rates. The interest rate swap agreements are used to convert the floating interest rate component of a portion of our long term debt obligations to fixed rates. In accordance with SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended, all derivative instruments are recorded on the balance sheet as either an asset or liability and are measured at fair value regardless of the purpose or intent for holding them. On the date a derivative contract is entered into, the Company designates the hedging relationship.

The Company documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy. This process includes linking all derivatives that are designated as hedges to specific assets or liabilities on the balance sheet or to forecasted transactions. The Company 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

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not highly effective as a hedge or that it has ceased to be a highly effective hedge, the Company 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 affects earnings. Otherwise any gains and losses resulting from changes in the market value of the contracts are recorded in income in the current period.

(n) Fair Value of Financial Instruments

The carrying amount of cash and cash equivalents, restricted cash, accounts receivable, accounts payable and accrued expenses equals or approximates fair values due to the short term maturity of those instruments. The fair value of short term and long term debt approximated its book value at December 31, 2005 and 2004 as the interest rate is variable.

(o) Project Development Costs

Project development costs consisting of start up and organization costs are expensed as incurred. Project development costs directly related to the acquisition or construction of long lived assets are capitalized when it is determined that it is probable that such project development costs will be realized through the ultimate construction of a power generation plant. These costs are primarily funded and paid for by LS Associates.

(p) Income Taxes

The majority of the entities comprising the Company have been organized as limited liability companies or limited partnerships. Therefore, federal and state income taxes are assessed at the member or partner level. However, LSP Kendall Blocker, Inc. and LSP ONT Blocker, Inc. are Delaware corporations and any related income tax is accounted for under the asset and liability method. 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.

(q) Concentrations of Credit Risk

Financial instruments, which potentially subject the Company to concentrations of credit risk, consist primarily of restricted cash and accounts receivable. Restricted cash accounts are generally held in federally insured banks. Accounts receivable are concentrated within entities engaged in the energy industry and the Company s operations are concentrated in northern Illinois and eastern Pennsylvania. These industry and geographic concentrations may impact the Company s overall exposure to credit risk, either positively or negatively, in that customers may be similarly affected by changes in economic, industry, weather or other conditions.

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The Company is exposed to credit losses in the event of noncompliance by counterparties on its derivative financial instruments. The counterparties to these transactions are major financial institutions. The Company does not require collateral or other security to support the financial instruments with credit risk.

For the year ended December 31, 2005 and for the period December 1, 2004 through December 31, 2004, revenues under power sales agreements with Dynegy Power Marketing, Inc. and Rainy River Energy Corporation or Constellation Energy Commodities Group, Inc., accounted for 42% and 13%, and 76% and 24% respectively, of the Company s revenues. The loss of either of these two customers could result in an adverse impact on the Company s results of operations, financial position, and cash flows.

(r) Risks and Uncertainties

The Company believes there are many development and investment opportunities to pursue. However, development and investment opportunities are dependent upon a variety of factors, including the economy, the electricity markets, and the availability of capital resources.

As with any power generation facility, operation of the Company s electric generating facilities involves risk, including the performance of the facility below expected levels of efficiency and output, shut downs due to the breakdown or failure of equipment or processes, violations of permit requirements, operator error, labor disputes, weather interference or catastrophic events such as fires, earthquakes, floods, explosions or other similar occurrences affecting a power generation facility or its power purchasers. The occurrence of any of these events could significantly reduce or eliminate revenues generated by the facilities or significantly increase the expenses of each of the facilities, adversely impacting the Company s ability to make payments of principal and interest on its debt when due.

(s) Commitments and Contingencies

The Company is a party to a number of claims and proceedings arising in the normal course of business. Management assesses each matter and determines the probability that a gain or loss has been incurred and the amount of such gain or loss if it can be reasonably estimated. Management reviews such matters on an ongoing basis. Any gain or loss contingencies are based on estimates and judgments made by management with respect to the likely outcome of such matters. Management s estimates could change based on new information.

(t) Recent Accounting Pronouncements

In June 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation 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 Company does not expect the impact of this pronouncement to have a material impact on its combined financial statements.

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 Company must adopt SFAS 155 no later than January 1, 2007. The Company is in the processes of assessing the impact of SFAS 155.

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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 Company 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.

(3) Acquisitions

(a) Kendall Acquisition

On December 1, 2004, the Company acquired 100% of the membership interests of Kendall and Equipment for approximately $1.3 million, consisting of $1 million of cash and $343,000 of direct acquisition costs and the assumption of $440 million in debt. The cost of the acquisition was allocated to the assets acquired and liabilities assumed based on estimates of their fair values at the date of acquisition. Fair values were determined primarily by an independent third party valuation.

As of December 31, 2004, the Company was in the process of finalizing its assessment of certain acquired assets and liabilities assumed. The following table summarizes the original estimated fair value of assets acquired and liabilities assumed at the date of acquisition (December 1, 2004) (in thousands):

Current assets	$ 63,131
Property, plant and equipment	139,582
Acquired intangible assets	279,165
Total assets acquired	481,878
Current liabilities	12,358
Long-term debt	440,000
Derivative instruments	15,807
Other long-term liabilities	12,370
Total liabilities assumed	480,535
Net assets acquired	$ 1,343

The acquired intangible assets represent the above market portion of two long term power purchase agreements with two independent parties (see note 7). The long term power purchase agreements have a weighted average term of approximately ten and one half years. At December 31, 2005 and 2004, the gross carrying value, accumulated amortization and net carrying value of the power sale agreements was approximately $286.2 million and $279.1 million, $32.4 million and $2.4 million and $253.8 million and $276.7 million, respectively. The estimated annual amortization expense for each of the next five years is approximately $29.9 million.

The fair value of long term debt was based on the quoted market price for this debt on the day prior to the acquisition date. The adjustment to fair value resulted in a debt discount being recorded in the amount of approximately $28.7 million. This amount will be amortized over the life of the debt as additional interest expense. As a result of the refinancing of debt in October 2005 (see note 8), the debt discount of $27.1 million was charged to expense.

In 2005, the purchase price allocation was finalized. As a result, accounts receivable related to claims for reservation payments under the power purchase agreement with Dynegy Power Marketing, Inc. and an adjustment to prior invoices for replacement power obligations for the months of July and August 2001 was reduced by $10 million and property, plant and equipment and acquired intangible assets were increased by $3.3 million and $6.7 million, respectively. Depreciation and amortization expense was recalculated based on the revised asset values. The effects of

this change were recorded prospectively in the 2005 financial statements.

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Under the terms of a Put/Call Agreement, entered into in connection with the Kendall Acquisition, the prior owner of Kendall and Equipment had the right to reacquire 40% of the membership interests of Kendall and Equipment within a ten year period for a nominal price. In 2005, the prior owner sold its interests in the Put/Call Agreement to Development. Subsequently, the Put/Call Agreement was amended to provide Development with the right to acquire 40% of the membership interests in Kendall Holding rather than 40% of the membership interest of Kendall and Equipment. On October 12, 2005, Development exercised the Put/Call option and Kendall Holding recognized a gain of $667,000 which is reflected in other income, net in the accompanying combined statement of operations. On October 12, 2005, Development sold its interest to LS Equity Partners and Kendall Blocker.

(b) Ontelaunee Acquisition

On October 6, 2005, the Company acquired 100% of the membership interest of Ontelaunee for $225 million less a working capital adjustment of $13.3 million. The cost of the acquisition, including acquisition costs of approximately $849,000, was allocated to the assets acquired and liabilities assumed based on their fair value on the acquisition date. Fair values were determined primarily by an independent third party valuation.

The following table summarizes the estimated fair value of assets acquired and liabilities assumed at the date of acquisition (in thousands):

Current assets	$ 4,748
Property, plant and equipment	208,811
Total assets acquired	213,559
Current liabilities	1,010
Total liabilities assumed	1,010
Net assets acquired	$ 212,549

(4) Property, Plant, and Equipment
Property, plant, and equipment at December 31, 2005 and 2004 consist of the following (in thousands):

	2005	2004 (unaudited)
Land and improvements	$ 6,295	$ 4,519
Computer software and hardware	282	91
Office furniture and equipment	74	70
Plant and equipment	348,603	137,722
Construction in progress	1,035	181
	356,289	142,583
Accumulated depreciation	(6,960)	(387)
Property, plant and equipment, net	$ 349,329	$ 142,196

(5) Other Non Current Assets

As of December 31, 2005 and 2004, other noncurrent assets included a refundable cash deposit of approximately $1.1 million. The deposit was paid to an electric utility in connection with applications for firm point to point electric transmission service. The deposit is refundable, with interest, upon the occurrence of certain events, including among others, withdrawal of the application for transmission service by the Company, or inability of the transmission provider to complete new facilities needed to provide the transmission service.

Interest income on the deposit is computed from the date the deposit is received by the utility until the date a refund is made, compounded quarterly, in accordance with the Federal Energy Regulatory Commission s guidelines. Such guidelines require the use of monthly prime interest rates published by the Federal Reserve Board.

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Accrued interest income on deposits aggregated approximately $156,000 and $89,000 as of December 31, 2005 and 2004, respectively and has been included in the related deposits on the combined balance sheets. During the year ended December 31, 2005 and the period December 1, 2004 through December 31, 2004, interest income on such deposits aggregated approximately $67,000 and $17,000, respectively.

(6) Accrued Expenses

Accrued expenses at December 31, 2005 and 2004 consist of the following (in thousands):

	2005	2004 (unaudited)
Property taxes	$ 5,894	$ 5,500
Other	1,518	1,006
Total accrued expenses	$ 7,412	$ 6,506

(7) Facility and Project Development Contract Commitments

(a) Power Purchase Agreements

Under the terms of a Power Purchase Agreement (the DPM PPA) with Dynegy Power Marketing, Inc. (DPM), Kendall is obligated to sell and DPM is obligated to purchase approximately 550 MW of electric generating capacity and associated energy from two of the four electric generating units (the Units) at the facility at prices set forth in the DPM PPA. The initial term of the DPM PPA is ten years, beginning on June 1, 2001. DPM has the option of extending the DPM PPA for two additional five year terms by providing Kendall written notice at least two years prior to the expiration of the initial term and the first additional five year extension. Kendall may, if DPM does not extend the DPM PPA prior to the end of the initial term, extend the DPM PPA for a period of five years.

The terms of the DPM PPA require DPM to make payments to Kendall including a reservation payment, an energy payment, a guaranteed heat rate payment and a system upgrade payment.

The DPM PPA is a tolling arrangement, whereby DPM is obligated to arrange, procure, supply, nominate, balance, transport, pay for and deliver the amount of natural gas necessary for each DPM Unit to generate its net electrical output. DPM s obligations under the DPM PPA are guaranteed by DPM s parent company, Dynegy Inc. In November 2004, DPM entered into a back to back power purchase agreement (the Dynegy/Constellation PPA) with Constellation Energy Commodities Group, Inc. (Constellation) with respect to the DPM Units. Under the terms of the Dynegy/Constellation PPA, DPM paid Constellation to assume its fixed obligations under the Dynegy PPA through November 2008.

Concurrent with the Kendall Acquisition, a receivable in the amount of $12 million had been recorded which represented management s estimate of the fair value related to claims for (i) reservation payments under the DPM PPA due Kendall for the periods from July 21, 2001 through March 26, 2002 and from July 21, 2001 through April 4, 2002 for Unit 1 and Unit 2, respectively; and (ii) an adjustment to prior invoices for replacement power obligations for the months of July and August 2001. In addition, Kendall invoiced DPM for reservation payments under the DPM PPA based upon Kendall s interpretation of the start date of the initial contract year. DPM has disputed these claims. In 2005, management revised its estimate for these claims to be $2 million which was reflected as an adjustment to the purchase price allocation. In February 2005, DPM issued a notice of default under the DPM PPA claiming that Kendall has failed to construct the plant in order to provide power that could be dispatched in accordance with the DPM PPA. Kendall has disputed this claim. In May 2005, DPM filed a demand for arbitration claiming (i) Kendall breached and is in breach of the DPM PPA by failing to construct, operate and maintain the plant and dedicated units in accordance with prudent industry practices and the terms of the DPM PPA and (ii) the payments demanded by Kendall are not due or payable under the terms of the DPM PPA. Kendall has filed an answering statement and counterclaim in the arbitration denying DPM s claims and

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seeking payment for the claims identified above. In light of the execution of an agreement on September 14, 2006 to enter into a merger with Dynegy Inc. (see note 14), Kendall and DPM entered into a letter agreement dated October 31, 2006 regarding the arbitration whereby the claims and counterclaims have been dismissed voluntarily without prejudice. All applicable periods of limitations regarding the claims and defenses are tolled through the date of the closing of the merger transaction or June 30, 2007, whichever occurs first. DPM and Kendall have agreed to execute final and mutual releases within seven days of the merger transaction closing.

Under the terms of a Power Purchase Agreement (the Rainy River PPA) with Rainy River Energy Corporation (Rainy River), Kendall was obligated to sell and Rainy River was obligated to purchase approximately 275 MW of electric generating capacity and associated energy from one of the four Units at the Kendall facility at prices set forth in the Rainy River PPA. On April 1, 2005, Rainy River assigned its interest to Constellation. Constellation thereby assumed all of Rainy River s rights and obligations arising under the Rainy River PPA, restating the agreement to the Constellation PPA (the Constellation PPA). In connection with this assignment, Kendall received a consent fee of $4.1 million which has been recorded in other income, net in the accompanying combined statement of operations. The initial term of the Constellation PPA expires on September 16, 2017. Constellation may extend the term of the agreement for additional one year periods under certain circumstances.

The terms of the Constellation PPA require Constellation to make payments to Kendall including a reservation payment, an energy payment, a guaranteed heat rate payment and a system upgrade payment.

The Constellation PPA is a tolling arrangement, whereby Constellation is obligated to arrange, procure, supply, nominate, balance, transport, pay for and deliver the amount of natural gas necessary for the Constellation Unit to generate its net electrical output. Constellation s obligations under the Constellation PPA are guaranteed by Constellation s parent company, Constellation Energy Group, Inc.

(b) Capacity Agreement

On November 22, 2005, Ontelaunee and a third party entered into a heat rate call option agreement effective for the period January 1, 2006 through December 31, 2008. The counterparty has agreed to pay Ontelaunee a monthly capacity charge of $1.6 million during the term. The counterparty receives payments based on the prevailing energy price based on certain energy price indices and the sum of the applicable facility s fuel costs based on a specified price and a strike price for each hour of generation actually called for. The heat rate at which the contracts are priced incorporates all start up costs, including transmission losses, if any, gas taxes and certain adders to gas prices to reflect basis differentials. The Company retains dispatch control over all of the contracted units and receives all proceeds from the physical sale of energy, capacity (including resource adequacy) and ancillary services.

The Company issued an $11.5 million letter of credit for the benefit of the counterparty as security under this agreement.

(c) Energy Services Agreements

Effective December 28, 2004, Kendall entered into an Energy Management and Marketing Agreement with Progress Ventures, Inc. (the EMA). Under the terms of the EMA, Progress Ventures, Inc. (Progress) provides energy, fuel and risk management services for one of the Units at the Kendall facility. Progress receives a monthly management fee equal to a fixed percentage of the gross margin of the Unit subject to a minimum monthly fee of $16,100. Kendall incurred management fees of $231,000 for the year ended December 31, 2005.

During the term of the EMA, Kendall is required to provide Progress security for Kendall s obligations under the EMA. To satisfy this obligation, in 2005, the Company funded an escrow account in the amount of $2 million from its restricted cash. Under the terms of the escrow agreement, Progress is the beneficiary of the escrow account. The amount of security may be adjusted from time to time pursuant to the terms of the EMA.

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The initial term of the EMA expired on January 28, 2006. Pursuant to the Amendment and Agreement dated January 30, 2006, the EMA was extended for a one month period and expired on February 28, 2006. At that time the EMA expired, the escrow agreement was terminated and the related funds were then released to Kendall. On February 28, 2006, Kendall entered into an Energy Management Agreement (the Cinergy EMA) with Cincinnati Gas & Electric Company (Cinergy) for this Unit. This agreement expires on December 31, 2006, but can be extended for an additional one year term. In accordance with the terms of the agreement, Cinergy will provide power management, fuel management and risk management services. Cinergy will receive a monthly management fee equal to a fixed percentage of the gross margin of the unit subject to a minimum monthly fee of $17,500. As security for its obligations under the Cinergy EMA, Kendall issued to Cinergy a standby letter of credit in the amount of $1 million. Effective November 1, 2006, the Cinergy EMA was assigned to Fortis Energy Marketing & Trading GP.

Ontelaunee had an Energy Services Agreement (the ESA) with Calpine Energy Services, L.P. (CES). Under the terms of the ESA, CES provided energy and risk management services for the Ontelaunee facility. CES received a monthly management fee equal to a fixed percentage of the monthly generation margin subject to a minimum monthly fee of $20,000. Ontelaunee recorded $60,000 of management fees for the period of October 6, 2005 to December 31, 2005. The ESA expired on August 31, 2006.

On August 31, 2006, Ontelaunee and Eagle Energy Partners I, L.P. (Eagle) entered into an agreement that requires Eagle to provide energy and risk management services for the Ontelaunee facility. Eagle receives a fee comprised of fixed and variable components. The agreement was amended and restated on December 1, 2006 to include fuel management services for the Ontelaunee facility. As security, funds owed to Ontelaunee from PJM for power sold during the prior month will be sent directly to Eagle on a monthly basis. Eagle will forward any remaining funds to Ontelaunee after any outstanding invoices to Ontelaunee have been paid. The term of the agreement expires on August 31, 2007, unless the parties mutually agree to an extension of one additional year.

(d) Gas Supply Management Agreement

Ontelaunee had a natural gas supply management contract with Cinergy Marketing and Trading LP (CMT) that expired on May 31, 2006. Under the terms of the contract, CMT provided fuel management services for the Ontelaunee facility. Management fees for the period October 6, 2005 to December 31, 2005 totaled $2,500. Ontelaunee issued a letter of credit of approximately $1 million for the benefit of CMT as security under this agreement.

On June 1, 2006 Ontelaunee entered into a natural gas supply management contract with BG Energy Merchants, LLC (BG) that expired on November 30, 2006. Under the agreement BG provides fuel management services for the Ontelaunee facility. The management fee was $42,000 per month.

(e) Operations and Maintenance Agreements

Under the terms of a long term operations and maintenance agreement (the Kendall O&M Agreement) with General Electric International, Inc. (GE), Kendall is required to pay GE a fixed annual fee to operate the Kendall facility. Kendall is also required to reimburse GE for all labor costs, including payroll and taxes, subcontractor costs and other costs. The annual fee is adjusted annually based on specified indices published by the United States Government. Kendall incurred costs of $3.9 million and $738,000 payable to GE under the Kendall O&M Agreement for the year ended December 31, 2005 and for the period December 1, 2004 through December 31, 2004, respectively. On May 1, 2005, the Kendall O&M Agreement was amended whereby the base annual fee payable to GE was reduced from $550,000 to $150,000. The Kendall O&M Agreement expires on March 28, 2012.

Under the terms of an operations and maintenance agreement (the Ont O&M Agreement) with Calpine Power Services Company, Inc. (CPSC), which was assigned by CPSC to WorleyParsons (WP) in September 2006, Ontelaunee is required to pay WP a fixed monthly fee to operate the Ontelaunee facility. Ontelaunee is also

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required to reimburse WP for all labor costs, including payroll and taxes, subcontractor costs and other costs. In addition to the fixed fee, the agreement provides for an availability bonus that is limited to $50,000 per year. The management fee is adjusted annually based on the Consumer Price Index for All Urban Consumers, U.S. City Average. During the period from October 6, 2005 through December 31, 2005, Ontelaunee incurred costs of approximately $58,000 under the Ont O&M Agreement. The initial term of the Ont O&M Agreement is 5 years commencing on October 6, 2005.

(f) Long Term Parts and Service Agreements

Pursuant to the terms of a Long Term Service Agreement (the Kendall LTSA) with GE, GE provides long term parts and services for each of the four combustion turbine Units located at the Kendall facility. The term of the Kendall LTSA will expire on a Unit by Unit basis after the later of (i) the date on which a Unit has attained either 96,000 factored hours or 5,400 factored starts, as defined in the Kendall LTSA, whichever occurs first, or (ii) the date on which GE has completed the second major inspection, as defined in the Kendall LTSA, for such Unit. In no event shall the term of the Kendall LTSA extend beyond the 21st anniversary of the effective date.

Fees for the Kendall LTSA are comprised primarily of (i) a variable quarterly payment based upon each Unit s operational parameters and (ii) a fixed payment based upon each Unit s actual hours and starts incurred. All payments are adjusted annually based upon specified indices published by the United States Government. The Company incurred costs of approximately $4.4 million and $58,000 to GE under the Kendall LTSA for the year ended December 31, 2005 and the period December 1, 2004 to December 31, 2004, respectively.

Pursuant to the terms of a Long Term Service Agreement (the ONT LTSA) with Thomassen Turbine Systems America, Inc. (Thomassen), Thomassen provides long term parts and services for each of the two combustion turbine Units located at the Ontelaunee facility. The term of the LTSA expires on October 5, 2015.

Fees for the ONT LTSA are comprised primarily of (i) purchases of parts to support planned and unplanned maintenance on the units, (ii) purchase of field service visits to support planned and unplanned maintenance on the units and (iii) purchase of maintenance management assistance services. Purchases for parts and field services are paid when parts and required field services are received. Maintenance management services are paid for on a monthly basis. During the period from October 6, 2005 to December 31, 2005, Ontelaunee incurred costs of approximately $25,000 under the ONT LTSA.

(g) Electric Interconnection Agreement

Ontelaunee has an Interconnection Agreement with Metropolitan Edison Company (GPU) to transmit the electricity generated by the Ontelaunee facility to the transmission grid so that it may be sold in the open market. The agreement is in effect for the life of the Ontelaunee facility. In order to bring the transmission lines up to capacity, GPU had to upgrade the lines and network. GPU recovers its cost of the upgrades through a monthly fee of approximately $112,000 that is fixed for 25 years, at which time the rate will be renegotiated. If Ontelaunee terminates the contract prior to its expiration, it will be responsible for an early termination charge as outlined in the agreement. The Company issued a letter of credit of approximately $5.7 million for the benefit of GPU as security under this agreement.

Upon termination of this agreement, Ontelaunee may be required to pay for the removal of the upgrades, less salvage. The upgrades are critical to Ontelaunee s ability to transmit energy and are integral to the operations of GPU s transmission network. As a result, Ontelaunee does not believe it will be required to remove the upgrades upon termination. Accordingly, Ontelaunee has not recognized an asset retirement obligation related to this provision of the agreement as of December 31, 2005.

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(h) Project Development Agreements

In December 2005, LS Associates, through a subsidiary Plum Point Energy Associates, LLC (PPEA), entered into an Engineering, Procurement and Construction Agreement (the Plum Point EPC), to construct a 665 megawatt coal fired electric generating facility (the Plum Point Project) near the city of Osceola, Arkansas, with Plum Point Power Partners (the Plum Point Contractor), a joint venture of Zachry Construction Corporation, Overland Contracting Inc., and Gilbert Central Corp. The Plum Point EPC provides for the Contractor to design, engineer and construct the Plum Point Project on a turnkey, fixed cost basis. The total fixed price of the Plum Point EPC is $875 million. During 2005, PPEA paid a deposit of $1 million under the Plum Point EPC. Construction of the Plum Point Project began in March 2006 (see note 14). In March 2006, pursuant to an Asset Purchase Agreement (the Asset Purchase Agreement) PPEA assigned an undivided tenancy in common interest in the Plum Point EPC to three unaffiliated investors (the Project Co Owners).

In March 2005, the Company entered into an option agreement pursuant to which the Company acquired an option to acquire all or a portion of an interest in a certain transmission line and related facilities. Under the terms of the agreement, the Company is obligated to make fixed payments over a two year period totaling $1.5 million. For the year ended December 31, 2005, LS Associates made payments of $600,000 under such agreement.

The contracts discussed in this footnote resulted in the Company having various long term firm commitments with the approximate contractual obligations at December 31, 2005 as follows (in thousands):

	2006	2007	2008	2009	2010	Thereafter
Interconnection agreements	$ 1,346	$ 1,346	$ 1,346	$ 1,346	$ 1,346	$ 14,809
Option agreement	400	500				
Long-term service agreements	1,015	601	613	624	635	645
Total contractual obligations	$ 2,761	$ 2,447	$ 1,959	$ 1,970	$ 1,981	$ 15,454

(8) Financing Arrangements

Kendall refinanced its credit facility on October 7, 2005 with a new eight year $422 million Senior Secured Term Loan Facility (the Term Loan Facility) and a six year $10 million Senior Secured Liquidity Facility (the Liquidity Facility) (and collectively with the Term Loan Facility, the Credit Facility). The interest rate for the Term Loan Facility adjusts each interest period based on the adjusted LIBO rate. The interest rate in effect at December 31, 2005 was 6.527% (LIBO rate plus 2%). The proceeds were used to retire outstanding debt of $440.9 million, pay interest rate swap breakage fees of $5.5 million, pay accrued interest of $0.6 million and debt issuance costs of $10.5 million.

The terms of the Credit Facility require Kendall to hedge a minimum of 50% of the Term Loan Facility. Accordingly, concurrent with the refinancing, Kendall entered into an interest rate swap agreement for a notional amount of $400.9 million. The terms of the swap require Kendall to pay a fixed rate and receive a floating rate. The swap matures September 15, 2015. The fixed rate is 4.801% while the floating rate is based on the 3 month LIBOR rate. At December 31, 2005, the swap s fair value was a liability of $95,000. Such swap agreement qualify as cash flow hedges.

The interest rate swap agreements that were outstanding at December 31, 2004 had a termination date of September 29, 2006. Swap breakage costs of $5.5 million were paid in connection with the termination of the interest rate swap agreements on October 7, 2005. Prior to the termination, the fair value of the interest rate swap agreements totaled a liability of $5.5 million and any changes in the fair value of such interest rate swaps were recorded in other income, net on the combined statement of operations.

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For the year ended December 31, 2005 and the period December 1, 2004 through December 31, 2004, Kendall made principal payments of approximately $26.7 million and $2.5 million, respectively. Interest payments of $21.7 million and $4.0 million were made for the year ended December 31, 2005 and the period December 1, 2004 through December 31, 2004, respectively.

Kendall may, at its option, prepay the outstanding term loan in whole or in part at any time, subject to payment of a premium equal to 3.00% of the amount being prepaid if the prepayment occurs during the first year of the Kendall credit facility (which has passed) and 1.00% of the amount being prepaid if the prepayment occurs during the second year of the Kendall credit facility, with no premium required thereafter. Mandatory principal payments are payable quarterly at the rate of 1% per annum of the original outstanding principal amount of the Term Loan Facility of $422 million. If the outstanding principal amount of the Term Loan Facility exceeds the Targeted Principal Outstanding (defined below), (i) 100% of the amount, if any, of Excess Cash Flow (as defined) for the quarter up to the amount required for the outstanding principal amount of the Term Loan Facility to equal the Targeted Principal Outstanding, and (ii) 50% of the amount, if any, of the Excess Cash Flow (as defined) for the quarter remaining after the application of (i) shall be used to prepay the outstanding principal amount of the Term Loan Facility. The Targeted Principal Outstanding refers to the aggregate principal amount of Term Loans specified to be outstanding as of a certain date, as detailed below.

Estimated principal payments for the next five years are as follows (in thousands):

	Mandatory principal payments	Principal outstanding	
		Minimum	**Targeted**
2006	$ 4,220	416,725	402,130
2007	4,220	412,505	380,595
2008	4,220	408,285	350,946
2009	4,220	404,065	310,396
2010	4,220	399,845	256,349
Thereafter	399,845		

In addition to the $4.2 million mandatory principal payments, the Company estimates that additional principal payments of $15.6 million will be made from Excess Cash Flow (as defined) during the next twelve months and has included such amount in current portion of long-term debt in the accompanying combined balance sheet as of December 31, 2005.

There were no amounts outstanding under the Liquidity Facility as of December 31, 2005. A commitment fee of 0.50% per annum is payable on the average daily unused amount of the Liquidity Facility.

All of the assets and contract rights of Kendall are collateral for outstanding loans.

The Credit Facility requires that proceeds from borrowings, the receipt of revenues, debt service payments and the payments for certain categories of expenses each be segregated into separate bank accounts. Under the terms of a depositary agreement (the Depositary Agreement) dated October 7, 2005, Kendall has established the required bank accounts and has pledged all its rights, title and interest in the bank accounts as security for its payment obligations under the Credit Facility. The Credit Facility requires Kendall to maintain a $20 million debt service reserve account. Initially, Kendall cash funded this account. On December 28, 2005, Kendall replaced the cash balance with a $20 million letter of credit issued by Kendall Holding. In accordance with the terms of the Credit Facility, Kendall distributed the $20 million to its owners.

The Credit Facility requires compliance with certain covenants, relating to, among other things, financial ratios, certain reporting requirements, additional indebtedness, certain new and existing agreements and other activities. Kendall was in compliance with such covenants at December 31, 2005.

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On December 7, 2005, Ontelaunee entered into a $125 million term loan agreement (the Credit Agreement) with a financial institution. The proceeds were used to refinance a portion of the debt incurred in connection with the Ontelaunee Acquisition. At December 31, 2005, $125 million was outstanding under the Credit Agreement which bears interest at a variable rate (7.83% at December 31, 2005). The terms of the Credit Agreement allow the Company to extend the agreement for one year after the maturity date of December 7, 2006. Outstanding principal is due no later than the Credit Agreement maturity date unless the one year extension option is exercised which would extend the maturity date to December 7, 2007.

In connection with the Credit Agreement, Ontelaunee incurred debt financing costs of approximately $836,000. Such costs have been capitalized as a component of other current assets on the accompanying combined balance sheet and are being amortized over the initial term of the Credit Agreement.

The Credit Agreement requires compliance with certain covenants, including, among other things, compliance with certain reporting requirements, additional indebtedness, certain new and existing agreements and other activities. Ontelaunee was in compliance with such covenants at December 31, 2005.

On May 5, 2006, Ontelaunee refinanced the Credit Agreement with a new three year $100 million term loan (the First Lien Term Loan) and a three year $50 million term loan (the Second Lien Term Loan). Proceeds from the new loans of approximately $22 million were distributed to the owners. The terms of the loans expire on May 4, 2009. Substantially all of Ontelaunee s assets and contract rights are pledged as collateral on the First Lien and Second Lien Term Loan.

(9) Other Long Term Liabilities

As of December 31, 2005 and 2004, other long term liabilities consisted of approximately $11.7 million and $12.4 million, respectively, of accrued state sales tax. The Company purchased certain generating equipment used in the construction of the Kendall facility totaling approximately $225.1 million. State sales tax on these equipment purchases was deferred and estimated annual sales tax payments for the next five years will approximate $696,000 per year.

(10) Related Party Transactions

The Company had a note payable to an affiliate (LS Associates) in the amount of $1.2 million at December 31, 2005 and 2004. The note bears interest at the monthly prime interest rates published by the Federal Reserve Board and is adjusted quarterly. The interest rates at December 31, 2005 and 2004 were 6.23% and 4.75% respectively. The note is unsecured and is due February 6, 2007.

Project development costs, including salaries and general and administrative costs, are primarily funded and paid for by LS Associates. Such fundings are reflected as capital contributions in the combined financial statements.

(11) Income Taxes

The Company recorded no net tax expense for the year 2005. At December 31, 2005, the Company had net federal and state operating loss carry forwards available to offset future taxable income of $2.7 million attributable to Kendall Blocker and Ont Blocker. These federal and state loss carry forwards, if unutilized, will expire in the years 2017 through 2025. As of December 31, 2005, the Company recorded a deferred tax asset of $1.1 million for such loss carry forwards and an offsetting deferred tax liability of $1.1 million related to investment basis differences.

The Company assesses the realization of its deferred tax assets to determine whether a valuation allowance is required on its deferred tax assets. Based on all available evidence, both positive and negative, and the weight of that evidence, the Company determines whether it is more likely than not that all or a portion of the deferred

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tax assets will be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the period in which those temporary differences become deductible. The Company considers the scheduled reversals of deferred tax liabilities, projected taxable income, and tax planning strategies in making the assessment of the amount of valuation allowance. As of December 31, 2005, management believes it is more likely than not that the Company will realize the benefits of these deductible differences and therefore no valuation allowance has been provided on its deferred tax assets.

As of December 31, 2004, there were no corporations included in the combined financial statements.

(12) Owners Equity

Profits, losses and distributions are allocated in accordance with the provisions of the applicable organizational documents.

In October 2005, Kendall Holding issued 610 Class A preferred units (the Class A Units) and 610 Class B preferred units (the Class B Units) to LS Equity Partners for approximately $9.2 million and $12.2 million, respectively, and 390 Class A Units and 390 Class B Units to Kendall Blocker for approximately $5.8 million and $7.8 million, respectively. Proceeds from the issuance of all the Class B Units were used to temporarily fund a debt service reserve account at Kendall. In December 2005, Kendall Holding issued a $20 million letter of credit to satisfy such debt service requirement. As a result, all Class B Units were redeemed by Kendall Holding and $12.2 million and $7.8 million were paid to LS Equity Partners and Kendall Blocker, respectively. Kendall Blocker distributed such funds to PIE.

The Class A Units earn a 12% per annum preferred return. Such preferred return is required to be paid prior to any other distributions. No applicable distributions were paid as of December 31, 2005. Preferred return in arrears totaled $415,000 at December 31, 2005. In July 2006, $802,000 and $513,000 of such preferred distributions were paid to LS Equity Partners and Kendall Blocker, respectively. Kendall Blocker distributed such funds to PIE.

(13) Commitments and Contingencies

During the development of the Kendall facility, Kendall entered into a tax agreement (the Tax Agreement) with Kendall County, Illinois and Seward Township, Illinois. The Tax Agreement specified an allocation of 10-20% of the direct construction costs of the Kendall facility to be treated as real property, and thus taxed as such, and the remainder to be treated as personal property, and not subject to real estate taxes. Two local school districts (the School Districts) that were not parties to the Tax Agreement, filed an appeal of Kendall s 2001 and 2002 tax assessments at the county level. The School Districts argue that the entire Kendall facility, including all construction costs and generating equipment, is assessable. Kendall contends that only the land, buildings and site improvements are assessable. The School Districts 2001 appeal at the county level was unsuccessful. The School Districts appeal of the Kendall 2002 assessment at the county level was successful and, as a result, the assessments for 2002, 2003 and 2004 were increased and the related taxes were expensed and paid by Kendall. Kendall s assessment for all years (2001-2004) is currently under appeal at the state level in front of the Illinois Property Tax Appeal Board (the PTAB). In April 2005, the PTAB held a hearing in connection with Kendall s 2001 real estate taxes. In February 2006, the PTAB ruled in favor of Kendall for the 2001 tax year. On April 21, 2006, the School Districts filed a record of appeal. On June 30, 2006, the PTAB declared that the refund due to Kendall for 2001 taxes needed to be held in an escrow account until further court review.

National Energy Production Corporation (NEPCO) and Dick Corporation (DC) (collectively, the Kendall Contractor) had entered into an Engineering Procurement and Construction contract (the Kendall EPC) to design, engineer and construct the Kendall Facility. In 2002, Kendall filed a proof of claim against Enron Corp. (Enron) with respect to a guaranty of the contractor s obligations to Kendall under the EPC Agreement and a proof of claim against NEPCO relating to the EPC Agreement. Pursuant to a Stipulation and

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Consent Order entered on January 25, 2006, Kendall s claims with Enron and NEPCO were settled in the amount of $6.5 million and $6.5 million, respectively. Enron and certain of its affiliates, including NEPCO had filed voluntary petitions for relief under bankruptcy laws. Accordingly, the settlement was approved by the bankruptcy court on February 7, 2006. As of December 31, 2005, no receivables have been recorded related to this matter.

Effective March 30, 2006, Kendall Holding assigned all of its rights in future distributions from Kendall arising under these claims to a third party for approximately $3.1 million. In October 2006, Kendall received $835,000 under these claims and such proceeds were paid to the third party.

The Company enters into contracts that contain various representations, warranties, indemnifications and guarantees. Some of the agreements contain indemnities that cover the other party s negligence or limit the other party s liability with respect to third party claims, in which event the Company effectively indemnifies the other party. While there is the possibility of a loss related to such representations, warranties, indemnifications and guarantees in the contracts and such loss could be significant, the Company considers the probability of loss to be remote.

The Company is a party to certain other claims arising in the ordinary course of business. The Company is of the opinion that final disposition of these claims will not have a material adverse effect on the Company s financial position, results of operations or cash flows.

To satisfy certain of the Company s contractual obligations the Company has issued letters of credit in favor of counterparties totaling approximately $38.2 million as of December 31, 2005.

(14) Subsequent Events
Acquisitions

On May 4, 2006 LSP Generation Holdings, LLC (Gen Holdings) through its subsidiary LS Power Generation, LLC, (LSP Gen) acquired 100% of Duke Energy North America s ownership interests in eight power generation facilities located in the western and northeastern United States (the Generation Acquisition). At the time of the acquisition, 50% of one of the power generation facilities was owned by PPL Corporation. On June 30, 2006, a subsidiary of LSP Gen purchased the remaining 50% ownership interest from PPL Corporation for approximately $116 million. The members of LSP Gen are Gen Holdings and LSP Gen Investors, LP, who owns approximately 1.7%.

The two acquisitions include eight facilities (the Generation Facilities) in four states in the western and northeastern United States with a nominal net operating capacity of 6,260MW as follows:

(1) Natural gas fired combined cycle facilities located in Moss Landing, California; Griffith, Arizona; Arlington Valley, Arizona; Bridgeport, Connecticut; and Casco Bay, Maine representing 51% of total net operating capacity;

(2) Natural gas fired conventional steam facilities located in Moss Landing, California; Morro Bay, California and San Diego, California representing 46% of total net operating capacity; and

(3) An oil fired, simple cycle facility located in Oakland, California representing 3% of total net operating capacity.

The cost of the Generation Acquisition was approximately $1,618 million, consisting of $1,613 million of cash and $5 million of direct acquisition costs. The acquisition was funded by the issuance of debt and capital contributions from the owners. The cost of the acquisition was allocated to the assets acquired and liabilities assumed based on estimates of their fair values at the date of acquisition. Fair values were determined primarily by an independent third party valuation. The Company is in the process of obtaining the final third-party valuation report and finalizing its own internal assessment of the purchase price allocation; thus, the allocation of the purchase price may change.

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The following table summarizes the estimated fair value of assets acquired and liabilities assumed at the date of acquisition (May 4, 2006).

	(in thousands)
Current assets	$ 65,874
Property, plant and equipment	1,668,265
Acquired intangible assets	48,565
Other noncurrent assets	581
Total assets acquired	1,783,285
Current liabilities	122,571
Asset retirement obligations	29,551
Other long-term liabilities	13,143
Total liabilities assumed	165,265
Net assets acquired	$ 1,618,020

The acquired intangible assets represent the above market portion of a number of power purchase agreements. Such agreements have a weighted average term of four and one half years.

A portion of the purchase price was funded through the issuance of term loans by LSP Gen Finance Co, LLC, a wholly owned subsidiary of LSP Gen, under a First Lien Loan Facility and a Second Lien Loan Facility (the Credit Facilities). The Credit Facilities consist of:

(1) a $950 million 7 year first lien term loan, a $40 million 7 year first lien delayed draw term loan and a $150 million 8 year second lien term loan all used to (i) fund a portion of the Generation Acquisition and (ii) pay a portion of the fees and expenses associated with the transaction;

(2) a $100 million 5 year first lien revolving and letter of credit facility that is used for general corporate, liquidity and working capital purposes;

(3) a $500 million 7 year first lien senior secured funded letter of credit facility (the Special LC Facility). The Special LC Facility is used to (i) support obligations under certain agreements and (ii) satisfy certain collateral requirements with respect to the maintenance, operations, fuel purchase, transportation and transmission services; and

(4) a $150 million 5 year incremental letter of credit facility, which may be used to provide support to permitted project related agreements and other uses which are necessary for the operation of the business.

Gen Finance entered into three interest rate swap agreements with an aggregate notional amount of $1,002 million. The terms of the swaps require Gen Finance to pay an average fixed rate of 5.19% and receive a floating rate. The floating rate is based on the 3 month LIBO rate.

Plum Point Project

Effective March 14, 2006, LS Associates, LS Equity Partners, and LSP Plum Point Blocker, Inc. formed a new company, LSP Plum Point Holdings, LLC (Plum Point). Plum Point was formed, amongst other things, to own, manage and finance PPEA Holding Company, LLC (PPEA Holding), LSP Plum, LLC (LSP Plum) and, indirectly through Plum Point and LSP Plum, PPEA.

PPEA Holding was formed for the purpose of acquiring all of the outstanding equity interests of PPEA (developer of a power generation project) on March 14, 2006 and to manage and finance its equity interest in PPEA. The members of PPEA Holding include EIF Plum Point, LLC, an unaffiliated investor, who owns approximately 30%.

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Effective March 14, 2006, PPEA closed its financing for the Plum Point Project with a consortium of financial institutions (the PPEA Lenders). The financing consists of (a) a $423 million term loan, (b) a $50 million revolver and (c) a $102 million letter of credit facility (collectively, First Lien Facility) and (2) a $175 million term loan (Second Lien Facility), (and collectively with the First Lien Facility, the PPEA Credit Facility). On March 14, 2006, PPEA borrowed $423 million under the First Lien Facility and $175 million under the Second Lien Facility.

Concurrent with the financing under the PPEA Credit Facility, PPEA entered into two interest rate swap agreements. The terms of the swaps require PPEA to pay an average fixed rate of 5.15% and receive a floating rate. The floating rate is based on the 3 month LIBO rate.

Under the terms of an Equity Contribution Agreement (the Equity Agreement) PPEA Holding is required to make an aggregate equity contribution to PPEA in the amount of $225 million prior to the completion of construction of the Plum Point Project. As security for this obligation each member of PPEA Holding or its affiliate has issued separate letters of credit in favor of the PPEA Lenders. Letters of credit in the amount of $130 million and $20 million were issued by Plum Point and LS Associates, respectively. As a result of the Municipal Energy Agency of Mississippi (MEAM) June 2006 buy out of the MEAM power purchase agreement, as described below, the amount of the letters of credit was reduced by $11.9 million and $2.7 million, respectively.

Pursuant to the Asset Purchase Agreement and a Participation Agreement (the Participation Agreement), dated March 14, 2006, PPEA sold 37.1% of its ownership interest in the Plum Point Project to the Project Co Owners. The Project Co Owners all own an undivided tenancy in common interest in the Plum Point Project and are participating in the construction and operation of the Plum Point Project. Each Project Co Owner is separately financing its pro rata share of the total construction cost of the Project.

PPEA, the City of Osceola, Arkansas (the City), Mississippi County, Arkansas, the Osceola School District No. 1 of Mississippi County and the Mississippi County Community College District entered into an agreement (the PILOT Agreement) whereby the City agreed to issue Industrial Development Revenue Bonds for the purpose of acquiring, constructing and equipping certain industrial facilities within or near the City that make up the Plum Point Project. Pursuant to the PILOT Agreement, the City agreed to enter into a lease agreement whereby the Plum Point project would be leased from the City to PPEA. In return, PPEA agreed to make (i) a one time donation to the City, the School District and the Community College and (ii) payments in lieu of certain ad valorem taxes over the term of the lease.

On March 1, 2006, the City and PPEA entered into a Lease Agreement, Trust Indenture and Guaranty Agreement and other ancillary documents (collectively, the Taxable Bond Documents). Pursuant to the Trust Indenture, the City issued the City of Osceola, Arkansas Taxable Industrial Development Revenue Bonds, Series 2006, in the aggregate principal amount of up to $980 million (the Taxable Bonds) for the purpose of acquiring, constructing and equipping certain industrial facilities that make up the Plum Point project. Pursuant to the Lease Agreement, the City leased the project to PPEA for a term to match the maturity of the Taxable Bonds (March 1, 2036).

Under the Lease Agreement, PPEA is required to pay, as rent, amounts equal to any amounts payable from time to time as principal and accrued interest on the Taxable Bonds. Under the Trust Indenture, the Taxable Bonds are not full recourse obligations of the City but are rather limited recourse obligations that are payable only out of amounts received as rent under the Lease Agreement. PPEA is the sole holder of the Taxable Bonds. Consequently, PPEA is both the payor and the ultimate payee of the amounts payable by PPEA as rent under the Lease Agreement. In recognition of this fact: (i) the Taxable Bond Documents permit PPEA 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 Taxable Bonds, and (ii) as a result of such netting, PPEA is not expected to have any obligation to make any cash payments under the Lease Agreement.

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On April 1, 2006, the City and PPEA entered into a Loan Agreement authorizing that the proceeds of the City of Osceola, Arkansas Solid Waste Disposal Revenue Bonds (Plum Point Energy Associates, LLC Project) in the aggregate amount of $100 million (the Tax Exempt Bonds) will be loaned by the City to PPEA. The Tax exempt Bonds are issued and secured by a Trust Indenture dated April 1, 2006 between the City, PPEA and Regions Bank as Trustee. The purpose of the Tax exempt Bonds is to finance certain of PPEA s undivided interests in various sewage and solid waste collection and disposal facilities. These systems are eligible for tax exempt financing. To support the payment of the Bonds, an irrevocable letter of credit was issued for the benefit of the owners of the Tax exempt Bonds in the amount of $101 million. The letter of credit was issued pursuant to the PPEA Credit Facility.

In February 2006, PPEA entered into a 5 year gas option agreement (the Option Agreement) and paid an upfront and an option premium payment of $45.5 million, respectively. In October 2006, approximately 82% of such option was unwound and PPEA received $37.1 million from the counterparty. $28.1 million of such proceeds was used to repay a portion of the loans under the PPEA Credit Facility.

In addition to the Option Agreement, PPEA has entered into 30 year power purchase agreements (each a PPA and collectively the PPAs) with Empire District Electric Company (Empire), MEAM and South Mississippi Electric Power Association (SMEPA) for the sale of 50 MW, 40 MW and 200 MW, respectively, of capacity and associated energy from the Plum Point Project. Pursuant to the PPAs, the Plum Point Project will receive capacity payments and fixed and variable payments. The fuel charge under both PPAs will be based on the delivered cost of coal (inclusive of transportation costs) and an assumed heat rate.

The MEAM PPA and Empire PPA each contain a buyout option. Empire has the right to buy out its 50 MW of contract capacity at five years after commencement of operations. Upon exercising these options, the PPA counterparties would become Project Co Owners and parties to the Participation Agreement. Should Empire and/or MEAM exercise its respective PPA buy out option, the relevant PPA would be cancelled and the respective party would become the owner of undivided interests in the Project commensurate with the capacity purchased under the contract. In June 2006, MEAM exercised its buy out option and acquired a 6% undivided interest in the Project from PPEA for $11.2 million. As a result of the MEAM buy in PPEA repaid $66.8 million of loans under the PPEA Credit Facility.

Planned Merger

On September 15, 2006, the LS Power Group announced that LS Associates, LS Power, LS Equity Partners, PIE and LSP Gen Investors, L.P. (collectively, the LS Entities) had entered into a Plan of Merger, Contribution and Sale Agreement dated as of September 14, 2006 (the Dynegy Merger Agreement) with Dynegy Inc. (Dynegy), Dynegy Acquisition Inc. (New Dynegy) and Falcon Merger Sub Co. (Merger Sub), a wholly owned subsidiary of New Dynegy. Pursuant to the Dynegy Merger Agreement, (a) Merger Sub will be merged (the Merger) with and into Dynegy and Dynegy will become a wholly owned subsidiary of New Dynegy (b) the LS Entities will contribute certain interests in power generation entities to New Dynegy in exchange for (i) 340 million shares of New Dynegy Class B common stock, par value $0.01 per share, and (ii) $163 million in aggregate principal amount of notes to be issued by New Dynegy, and (c) the LS Entities will sell Kendall Holding and LSP Kendall Blocker, Inc. to New Dynegy in exchange for (i) $100 million in cash and (ii) $112 million in aggregate principal amount of notes to be issued by New Dynegy. Each share of Dynegy s common stock outstanding at the time of the Merger will be converted into the right to receive one share of New Dynegy Class A common stock, par value $0.01 per share, following the Merger.

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LSP-KENDALL ENERGY, LLC AND LSP EQUIPMENT, LLC

(Delaware Limited Liability Companies)

Predecessor Combined Balance Sheets

November 30, 2004, December 31, 2003 and December 6, 2003

(In thousands of dollars)

(Unaudited)

		Reorganized Company	
	November 30, 2004	**December 31, 2003**	**December 6, 2003**
Assets			
Current assets:			
Restricted cash	$ 42,078	$ 24,278	$ 27,165
Accounts receivable-trade, net of allowance for doubtful accounts of $0, $206 and $206, respectively	5,003	7,382	9,319
Inventory	3,825	3,556	
Prepaid insurance expense	823	733	3,556
Prepaid other expenses	145	25	862
Deferred financing costs, net			1,040
Other current assets	13	3,990	2,601
Total current assets	51,887	39,964	44,543
Property, plant, and equipment, net	515,649	557,993	559,120
Total assets	$ 567,536	$ 597,957	$ 603,663
Liabilities and Members Equity			
Current liabilities:			
Current portion of long-term debt	$ 343	$ 456,643	$ 458,038
Accounts payable	748	936	401
Accrued interest payable	4,200	34	4,208
Accrued property taxes	5,042	6,000	5,581
Accrued expenses	2,684	12,027	12,272
Other current liabilities		18	18
Total current liabilities	13,017	475,658	480,518
Long-term debt, net of discount	448,039		
Derivative instruments	15,807	25,744	27,954
Other long-term liabilities	89,386	94,165	94,616
Total liabilities	566,249	595,567	603,088
Commitments and contingencies (note 13)			
Members equity	1,287	2,390	575

Total liabilities and members equity	$ 567,536	$ 597,957	$ 603,663

See accompanying notes to unaudited combined financial statements.

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LSP KENDALL ENERGY, LLC AND LSP EQUIPMENT, LLC

(Delaware Limited Liability Companies)

Predecessor Combined Statements of Operations

(In thousands of dollars)

(Unaudited)

	Reorganized Company		Predecessor Company
	Period from January 1, 2004 through November 30, 2004	Period from December 6, 2003 to December 31, 2003	Period from January 1, 2003 to December 5, 2003
Energy and capacity revenues	$ 73,446	$ 4,518	$ 60,662
Operating Expenses:			
Fuel and operations and maintenance expenses	22,260	729	22,435
Depreciation	13,721	1,161	23,056
General and administrative expenses	5,601	362	2,483
Fresh start reporting adjustments			222,811
Impairment charge	28,947		
Total operating expenses	70,529	2,252	270,785
Income (loss) from operations	2,917	2,266	(210,123)
Interest expense and amortization of deferred financing costs	(33,634)	(1,962)	(21,441)
Interest income	347		200
Other income, net	9,098	17	(210)
Net income (loss)	$ (21,272)	$ 321	$ (231,574)

See accompanying notes to unaudited combined financial statements.

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LSP-KENDALL ENERGY, LLC AND LSP EQUIPMENT, LLC

(A Delaware Limited Liability Company)

Predecessor Combined Statements of Members Equity and Comprehensive Income (Loss)

(In thousands of dollars)

	Member contributions/ distributions	Accumulated earnings (deficit)	Accumulated other comprehensive income (loss)	Total member s equity (deficit)
Balances at December 31, 2002 (Predecessor) Unaudited	$ 309,320	$ (59,153)	$ (22,941)	$ 227,226
Net loss		(231,574)		(231,574)
Change in unrealized gain on derivatives			3,432	3,432
Comprehensive loss				(228,142)
Capital contributions	1,491			1,491
Effects of fresh start reporting	(310,244)	290,735	19,509	
Balances at December 5, 2003 (Predecessor Company) Unaudited	567	8		575
Net income		321		321
Change in unrealized gain on derivatives			1,494	1,494
Comprehensive income				1,815
Balances at December 31, 2003 Unaudited (Reorganized Company)	567	329	1,494	2,390
Net loss		(21,272)		(21,272)
Change in unrealized loss on derivatives			839	839
Comprehensive income				(20,433)
Capital contribution	19,330			19,330
Balances at November 30, 2004 (Reorganized Company) Unaudited	$ 19,897	$ (20,943)	$ 2,333	$ 1,287

See accompanying notes to unaudited combined financial statements.

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LSP-KENDALL ENERGY, LLC AND LSP EQUIPMENT, LLC

(A Delaware Limited Liability Company)

Predecessor Combined Statements of Cash Flows

(In thousands of dollars)

	Reorganization Company		Predecessor Company
	Period from January 1, 2004 through November 30, 2004	Period from December 6, 2003 to December 31, 2003	Period from January 1, 2003 to December 5, 2003
Cash flows from operating activities:			
Net income (loss)	$ (21,272)	$ 321	$ (231,574)
Adjustments to reconcile net income (loss) to cash provided by (used in) operating activities:			
Depreciation	13,721	1,161	23,056
Amortization of power purchase agreement	(4,070)		
Amortization of debt discount	9,732	790	
Gain on derivative instruments	(9,098)	(1,109)	(2,786)
Impairment charge	28,947		222,811
Change in assets and liabilities:			
Decrease in accounts receivable-trade	2,379	1,937	(95)
Increase in inventory	(269)		(127)
(Increase) decrease in prepaid insurance	(90)	129	(516)
(Increase) decrease in prepaid expenses	(120)	1,015	435
Decrease (increase) in other current assets	3,977	(1,389)	(2,389)
(Decrease) increase in accounts payable	(188)	535	(3,728)
Increase (decrease) in accrued interest payable	4,166	(4,174)	4,167
Increase (decrease) in accrued property taxes	(958)	419	3,081
(Decrease) increase in accrued expenses	(9,343)	(245)	750
Decrease in other current liabilities	(90)	(58)	
(Decrease) increase in other long-term liabilities	(638)		2,641
Cash provided by (used in) operating activities	16,786	(668)	15,916
Cash flows from investing activities:			
Capital expenditures	(324)	(34)	(175)
Change in restricted cash	(17,800)	2,887	(10,110)
Cash (used in) provided by investing activities	(18,124)	2,853	(10,285)
Cash flows from financing activities:			
Principal payments on long-term debt	(17,992)	(2,185)	(6,556)
Capital contributions	19,330		925
Cash provided by (used in) financing activities	1,338	(2,185)	(5,631)

Increase (decrease) in cash and cash equivalents			
Cash and cash equivalents:			
Cash and cash equivalents, beginning of period			
Cash and cash equivalents, end of period	$	$	$
Supplemental disclosure of cash flow information:			
Cash paid for interest	$ 19,736	$	$ 20,372

See accompanying notes to unaudited combined financial statements.

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NOTES TO UNAUDITED PREDECESSOR COMBINED FINANCIAL STATEMENTS

1. ORGANIZATION

LSP-Kendall Energy, LLC (Kendall) was formed on November 2, 1998 to develop, finance, construct, own and operate an approximately 1,168 MW electric generating facility consisting of four gas-fired combustion turbines and related equipment located in Kendall County, Illinois. LSP Equipment, LLC (Equipment) was formed to purchase and resell electric generating equipment to Kendall. These turbines became operational in 2002. The in-service date for each respective turbine was March 15, April 3, April 20 and June 30, 2002.

Kendall and Equipment were wholly owned indirect subsidiaries of Granite Power Partners II LP (Granite). Granite, a wholly owned indirect subsidiary of NRG Energy, Inc. (NRG Energy) , owned electric power generation plants in the Central and South Central regions of the United States. Granite was formed for the purpose of financing, acquiring, owning and maintaining, through its subsidiaries and affiliates electric generating facilities.

On May 14, 2003, NRG Energy and 25 of its direct and indirect wholly owned subsidiaries commenced voluntary petitions under Chapter 11 of the Bankruptcy Code in the United States Bankruptcy Court for the Southern District of New York. Kendall and Equipment were not part of these Chapter 11 cases or any of the subsequent bankruptcy filings. On November 24, 2003, the Bankruptcy Court entered an order confirming NRG Energy s Plan of Reorganization and the plan became effective on December 5, 2003 (Notes 2 and 3).

On December 1, 2004, pursuant to a Purchase and Sales Agreement (the PSA), LSP Kendall Holding, LLC (Holding), a wholly owned subsidiary of LS Power Associates, L.P. (Associates) acquired 100% of the outstanding membership interests of Kendall and Equipment (the Acquisition). Holding was formed on July 29, 2004 to acquire 100% of the outstanding membership interests of Kendall and Equipment. Associates is a Delaware limited partnership formed to develop, construct, own and invest in independent power generation projects.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

In connection with NRG Energy s emergence from bankruptcy, NRG Energy and its subsidiaries, including Kendall, 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 Reorganized Company and the Predecessor Company are separated by a black line to distinguish that the assets, liabilities and equity as well as the results of operations are not comparable between periods. Under the requirements of Fresh Start, Kendall 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.

The Fresh Start adjustments consist primarily of the valuation of fixed assets and liabilities. A description of the adjustments and amounts is provided in Note 3 Fresh Start Reporting.

As used herein, the following terms refer to Kendall and its operations:

Predecessor Company	Kendall, pre-emergence from bankruptcy Kendall s operations, January 1, 2003 December 5, 2003
Reorganized Company	Kendall, post-emergence from bankruptcy Kendall s operations, December 6, 2003 December 31, 2003

The combined financial statements include the financial statements of Kendall and Equipment (the Company). All significant intercompany transactions and balances have been eliminated in the combined financial statements.

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Use of Estimates

Management makes estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities and reported amounts of revenues and expenses to prepare the financial statements in conformity with accounting principles generally accepted in the United States of America. Actual results could differ from those estimates.

Restricted Cash

Restricted cash consists primarily of funds that are restricted from transfer or dividend from Kendall until such time as certain conditions are met which include a minimum debt coverage ratio and funding of certain reserve accounts. Restricted cash is used primarily for operating and maintenance expenses and debt service.

Inventory

Inventory consists of spare parts and is stated at the lower of weighted average cost or market.

Property, Plant and Equipment

Property, plant and equipment are stated at cost (fair value at the Fresh Start date) less accumulated depreciation. Depreciation is computed on a straight-line basis over the estimated useful life of the assets of 30 years. Additions and improvements extending asset lives are capitalized, while repairs and maintenance, including planned major maintenance, are charged to expense as incurred.

Impairment of Long-Lived Assets and Acquired Intangible Assets

Long-lived assets and intangible assets with determinable useful lives are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. 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. Assets to be disposed of are reported at the lower of the carrying amount or fair value less the costs to sell. Intangible assets are amortized over their respective estimated useful lives.

In anticipation of the sale of its interest in Kendall, Granite compared the carrying value of Kendall to its estimated fair value. Based on the anticipated proceeds, an impairment charge totaling $28.9 million was recorded for the period from January 1, 2004 through November 30, 2004.

Revenue Recognition

Revenue from sales of electricity are recorded 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.

Power Purchase Agreements

Under the adoption of Fresh Start, long-term liabilities had been established for power purchase agreements that were determined to be burdensome as compared to market expectations. These liabilities were amortized as a component of revenue over the terms of the respective contracts.

Power Marketing Activities

Kendall has entered into an agency arrangement with a marketing affiliate for the sale of energy, capacity and ancillary services produced on a limited basis, which enables the affiliate to engage in forward sales and

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economic hedges to manage Kendall s electricity price exposure. Net gains or losses on hedges by the affiliate, which are physically settled, are recognized in the same manner as the hedged item.

Derivative Financial Instruments

Derivatives that have been designated as hedges of assets, liabilities or firm commitments, are accounted for as fair value hedges. Changes in the fair value of these instruments will be recognized in earnings as offsets to the changes in the fair value of the related hedged assets, liabilities and firm commitments. Derivatives that have been designated as hedges of forecasted transactions are accounted for using the cash flow method. Changes in the fair value of these instruments are deferred and recorded as a component of accumulated other comprehensive income (OCI) until the hedged transactions occur and are recognized in earnings. The ineffective portion of any hedge is recorded immediately in earnings.

Fair Value of Financial Instruments

The carrying amount of restricted cash, accounts receivable, accounts payable, accrued expenses and derivative instruments equal or approximate fair values due to the short term maturity of those instruments.

Income Taxes

Kendall and Equipment have been organized as a limited liability companies. Therefore, federal and state income taxes are assessed at the member level. Accordingly, no provision has been made for federal or state income taxes in the accompanying financial statements.

Concentrations of Credit Risk

Financial instruments, which potentially subject the Company to concentrations of credit risk, consist primarily of restricted cash and accounts receivable. Restricted cash accounts are generally held in federally insured banks. Accounts receivable are concentrated within entities engaged in the energy industry. These industry concentrations may impact the Company s overall exposure to credit risk, either positively or negatively, in that customers may be similarly affected by changes in economic, industry or other conditions.

Kendall is exposed to credit losses in the event of noncompliance by counterparties on its derivative financial instruments. The counterparties to these transactions are major financial institutions. Kendall does not require collateral or other security to support the financial instruments with credit risk.

For the period January 1, 2004 through November 30, 2004, December 6, 2003 to December 31, 2003 and January 1, 2003 to December 5, 2003, revenues under power sales agreements with Dynegy Power Marketing, Inc. and Rainy River Energy Corporation, accounted for 55% and 28%, 65% and 35% and 54% and 39%, respectively, of Kendall s revenues. The loss of either of these two power sales agreements could result in an adverse impact on Kendall s results of operations and financial position.

Risks and Uncertainties

As with any power generation facility, operation of the Kendall facility involves risk, including the performance of the facility below expected levels of efficiency and output, shut-downs due to the breakdown or failure of equipment or processes, violations of permit requirements, operator error, labor disputes, or catastrophic events such as fires, earthquakes, floods, explosions, or other similar occurrences affecting a power generation facility or its power purchasers. The occurrence of any of these events could significantly reduce or eliminate revenues generated by the Kendall facility or significantly increase the expenses of each of the facilities, adversely impacting Kendall s ability to make payments of principal and interest on its debt when due.

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3. FRESH START REPORTING

In accordance with the requirement of SOP 90-7, the assets and liabilities of the Reorganized Company were recorded at their estimated fair value upon adoption of Fresh Start accounting. A third party was used to complete an independent appraisal of Kendall s tangible assets, equity investments and intangible assets and contracts. Kendall also recorded each liability existing at December 5, 2003, at the present value of amounts to be paid determined at appropriate interest rates.

The determination of the fair value of Kendall s assets and liabilities was based on a number of estimates and assumptions, which are inherently subject to significant uncertainties and contingencies.

Kendall recorded approximately $222.8 million of net reorganization loss in the Predecessor Company s statement of operations for the period January 1, 2003 to December 5, 2003, which includes adjustments to reduce the historical carrying values of assets and liabilities to fair market value.

Due to the adoption of Fresh Start as of December 5, 2003, the Reorganized Company s balance sheets, statements of operations and cash flows have not been prepared on a consistent basis with the Predecessor Company s financial statements and are not comparable in certain respects to the financial statements prior to the application of Fresh Start. A black line has been drawn on the accompanying financial statements to separate and distinguish between the Reorganized Company and the Predecessor Company. The effects of the reorganization and Fresh Start on Kendall s balance sheet as of December 5, 2003, were as follows:

(in thousands of dollars)	**Predecessor Company December 5, 2003**	**Fresh Start Adjustments**	**Reorganized Company December 6, 2003**
Assets			
Current assets			
Restricted cash	$ 27,165	$	$ 27,165
Accounts receivable	5,863		5,863
Inventory	3,749	(193)(A)	3,556
Prepayments and other current assets	4,503		4,503
Total current assets	41,280	(193)	41,087
Property, plant and equipment, net	731,478	(172,358)(B)	559,120
Total assets	$ 772,758	$ (172,551)	$ 600,207
Liabilities and Member s Equity			
Current liabilities			
Current portion of long-term debt	$ 489,198	$ (31,160)(C)	$ 458,038
Accounts payable	401		401
Accounts payable affiliates	15,900		15,900
Accrued interest	4,208		4,208
Other current liabilities	12,285		12,285
Total current liabilities	521,992	(31,160)	490,832
Other long-term obligations		81,420(D)	81,420
Derivative instruments valuation	27,954		27,954

Total liabilities	549,946	50,260	600,206
Member s equity			
Member contributions	310,245	(310,244)	1
Accumulated net loss	(67,924)	67,924	
Accumulated other comprehensive loss	(19,509)	19,509	
Total member s equity	222,812	(222,811)(E)	1
Total liabilities and member s equity	$ 772,758	$ (172,551)	$ 600,207

(A) Accounting policy change upon adoption of Fresh Start reporting. Consumables are no longer included as inventory and are expensed as incurred.

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(B) Result of allocating the reorganization value in conformity with the purchase method of accounting for business combinations. These allocations were based on valuations obtained from independent appraisers.
(C) Reflects management s estimate, based on current market interest rates as of December 5, 2003, of the fair value of debt instruments.
(D) Reflects management s estimate, with the assistance of independent appraisers, of the fair value of power purchase agreements. Management identified certain power purchase agreements that were either valuable or burdensome as compared to market expectation.
(E) Reflects the elimination of the Predecessor Company s accumulated net loss and the accumulated other comprehensive loss.

4. OTHER CURRENT ASSETS

Other current assets as of December 31, 2003 and December 6, 2003 consisted primarily of warranty claims in the amounts of $4.0 million and $2.6 million, respectively. There were no such amounts as of November 30, 2004.

5. ACCRUED EXPENSES

Accrued expenses as of November 30, 2004, December 31, 2003 and December 6, 2003 consisted primarily of accrued contract retention in the amounts of $1.5 million, $9.9 million and $9.9 million, respectively.

6. OTHER LONG-TERM LIABILITIES

As of November 30, 2004, December 31, 2003 and December 6, 2003 other long-term liabilities consisted of approximately $12.4 million, $13.1 million and $13.2 million, respectively, of accrued state sales tax. The Company purchased certain generating equipment used in the construction of the Kendall facility totaling approximately $225.1 million. State sales tax on these equipment purchases was deferred and the estimated annual sales tax payments for the next five years will approximate $696,000 per year.

7. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value of financial instruments is defined as the amount at which the instrument could be exchanged in a current transaction between willing parties.

The estimated fair values of the Company s recorded financial instruments are as follows:

	Reorganized Company					
	November 30, 2004		December 31, 2003		December 6, 2003	
(in thousands of dollars)	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Restricted cash	$ 42,078	$ 42,078	$ 24,278	$ 24,278	$ 27,165	$ 27,165
Long-term debt, including current portion	448,382	448,382	456,643	456,643	458,038	458,038

For cash and cash equivalents and restricted cash, the carrying amount approximates fair value because of the short-term maturity of those instruments. The fair value of long-term debt is established based on quoted market prices for those instruments which are traded or on a present value method using current interest rates for similar instruments with equivalent credit quality.

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8. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consists of the following:

		Reorganized Company		
(in thousands of dollars)	**Average Remaining Useful Lives**	**November 30, 2004**	**December 31, 2003**	**December 6, 2003**
Land		$ 155	$ 148	$ 148
Plant equipment	1-39 years	530,130	558,972	558,972
Construction in progress		181	34	
Accumulated depreciation		(14,817)	(1,161)	
Property, plant and equipment, net		$ 515,649	$ 557,993	$ 559,120

9. FACILITY CONTRACTS

Under the terms of a Power Purchase Agreement (DPM PPA), with Dynegy Power Marketing, Inc. (DPM), Kendall is obligated to sell and DPM is obligated to purchase approximately 550 MW of electric generating capacity and associated energy from two of the four electric generating units (the Units) at the Project at prices set forth in the DPM PPA. The initial term of the DPM PPA is ten years, beginning on June 1, 2001. DPM has the option of extending the DPM PPA for two additional five year terms by providing Kendall written notice at least two years prior to the expiration of the initial term and the first additional five-year extension. Kendall may, if DPM does not extend the DPM PPA prior to the end of the initial term, extend the DPM PPA for a period of five years.

The terms of the DPM PPA require DPM to make payments to Kendall including a reservation payment, an energy payment, a guaranteed heat rate payment and a system upgrade payment.

The DPM PPA is a tolling arrangement, whereby DPM is obligated to arrange, procure, supply, nominate, balance, transport, pay for and deliver the amount of natural gas necessary for each DPM Unit to generate its net electrical output. DPM s obligations under the DPM PPA are guaranteed by DPM s parent company, Dynegy, Inc.

Under the terms of a Power Purchase Agreement (Rainy River PPA) with Rainy River Energy Corporation (Rainy River), Kendall is obligated to sell and Rainy River is obligated to purchase approximately 275 megawatts of electric generating capacity and associated energy from one of the four Units at the Kendall facility at prices set forth in the Rainy River PPA. The initial term of the Rainy River PPA expires on September 16, 2017.

The terms of the Rainy River PPA require Rainy River to make payments to Kendall including a reservation payment, an energy payment, a guaranteed heat rate payment and a system upgrade payment.

The Rainy River PPA is a tolling arrangement, whereby Rainy River is obligated to arrange, procure, supply, nominate, balance, transport, pay for and deliver the amount of natural gas necessary for the Rainy River Unit to generate its net electrical output. Rainy River s obligations under the Rainy River PPA are guaranteed by Rainy River s parent company, Minnesota Power, Inc.

Under the terms of a long-term operations and maintenance agreement (O&M Agreement) with General Electric International, Inc. (GE), Kendall is required to pay GE a fixed annual fee of approximately $550,000 during operation of the facility. Kendall is also required to reimburse GE for all labor costs, including payroll and taxes, subcontractor costs and other costs deemed reimbursable by Kendall. The annual fee is adjusted annually based on specified indices published by the United States Government. Kendall made payments of approximately

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$3.3 million, $0.3 million and $3.5 million to GE under the O&M Agreement for the periods January 1, 2004 through November 30, 2004, December 6, 2003 through December 31, 2003 and January 1, 2003 through December 5, 2003, respectively. The term of this amended O&M Agreement is ten years commencing on March 28, 2002, the date on which the first Unit achieved commercial operations.

Pursuant to the terms of a Long Term Service Agreement (LTSA) with GE, GE provides long term parts and services for each of the four combustion turbine units located at the Kendall facility. The term of the LTSA will expire on a Unit by Unit basis after the later of (i) the date on which a Unit has attained either 96,000 factored hours or 5,400 factored starts, as defined in the LTSA, whichever occurs first, or (ii) the date on which GE has completed the second major inspection, as defined in the LTSA, for such Unit. In no event shall the term of the LTSA extend beyond the 21st anniversary of the effective date.

Fees for the LTSA are comprised primarily of (i) a variable quarterly payment based upon each covered unit s operational parameters and (ii) a fixed payment based upon each covered unit s actual hours and starts incurred. All payments are adjusted annually based upon specified indices published by the United States Government. Kendall made payments of approximately $2.2 million, $0 and $2.1 million to GE under the LTSA for the period January 1, 2004 to November 30, 2004, December 6, 2003 to December 31, 2003 and January 1, 2003 to December 5, 2003, respectively.

10. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITY

The Company accounts for derivatives and hedging activities in accordance with SFAS No. 133, *Accounting for Derivatives Instruments and Hedging Activities*, as amended by SFAS No. 137, SFAS No. 138 and SFAS No. 149. SFAS No. 133 requires the Company to record all derivatives on the balance sheet at fair value. Changes in the fair value of non-hedge derivatives are immediately recognized in earnings. The criteria used to determine if hedge accounting treatment is appropriate are (a) the designation of the hedge to an underlying exposure, (b) whether or not the overall risk is being reduced and (c) if there is a high degree of correlation between the value of the derivative instrument and the underlying obligation. Formal documentation of the hedging relationship, the nature of the underlying risk, the risk management objective, and the means by which effectiveness will be assessed is created at the inception of the hedge. Changes in fair values of derivative accounted for as hedges are either recognized in earnings or offsets to the changes in fair value of related hedged assets, liabilities and firm commitments or, for forecasted transactions, deferred and recorded as a component of other accumulated comprehensive income, or OCI, until the hedged transactions occur and are recognized in earnings. The ineffective portion of a hedging derivative instrument s change in fair value is immediately recognized in earnings.

Kendall has entered into various interest rate swaps from variable to fixed rates. These swaps have been designated as hedges of forecasted transactions and are accounted for using the cash flow method.

The following table summarizes the effects of SFAS No. 133 on the Company s accumulated other comprehensive income (loss) balance:

(in thousands of dollars)	
OCI balance at December 31, 2002	$ (22,941)
Mark to market of hedge contracts	3,432
OCI balance at December 5, 2003 (Predecessor Company)	$ (19,509)
OCI balance at December 6, 2003 (Reorganized Company)	$
Mark to market of hedge contracts	1,494
OCI balance at December 31, 2003	1,494
Mark to market of hedge contracts	839
OCI balance at November 30, 2004	$ 2,333

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The adoption of SFAS No. 133 on January 29, 2001 (inception predecessor), resulted in no unrealized gain or (loss). The Company recorded gains in OCI of approximately $3.4 million during the period from January 1, 2003 to December 5, 2003, related to changes in the fair values of derivatives accounted for as hedges. The application of SOP 90-7 resulted in the elimination of the $19.5 million balance in OCI with the adoption of Fresh Start accounting. The Company recorded gains in OCI of approximately $1.5 million and $0.8 million during the periods December 6, 2003 to December 31, 2003 and January 1, 2004 to November 30, 2004, respectively.

No ineffectiveness was recognized on cash flow hedges during the periods from January 1, 2004 to November 30, 2004, December 6, 2003 to December 31, 2003 and January 1, 2003 to December 5, 2003.

11. FINANCING

Kendall has a $554.2 million credit facility (term loan), dated November 12, 1999, consisting of a credit facility of $499.5 million, available letters of credit of $49.7 million and a $5.0 million working capital facility.

During 2001, $499.5 million was drawn against the credit facility. At December 31, 2003 and December 6, 2003 there were outstanding borrowings under this facility totaling approximately $456.6 million (net of imputed discount of $30.4 million) and $458.0 million (net of imputed discount of $31.2 million) at a weighted average annual interest rate of 2.58% and 2.58%, respectively. The term loan requires Kendall to pay interest and principal on a quarterly basis with a balloon payment due in 2006 and is secured by the assets, including contracts, of Kendall.

During 2003, no letters of credit expired. At December 31, 2003 and December 6, 2003, $8.5 million and $8.5 million were outstanding, expiring November 2004. For the period January 1, 2004 through November 30, 2004, Kendall had available letters of credit totaling $25 million and a $5 million working capital facility. During November 2004, the letters of credit and the working capital facility expired. At December 31, 2003 and December 6, 2003, there were no balances outstanding under the working capital facility.

In connection with the revaluation of Kendall s debt to fair value under SOP 90-7, a debt discount of $31.2 million was recorded. The discount amount will be amortized to earnings over the life of the debt. At November 30, 2004, December 31, 2003 and December 6, 2003, the unamortized discount was $20.6 million, $30.4 million and $31.2 million, respectively.

Annual maturities under the facility for the years ending after 2004 are as follows:

(in thousands of dollars)	
2005	$ 11,239
2006	455,284
	$ 466,523

Kendall, as required by the Credit Agreement, has four interest rate swap agreements (in millions). The notional amounts, fair market values on November 30, 2004, December 6, 2003 and December 31, 2003, fixed rates, and termination dates are as follows:

(in millions of dollars)

Notional Amount	**FairValue**	**Notional Amount**	**Fair Value**	**Notional Amount**	**Fair Value**	**Average Fixed Rate**	**Termination Date**
November 30, 2004		**December 31, 2003**		**December 6, 2003**			
$218.7	$ 15.8	$ 221.5	$ 25.7	$ 221.9	$ 28.0	7.0%	9/29/2006

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For the period January 1, 2004 through November 30, 2004, December 6, 2003 through December 31, 2003 and January 1, 2003 through December 5, 2003, Kendall made principal payments under the Credit Agreement of approximately $18.0 million, $2.2 million and $6.6 million, respectively.

Outstanding loans are secured by all of the assets and contract rights of Kendall.

The Credit Agreement requires that proceeds from borrowings, the receipt of revenues, debt service payments and the payments for certain categories of expenses each be segregated into separate bank accounts. Under the terms of a depositary agreement (the Depositary Agreement), Kendall has established the required bank accounts and has pledged all its rights, title and interest in the bank accounts as security for its payment obligations under the Credit Agreement.

The Credit Agreement requires compliance with certain covenants, including, among other things, compliance with certain reporting requirements, additional indebtedness, certain new and existing agreements and other activities. Kendall was in compliance with such covenants at November 30, 2004.

At December 31, 2003, Kendall was in default in respect to certain covenants. On April 19, 2004, Kendall reached settlement agreements with the lenders, which cured the defaults. The lenders and the Administrative Agent granted waivers for all events of default under the Credit Agreement. As a condition to securing waivers, Kendall agreed to several additional covenants, including a requirement to achieve Project Completion, as defined in the Credit Agreement, by March 31, 2005, and satisfaction and removal of all non-permitted liens by July 30, 2004. Also, in April 2004, $10.5 million of project debt was repaid through a draw on the project letter of credit. As a result, Kendall was no longer in default under the terms of the Credit Agreement as of April 19, 2004.

12. RELATED-PARTY TRANSACTIONS

On January 29, 2001, Kendall and NRG Energy assumed the Management Services Agreement, dated November 12, 1999, which allows NRG Energy to provide certain management services to Kendall. The agreement has a 27-year term, beginning at the project completion date and outlines the particular services which shall be provided and allows for the reimbursement of such expenses. These services include, but are not limited to: human resources, accounting, finance, treasury, tax, office administration, information technology, Credit Agreement documentation and compliance, engineering, construction management, environmental, legal and safety. NRG Energy charge Kendall amounts totaling $2.9 million, $0 and $2.5 million for the period from January 1, 2004 to November 30, 2004, December 6, 2003 to December 31, 2003 and January 1, 2003 to December 5, 2003 for services provided.

13. COMMITMENTS AND CONTINGENCIES

In connection with the credit facility dated November 19, 1999, Kendall and Granite II Holding, LLC agreed to certain terms under an Equity Contribution Agreement (the Equity Agreement) with the lenders. Under the Equity Agreement, Granite was obligated to make equity contributions, as defined in the agreement, totaling $80.5 million. As of December 31, 2003, the total equity contributions made to date was in dispute. This dispute was settled in April 2004. (Note 15).

The Company entered into an engineering procurement and construction contract (EPC Agreement) with Dick Corporation, Inc. (Dick) and National Energy Production Company, Inc. (NEPCO) for the design and construction of a co-generation facility in Minooka, Kendall County, Illinois. The EPC Agreement required Dick and NEPCO to perform all project work to design and construct the facility with the sole exception of procurement of the four gas-fired turbines from General Electric Corporation (GE) and the four Heat Recovery Steam Generators (HRSGs) from Foster Wheeler Energy Corporation, Inc. (FWEC). The HRSGs and turbines were procured by another of our subsidiaries, LSP Equipment, LLC, which was required to deliver them

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to the project site for assembly and integration into the overall project work by Dick and NEPCO. The terms of this integration were governed by a separate document entitled Construction Interfacing Agreement. Early into the project construction, NEPCO, a wholly owned subsidiary of Enron, sought bankruptcy protection and ceased to perform work on the project. Dick continued to perform some project work, and with the assistance of additional funds and completion services provided by Kendall, the project work was substantially completed and the plant is fully operational. Dick contended that it is entitled to additional compensation due to certain alleged deficiencies in the deliveries of the HRSGs and turbines. Pursuant to the terms of the Interfacing Agreement, Dick directed Kendall to prosecute claims against FWEC and GE for $23 million and $7.6 million, respectively. Dick further alleged that Kendall is liable for these sums should either GE or FWEC prove insolvent. Dick also claimed entitlement to currently unspecified additional compensation for extra work performed on the project. Dick filed a mechanic s lien on the project in the amount of $50 million to secure these prospective claims as well as other claims they might make for extra compensation. Kendall disputed these allegations.

In late April 2003, Kendall and Equipment instituted a lawsuit in the United States District Court, Southern District of New York, against Dick asserting that Dick breached its contractual obligations to these plaintiffs by failing to (a) complete the power plant by the agreed deadline, (b) hire the necessary subcontractors to complete the construction and commissioning of the power plant, (c) discharge or otherwise respond to mechanic s liens filed by subcontractors against the power plant, (d) indemnify the plaintiffs for costs incurred in connection with Dick s directions not to pay GE and FWEC, and (e) indemnify the plaintiffs for costs incurred in asserting and prosecuting claims on behalf of Dick against GE and FWEC. Plaintiffs sought damages against Dick, including more than $50 million paid by the Company to resolve subcontractors liens which Dick refused to discharge, the expense plaintiffs incurred in retaining substitute contractors to complete work on the facility, liquidated damages for Dick s failure to obtain substantial completion by the contractual Guaranteed Completion Dates and liquidated damages for Dick s failure to attain certain power performance guaranties. Plaintiffs also sought a declaration that the company had not breached the EPC Agreement by failing to pay Dick the nearly $15 million alleged to be owing in Dicks mechanic s lien foreclosure action. Further, plaintiffs sought damages for Dick s breach of its obligations under the Construction Interfacing Agreement, along with a declaration of the parties rights and obligations under that agreement, including a declaration (a) of plaintiff s entitlement to indemnity for costs incurred as a consequence of following Dick s directions; (b) that Dick is not entitled to immediate payment of sums withheld from GE and FWEC at Dick s direction; (c) that plaintiffs are not obliged to withhold sums they conclude cannot reasonably be withheld under the terms of the respective purchase agreements; (d) of Dick s obligation to provide detailed direction, to the point of assuming control, of any litigation either commenced by GE or FWEC in response to plaintiffs conduct at Dick s direction or that Dick directs plaintiffs to commence against either GE or prosecuting such litigations. By Order dated July 23, 2003, the District Court in New York denied Dick s motion to dismiss the lawsuit against it, and the Illinois Court stayed Dick s mechanic s lien action pending resolution of the New York federal case. Dick has filed motions in both the Illinois state court and the New York federal court seeking interlocutory appeal of the respective courts decisions.

The remainder of the major liens for unpaid services on the Kendall Project have been satisfied by Kendall with the exception of the following:

a) $4.5 million (FWEC) (see below),

b) $1.0 million (Hitachi Zosen USA (Hitachi), supplier to FWEC) (see below), and

c) $0.8 million (Onyx Corporation).

As of April 19, 2004, Kendall and several of its affiliates finalized a settlement agreement resolving Dick s claims against Kendall respecting all the above matters. This settlement resolved Dick s claims, set forth below, for alleged conversion and misappropriation of architectural and engineering drawings Dick prepared for the construction of the Minooka power plant (Note 15).

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In addition, Kendall has executed a memorandum of understanding with FWEC, and on April 19, 2004, finalized a settlement under which FWEC would be obliged to release its lien and clear the derivative lien of Hitachi, referenced above (Note 15).

Foster Wheeler Energy Corporation, v. LSP Equipment, LLC and LSP Kendall Energy, LLC

FWEC sought over $4 million from Equipment and Kendall for four heat-recovery steam boilers that it supplied to Kendall s power plant built in Minooka, Illinois. FWEC alleged breach of contract against Equipment and a mechanic s lien foreclosure claim against Kendall. Equipment and Kendall asserted that FWEC was late in delivery of the boilers and that the delay damages more than offset the balance that FWEC maintains is owed. The appellate court reversed the trial court s denial of Equipment s motion to compel arbitration, and ordered that the dispute be arbitrated. However, FWEC filed a Petition for Leave to Appeal to the Illinois Supreme Court. In January 2003, Hitachi filed a counterclaim seeking to foreclose its approximately $1 million lien claim. On February 20, 2003, Dick filed a counterclaim seeking to foreclose its mechanic s lien claim in the amount of $49.9 million. As set forth above, Equipment and Kendall finalized a settlement under which FWEC would be obliged to release its lien and clear the derivative lien of Hitachi, referenced above (Note 15).

Dick Corporation v. LSP Nelson Energy, LLC and NRG Energy, Inc.

Dick filed an action in the Circuit Court of Lee County against Kendall and others alleging conversion and misappropriation of architectural and engineering drawings that Dick prepared for the construction of the Minooka power plant for use at a power plant built by LSP Nelson Energy in Lee County. Dick sought some $10 million in damages. The defendants filed a motion to dismiss the case, asserting that Dick s claims are preempted by the Illinois Trade Secrets Act, and that the drawings do not constitute trade secrets that are entitled to protection. Kendall finalized a settlement agreement which resolved Dick s claims against Kendall in this matter (Note 15).

During the development of the Kendall facility, Kendall entered into a tax agreement (the Tax Agreement) with Kendall County, Illinois and Seward Township, Illinois. The Tax Agreement specified an allocation of 10-20% of the direct construction costs of the Kendall facility to be treated as real property, and thus taxed as such, and the remainder to be treated as personal property, and not subject to real estate taxes. Two local school districts (the School Districts) were not a party to the Tax Agreement, and as such filed an appeal of the Kendall s 2001 and 2002 tax assessments at the county level. The School Districts argue that the entire Kendall facility, including all construction costs and generating equipment, is assessable. Kendall contends that only the land, buildings and site improvements are assessable. The School Districts 2001 appeal at the county level was unsuccessful. The School Districts appeal of the Kendall s 2002 assessment at the county level was successful and, as a result, the assessments and related taxes for 2002, 2003, and 2004 were increased. Kendall s assessment for all years (2001-2004) are currently under appeal at the state level in front of the Illinois Property Tax Appeal Board (the PTAB). In April 2005, PTAB held a hearing in connection with Kendall s 2001 real estate taxes. A decision from the PTAB is not expected before the end of October 2005. The unsuccessful party has the right to appeal to the Illinois Appellate Court and a decision would take approximately one year from the date of the filing. The ultimate outcome of these matters and estimate of potential refund or additional tax cannot presently be determined; however, the potential impact of any one year may be material.

Kendall is a party to certain other claims arising in the ordinary course of business. Kendall is of the opinion that final disposition of these claims will not have a material adverse effect on Kendall s financial position, results of operations or cash flows.

14. PROVISION FOR LOSS ON CONTRACT

In connection with the application of SOP 90-7, Kendall recorded a provision related to out-of-market interest rate swaps with a fair value of $28.0 million at the date of application. During the period from December 6, 2003 to December 31, 2003, approximately $0.7 million of the provision was amortized as a

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reduction of interest expense. At November 30, 2004, December 31, 2003 and December 6, 2003 the carrying value of approximately $15.8 million, $27.2 million and $28.0 million, respectively, is recorded within derivative instruments on the balance sheet. Additionally, application of SOP 90-7 required Kendall to recognize the value of certain power purchase contracts that were deemed to be valuable or burdensome as either intangible assets or liabilities which will be amortized into income over the respective terms of each contract. The tolling arrangements with Dynegy and Rainy River Energy, Corp. were valued to be out of the market by $81.4 million at December 5, 2003. The liability provision was reduced by approximately $0.4 million and $4.1 million for the period from December 6, 2003 to December 31, 2003 and January 1, 2004 to November 30, 2004. The reduction in the liability is recorded as additional revenue in the statement of operations.

15. SETTLEMENT AGREEMENTS

In April 2004, Kendall executed several agreements that resolved all events of default under its credit facility and provided mutual releases and discharges of certain claims.

Under the Global Settlement Agreement, dated April 19, 2004, the obligations under both the Equity Agreement and the Indemnity Agreement were satisfied and in return, NRG Energy agreed to amounts submitted as unsecured claims pursuant to NRG Energy s Plan of Reorganization.

Additionally, the lenders and the Administrative Agent granted waivers for all events of default under the Credit Agreement. As a condition to securing the waivers, Kendall agreed to several additional covenants, including a requirement to achieve Project Completion, as defined in the Credit Agreement, by March 31, 2005, and satisfaction and removal of all non-permitted liens by July 30, 2004. Also, in April 2004, $10.5 million of project debt was repaid through a draw on the project letter of credit. As a result, Kendall is no longer in default under the terms of the Credit Agreement as of April 19, 2004.

Under separate settlement agreements with Dick, FEWC and Hitachi, all liens and claims will be released. No gain or loss is expected to be recognized by Kendall as a result of these settlements.

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ANNEX A

PLAN OF MERGER, CONTRIBUTION AND SALE AGREEMENT

PLAN OF MERGER, CONTRIBUTION AND SALE AGREEMENT

by and among

DYNEGY INC.,

LSP GEN INVESTORS, L.P.,

LS POWER PARTNERS, L.P.,

LS POWER EQUITY PARTNERS PIE I, L.P.,

LS POWER EQUITY PARTNERS, L.P.,

LS POWER ASSOCIATES, L.P.,

FALCON MERGER SUB CO.,

and

DYNEGY ACQUISITION, INC.

Dated September 14, 2006

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PLAN OF MERGER, CONTRIBUTION AND SALE AGREEMENT

PLAN OF MERGER, CONTRIBUTION AND SALE AGREEMENT, dated September 14, 2006 (this ***Agreement***), by and among Dynegy Acquisition, Inc., a Delaware corporation (***Newco***), Falcon Merger Sub Co., an Illinois corporation and a wholly owned subsidiary of Newco (***Merger Sub*** and, together with Newco, the ***Newco Entities***), LSP Gen Investors, L.P., a Delaware limited partnership (***Gen Investors***), LS Power Partners, L.P., a Delaware limited partnership (***LS GP***), LS Power Equity Partners PIE I, L.P., a Delaware limited partnership (***PIE***), LS Power Equity Partners, L.P. (***Equity Partners*** and, together with Gen Investors, LS GP and PIE, the ***Operating Asset Contributors***), LS Power Associates, L.P., a Delaware limited partnership (***Associates*** and, together with the Operating Asset Contributors, the ***Contributors***), and Dynegy Inc., an Illinois corporation (***Dynegy***). The Newco Entities, the Contributors and Dynegy are collectively referred to as the ***parties*** and individually as a ***party***.

RECITALS:

A. Dynegy s Board of Directors (the ***Dynegy Board***) has approved, and deems it advisable and in Dynegy s best interest that Newco acquire Dynegy through the statutory merger of Merger Sub with and into Dynegy (the ***Merger***) and, in furtherance thereof, has approved the Merger.

B. In the Merger each of Dynegy s issued and outstanding shares of (i) Class A common stock (the ***Dynegy A Shares***), and (ii) Class B Common Stock (the ***Dynegy B Shares*** and, together with the Dynegy A Shares, the ***Dynegy Shares***), each having no par value, will be converted into the right to receive one share of Class A Common Stock, par value $0.01 per share (***Newco A Shares***), of Newco.

C. PIE owns all of the outstanding stock of LSP-Kendall Blocker, Inc., a Delaware corporation (***Kendall Blocker***), and LS GP, Associates, Equity Partners and Kendall Blocker own, directly or indirectly, all of the outstanding membership interests in LSP Kendall Holding, LLC, a Delaware limited liability company (***Kendall***). Associates owns all the outstanding membership interest in LSP Services Kendall, LLC (***Kendall Services***).

D. LS GP, Associates and Equity Partners desire to sell their interests in Kendall to Newco, PIE desires to sell its stock of Kendall Blocker and Associates desires to sell its interests in Kendall Services to Newco (collectively, such interests and stock the ***Kendall Interests***) in exchange for $100,000,000 in cash (the ***Cash Consideration***) and $112,000,000 in aggregate principal amount of notes (the ***Kendall Notes*** , and together with the Cash Consideration, the ***Kendall Consideration***) issued pursuant to an indenture substantially in the form of Exhibit A (the ***Indenture***) (such sales, the ***Kendall Sale***).

E. The Contributors own interests in five limited liability companies and ten corporations identified in Part IA.(1)(a) of Section 2.3 of the LS Disclosure Letter (the ***Contributed Operating Holding Interests***).

F. Associates will form a Delaware limited liability company (the ***Development LLC***). Immediately prior to Closing, Associates will contribute the interests in the companies identified in Part I.B.1 of Section 2.3 of the LS Disclosure Letter (the ***Contributed Development Interests*** to Development LLC. Simultaneous with the Closing, Associates will contribute 50% of the membership interest in the Development LLC and the Contributors will contribute the Contributed Operating Holding Interests (collectively, the ***Contributed Interests***) to Newco. These contributions along with the contribution of the Contributed Interests shall be referred to as the ***Contributions*** and, together with the Merger, the Kendall Sale and the transactions described in Recital K, the ***Formation Transactions***. Upon the Effective Time, the limited liability company agreement relating to Development LLC will be amended and restated to be substantially in the form of Exhibit C (the ***Development Master LLC Agreement***).

G. The Contributors believe it is in their respective best interests that Newco acquire the Contributed Interests in exchange for an aggregate of (i) 340,000,000 shares of Class B Common Stock, par value $0.01 per

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share (the *Newco B Shares* and, together with the Newco A Shares, *Newco Shares*) of Newco (the *Stock Consideration*) and (ii) $163,000,000 in aggregate principal amount of **notes** (the *Contribution Notes* and together with the Kendall Notes, the *Notes*) issued pursuant to the Indenture.

H. The Contributors believe it is in their respective best interests that Newco purchase the Kendall Interests in exchange for the Kendall Consideration.

I. Immediately after the Closing, Associates intends to contribute its interest in the development projects identified in Part III of Section 2.3 of the LS Disclosure Letter (the *JV Contributions*) to the Development LLC.

J. Immediately after Closing, Newco intends to contribute to the Development LLC its interests in the development projects identified in Section J of the Dynegy Disclosure Letter.

K. At the closing of the transactions contemplated to occur at Closing under this Agreement and the agreements, instruments and documents contemplated hereby, Newco and Associates intend to enter into an LLC Agreement substantially in the form of Exhibit D (the *Development Services LLC Agreement*) for a limited liability company which will provide services to the Development LLC and its subsidiaries.

L. Certain of Dynegy s officers have entered into voting agreements substantially in the form of Exhibit N with the Contributors under which such officers have agreed to vote in favor of the adoption of this Agreement and the Merger and certain other matters (the *Voting Agreements*).

M. Simultaneous with the execution of this Agreement, Chevron U.S.A. Inc., a Pennsylvania corporation (*CUSA*), has entered into a Voting Agreement substantially in the form of Exhibit E (the *CUSA Voting Agreement*) with the Contributors, by which CUSA has agreed to take those actions contemplated thereby and to waive certain rights in connection with the transactions contemplated hereby.

N. Simultaneous with the execution of this Agreement, CUSA and Newco intend to enter into a Registration Rights Agreement (the *CUSA Registration Rights Agreement*) substantially in the form of Exhibit F, under which CUSA will be granted registration rights.

O. Simultaneous with the execution of this Agreement, the Contributors and Newco have entered into a Registration Rights Agreement (the *LS Registration Rights Agreement*) substantially in the form of Exhibit G, under which the Contributors will be granted registration rights.

P. Simultaneous with the execution of this Agreement, the Contributors and Newco have entered into a Shareholder Agreement (the *Shareholder Agreement*) substantially in the form of Exhibit H, under which the Contributors and Newco will make certain agreements with respect to the transferability of the Contributors Newco Shares, the management of Newco and certain other matters.

Q. At Closing, the Articles of Incorporation and Bylaws of Newco will be amended in their entirety to be substantially in the forms of Exhibit I and Exhibit J, respectively.

R. Simultaneous with the execution of this Agreement, Newco and LS Power Development, LLC have entered into a Corporate Opportunity Agreement (the *Corporate Opportunity Agreement*) with Newco, substantially in the form of Exhibit K.

S. For federal income tax purposes, the parties intend for the Merger and Contributions to qualify as contributions of the Contributed Interests and of the stock of Dynegy to Newco in exchange for Newco Shares and other property (such exchange, an *Exchange*) under Section 351 of the United States Internal Revenue Code of 1986, as amended (the *Code*).

T. For federal income tax purposes, the parties intend for the Kendall Sale to qualify as a sale or exchange of the Kendall Interests under Section 1001 of the Code.

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AGREEMENT:

NOW, THEREFORE, in consideration of the foregoing and the representations, warranties, covenants and agreements contained in this Agreement, and intending to be legally bound, the parties agree as follows:

ARTICLE I

TRANSACTIONS

Section 1.1 ***The Merger.*** At the Effective Time subject to this Agreement and Section 11.50 of the Illinois Business Corporation Act (the ***IBCA***), Merger Sub will be merged with and into Dynegy, Merger Sub s separate corporate existence will cease, and Dynegy will continue as the surviving corporation and as a wholly-owned subsidiary of Newco. Dynegy as the surviving corporation after the Merger is sometimes referred to as the ***Surviving Corporation***.

Section 1.2 ***The Contributions and Kendall Sale.*** (a) At the Closing, the Contributors shall contribute the Contributed Interests to Newco in exchange for the Stock Consideration and the Contribution Notes. Such consideration shall be allocated in accordance with Schedule 1.2(a).

(b) PIE, LS GP, Associates and Equity Partners shall sell the Kendall Interests to Newco in exchange for the Kendall Consideration. Such consideration shall be allocated in accordance with Schedule 1.2(b).

Section 1.3 ***Closing.*** The closing of the Formation Transactions (the ***Closing***) will take place at the offices of Akin Gump Strauss Hauer & Feld LLP in Houston, Texas, commencing 9:00 am local time on the second business day following the satisfaction or waiver of all conditions to consummate the Transactions (other than conditions with respect to actions the respective parties will take at the Closing itself) or such other date as Dynegy and the Contributors may mutually determine (the ***Closing Date***).

Section 1.4 ***Actions and Deliveries at Closing.***

(a) Merger. On the Closing Date, the parties will cause the Merger to be consummated by filing Articles of Merger with the Secretary of State of Illinois (the ***Merger Certificate***), in accordance with the IBCA. The date and time the Merger becomes effective as specified in the Merger Certificate is referred to as the ***Effective Time***.

(b) Contribution. On the Closing Date the Contributors shall deliver to Newco executed (i) stock powers, and (ii) limited liability company interest powers, in each case contributing the applicable Contributed Operating Holding Interests and 50% of the membership interests in the Development LLC to Newco free and clear of any Liens except as contemplated hereby, in exchange for the Stock Consideration and the Contribution Notes.

(c) Kendall Sale. On the Closing Date, PIE, LS GP, Associates and Equity Partners shall sell to Newco and Newco shall purchase executed (i) limited liability company interest powers and (ii) stock powers, in each case conveying the applicable Kendall Interests free and clear of all Liens except as contemplated hereby, in exchange for the Kendall Consideration.

Section 1.5 ***Effect of the Merger.*** At the Effective Time, the effect of the Merger will be as provided in the IBCA. At the Effective Time all of Dynegy s and Merger Sub s property, rights, privileges, powers, and franchises will vest in the Surviving Corporation, and all of Dynegy s and Merger Sub s debts, liabilities, and duties will become the Surviving Corporation s debts, liabilities, and duties.

Section 1.6 ***Charter and Bylaws.*** The Articles of Incorporation of Dynegy as the Surviving Corporation as in force and effect at the Effective Time shall be the Articles of Incorporation of said Surviving Corporation

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except that Articles 4 and 7 will be amended and changed so as to read at the Effective Time as indicated in Exhibit L, and said Articles of Incorporation as so amended and changed shall continue in full force and effect until further amended and changed in the manner prescribed by the provisions of IBCA. At the Effective Time, the bylaws of Dynegy as in effect immediately prior to the Effective Time shall be amended to read in their entirety in the form of Exhibit M, and, as so amended shall be the bylaws of the Surviving Corporation.

Section 1.7 ***Directors and Officers.*** Merger Sub s director(s) and officers immediately before the Effective Time will be the Surviving Corporation s initial director(s) and officers.

Section 1.8 ***Effect of Merger on Dynegy s Capital Stock.*** At the Effective Time, because of the Merger and without any action on the part of any party:

(a) Cancellation of Newco-Owned and Dynegy-Owned Stock. Each Dynegy Share that either Newco Entity or Dynegy or any direct or indirect wholly owned subsidiary of either Newco Entity or Dynegy owns immediately before the Effective Time (collectively, ***Excluded Dynegy Shares***) will be canceled and extinguished without conversion.

(b) Cancellation of Dynegy-Owned Stock. Each Newco Share the Dynegy Entities hold will be canceled and extinguished without any further action simultaneous with the Closing.

(c) Common Stock of Merger Sub. Each share of Merger Sub s common stock issued and outstanding immediately before the Effective Time will be converted into and exchanged for one validly issued, fully paid, and nonassessable share of the Surviving Corporation s common stock. Each stock certificate of Merger Sub evidencing ownership of any such shares will from and after the Effective Time evidence ownership of shares of the Surviving Corporation s common stock.

(d) Conversion of Dynegy Stock. Subject to Section 1.13, each Dynegy Share issued and outstanding immediately before the Effective Time (other than Excluded Dynegy Shares) will be converted into the right to receive one Newco A Share (the ***Exchange Ratio***). All such Dynegy Shares, when so converted, will no longer be outstanding and will automatically be canceled and retired and will cease to exist, and the holder of a certificate (a ***Dynegy Stock Certificate***) that, immediately before the Effective Time, represented outstanding Dynegy Shares will cease to have any rights with respect thereto, except the right to receive, upon the surrender of such Dynegy Stock Certificate: (i) the number of Newco A Shares as calculated above, (ii) certain dividends and other distributions in accordance with Section 1.8(f), and (iii) cash in lieu of fractional Newco A Shares under Section 1.11, in each case without interest (collectively, the ***Merger Consideration***).

(e) Rights Before Surrender, Stock Splits, etc. and Stock Transfer Books. Until surrendered as contemplated by Section 1.9, each Dynegy Stock Certificate will be deemed at any time after the Effective Time to represent only the right to receive upon such surrender the Merger Consideration. If between the date hereof and the Effective Time the outstanding Dynegy Shares or Newco Shares are changed into a different number of shares or a different class because of any stock dividend, subdivision, reclassification, recapitalization, split, combination or exchange of shares, the Exchange Ratio will be correspondingly adjusted to reflect such stock dividend, subdivision, reclassification, recapitalization, split, combination or exchange of shares. After the Effective Time, Dynegy s stock transfer books will be closed and there will be no further transfers of Dynegy Shares. If, at or after the Effective Time, Dynegy Stock Certificates are presented to the Surviving Corporation, they will be canceled and exchanged in accordance with this Agreement.

(f) Dividends and Distributions on Merger Consideration. No dividends or other distributions declared or made having a record date after the Effective Time will be paid to the holder of any unsurrendered Dynegy Stock Certificate until the record holder of such Dynegy Stock Certificate has surrendered it under Section 1.9. Subject to the effect of applicable Laws (including escheat and abandoned property Laws), following surrender of any such Dynegy Stock Certificate there will be paid to the record holder of the

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certificates representing the Merger Consideration issued in exchange therefor, without interest, (i) the amount of dividends or other distributions with a record date after the Effective Time that, absent the failure to surrender such Dynegy Stock Certificate, theretofore would have been required to be paid with respect to such Merger Consideration, and (ii) if the payment date for any dividend or distribution payable with respect to such Merger Consideration has not occurred before the surrender of such Dynegy Stock Certificate, at the appropriate payment date therefor, the amount of such dividends or other distributions.

Section 1.9 ***Surrender of Certificates***.

(a) Exchange Procedures.

(i) At or before the Effective Time, Newco will deposit the aggregate Merger Consideration with an exchange agent selected by Dynegy (the ***Exchange Agent***) for the benefit of the holders of Dynegy Shares, for exchange in accordance with this Section 1.9. The stock certificates and cash described above are referred to as the ***Exchange Fund***. The Exchange Agent, pursuant to irrevocable instructions, will deliver the Merger Consideration out of the Exchange Fund. No interest will be paid or will accrue on any cash amount payable upon the surrender of any Dynegy Stock Certificate with respect to fractional shares. Except as contemplated by Section 1.9(a)(iii), the Exchange Fund shall not be used for any other purpose.

(ii) Promptly after the Effective Time, but not later than five business days thereafter, Newco will send, or will cause the Exchange Agent to send, to each holder of a Dynegy Stock Certificate a letter of transmittal and instructions for use in effecting the exchange of such Dynegy Stock Certificates for the Merger Consideration (including certificates representing the Newco A Shares) owing to such holder. Newco shall make arrangements for CUSA to exchange its Dynegy Stock Certificates for the Merger Consideration (including certificates representing Newco A Shares) on the Closing Date.

(iii) Any Merger Consideration that remains unclaimed by holders of Dynegy Shares for one year after the Effective Time will be returned to Newco upon demand, and any such holder who has not exchanged such holder s Dynegy Stock Certificates in accordance with this Section 1.9 before that time will thereafter look only to Newco, as a general creditor thereof, to exchange such Dynegy Stock Certificates or to pay amounts to which they are entitled under Section 1.8. If any Dynegy Stock Certificates are not surrendered within six years after the Effective Time, the Merger Consideration issuable in respect of such Dynegy Stock Certificates, and the amount of dividends and other distributions, if any, which have become payable and which thereafter become payable on the Merger Consideration evidenced by such Dynegy Stock Certificates as provided herein will, to the extent permitted by applicable Law, become the property of Newco, free and clear of all claims or interest of any person previously entitled thereto. Notwithstanding the foregoing, none of Newco or its subsidiaries will be liable to any holder of Dynegy Stock Certificates for any amount paid, or Merger Consideration, cash or dividends delivered, to a public official under abandoned property, escheat or similar applicable Laws.

(b) Transfers of Ownership. If any certificate representing Newco Shares is to be issued in a name other than that in which the Dynegy Stock Certificate surrendered in exchange therefor is registered, Newco will not be required to issue such Newco Shares until (i) the Dynegy Stock Certificate so surrendered has been properly endorsed and is otherwise in proper form for transfer and (ii) the person requesting such exchange has paid to Newco or any agent it designates any transfer or other Taxes required because of the issuance of a certificate representing Newco Shares in any name other than that of the registered holder of the Dynegy Stock Certificate surrendered, or established to the satisfaction of Newco or any agent it designates that such Tax has been paid or is not payable.

(c) No Further Ownership Rights in Dynegy Shares. All Merger Consideration will be deemed to have been issued in full satisfaction of all rights pertaining to the Dynegy