DYNEGY HOLDINGS INC
Form 10-K
March 08, 2011

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2010

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ________ to ________

DYNEGY INC.
DYNEGY HOLDINGS INC.
(Exact name of registrant as specified in its charter)

Entity	Commission File Number	State of Incorporation	I.R.S. Employer Identification No.
Dynegy Inc.	001-33443	Delaware	20-5653152
Dynegy Holdings Inc.	000-29311	Delaware	94-3248415

1000 Louisiana, Suite 5800 Houston, Texas (Address of principal executive offices)	77002 (Zip Code)

(713) 507-6400
(Registrant's telephone number, including area code)

Securities registered pursuant to Section12(b) of the Act:

Title of each class	Name of each exchange on which registered
Dynegy's common stock, $0.01 par value	New York Stock Exchange

Securities registered pursuant to Section12(g) of the Act:

None
(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Dynegy Inc.	Yes x No o
Dynegy Holdings Inc.	Yes o No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act.

Dynegy Inc.	Yes o No x
Dynegy Holdings Inc.	Yes o No x

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Dynegy Inc.	Yes x No o
Dynegy Holdings Inc.	Yes x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Dynegy Inc.	Yes o No o
Dynegy Holdings Inc.	Yes o No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Dynegy Inc.	x
Dynegy Holdings Inc.	x

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

	Large accelerated filer	Accelerated filer	Non-accelerated filer (Do not check if a smaller reporting company)	Smaller reporting company
Dynegy Inc.	o	x	o	o
Dynegy Holdings Inc.	o	o	x	o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Dynegy Inc.	Yes o No x
Dynegy Holdings Inc.	Yes o No x

As of June 30, 2010, the aggregate market value of the Dynegy Inc. common stock held by non-affiliates of the registrant was $463,782,138 based on the closing sale price as reported on the New York Stock Exchange.

Number of shares outstanding of Dynegy Inc's class of common stock, as of the latest practicable date: Common stock, $0.01 par value per share, 121,209,325 shares outstanding as of March 3, 2011. All of Dynegy Holdings Inc.'s outstanding common stock is owned indirectly by Dynegy Inc.

This combined Form 10-K is separately filed by Dynegy Inc. and Dynegy Holdings Inc. Information contained herein relating to any individual registrant is filed by such registrant on its own behalf. Each registrant makes no representation as to information relating to a registrant other than itself.

DOCUMENTS INCORPORATED BY REFERENCE-Dynegy Inc. Part III (Items 10, 11, 12, 13 and 14) incorporates by reference portions of the Notice and Proxy Statement for the registrant's 2011 Annual Meeting of Stockholders, which the registrant intends to file no later than 120 days after December 31, 2010. However, if such proxy statement is not filed within such 120-day period, Items 10,11,12,13 and 14 will be filed as part of an amendment to this Form 10-K no later than the end of the 120-day period.

REDUCED DISCLOSURE FORMAT-Dynegy Holdings Inc. Dynegy Holdings Inc. meets the conditions set forth in General Instruction (I)(1)(a) and (b) of Form 10-K and therefore is filing this Form 10-K with the reduced disclosure format.

DYNEGY INC. and DYNEGY HOLDINGS INC.

FORM 10-K

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EXPLANATORY NOTE

This report includes the combined filing of Dynegy Inc. ("Dynegy") and Dynegy Holdings Inc. ("DHI"). DHI is the principal subsidiary of Dynegy, providing approximately 100 percent of Dynegy's total consolidated revenue for the year ended December 31, 2010 and constituting approximately 100 percent of Dynegy's total consolidated asset base as of December 31, 2010.

Unless the context indicates otherwise, throughout this report, the terms “the Company”, “we”, “us”, “our” and “ours” are used refer to both Dynegy and DHI and their direct and indirect subsidiaries. Discussions or areas of this report that apply only to Dynegy or DHI are clearly noted in such discussions or areas.

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PART I

DEFINITIONS

As used in this Form 10-K, the abbreviations listed below have the following meanings:

AMT	Alternative Minimum Tax
APIC	Additional Paid-in-Capital
ARO	Asset retirement obligation
ASU	Accounting Standards Update
BACT	Best Available Control Technology (air)
BART	Best Available Retrofit Technology
BTA	Best technology available (water intake)
CAA	Clean Air Act
CAIR	Clean Air Interstate Rule
CAISO	The California Independent System Operator
CAMR	Clean Air Mercury Rule
CARB	California Air Resources Board
CAVR	The Clean Air Visibility Rule
CERCLA	The Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended
CO2	Carbon dioxide
CO2e	The climate change potential of other GHGs relative to the global warming potential of CO2
COSO	Committee of Sponsoring Organizations of the Treadway Commission
CRM	Our former customer risk management business segment
CWA	Clean Water Act
CUSA	Chevron U.S.A. Inc.
DHI	Dynegy Holdings Inc., Dynegy's primary financing subsidiary
DMSLP	Dynegy Midstream Services L.P.
DMT	Dynegy Marketing and Trade LLC
DNE	Dynegy Northeast Generation
DPM	Dynegy Power Marketing Inc.
EBITDA	Earnings before interest, taxes, depreciation and amortization
EPA	United States Environmental Protection Agency
ERISA	The Employee Retirement Income Security Act of 1974, as amended
EWG	Exempt Wholesale Generator
FASB	Financial Accounting Standards Board
FCM	Forward Capacity Market
FERC	Federal Energy Regulatory Commission
FTR	Financial Transmission Rights
GAAP	Generally Accepted Accounting Principles of the United States of America
GEN	Our power generation business
GEN-MW	Our power generation business—Midwest segment
GEN-NE	Our power generation business—Northeast segment
GEN-WE	Our power generation business—West segment
GHG	Greenhouse gas
HAPs	Hazardous air pollutants, as defined by the Clean Air Act
ICAP	Installed capacity
ICC	Illinois Commerce Commission
IMA	In-Market Availability

IRS	Internal Revenue Service
ISO	Independent System Operator
ISO-NE	Independent System Operator—New England
LMP	Locational Marginal Pricing
LPG	Liquefied petroleum gas
LTIP	Long-Term Incentive Plan
MISO	Midwest Independent Transmission System Operator
MGGA	Midwest Greenhouse Gas Accord
MGGRP	Midwestern Greenhouse Reduction Program

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MMBtu	Millions of British thermal units
MW	Megawatts
MWh	Megawatt hour
NERC	North American Electric Reliability Corporation
NGL	Our natural gas liquids business segment
NOL	Net operating loss
NOx	Nitrogen oxide
NPDES	National Pollutant Discharge Elimination System
NSPS	New Source Performance Standard
NYISO	New York Independent System Operator
NYSDEC	New York State Department of Environmental Conservation
OCI	Other Comprehensive Income
OTC	Over-the-counter
PJM	PJM Interconnection, LLC
PPEA	Plum Point Energy Associates
PPEA Holding	Plum Point Energy Associates Holding Company, LLC
PRB	Powder River Basin coal
PSD	Prevention of Significant Deterioration
PURPA	The Public Utility Regulatory Policies Act of 1978
QF	Qualifying Facility
RACT	Reasonably Available Control Technology
RCRA	The Resource Conservation and Recovery Act of 1976, as amended
RGGI	Regional Greenhouse Gas Initiative
RMR	Reliability Must Run
RPM	Reliability Pricing Model
RTO	Regional Transmission Organization
SCEA	Sandy Creek Energy Associates, LP
SCH	Sandy Creek Holdings, LLC
SEC	U.S. Securities and Exchange Commission
SFAS	Statement of Financial Accounting Standards
SIP	State Implementation Plan
SO2	Sulfur dioxide
SPDES	State Pollutant Discharge Elimination System
VaR	Value at Risk
VIE	Variable Interest Entity
VLGC	Very large gas carrier
WCI	Western Climate Initiative
WECC	Western Electricity Coordinating Council

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Item 1. Business

THE COMPANY

We are holding companies and conduct substantially all of our business operations through our subsidiaries. Our primary business is the production and sale of electric energy, capacity and ancillary services from our fleet of seventeen operating power plants in six states totaling approximately 11,800 MW of generating capacity.

Dynegy began operations in 1985. DHI is a wholly owned subsidiary of Dynegy. Dynegy became incorporated in the State of Delaware in 2007. Our principal executive office is located at 1000 Louisiana Street, Suite 5800, Houston, Texas 77002, and our telephone number at that office is (713) 507-6400.

We file annual, quarterly and current reports, proxy statements (for Dynegy) and other information with the SEC. You may read and copy any document we file at the SEC's Public Reference Room at 100 F Street N.E., Room 1580, Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the SEC's Public Reference Room. Our SEC filings are also available to the public at the SEC's web site at www.sec.gov. No information from such web site is incorporated by reference herein. Our SEC filings are also available free of charge on our web site at www.dynegy.com, as soon as reasonably practicable after those reports are filed with or furnished to the SEC. The contents of our website are not intended to be, and should not be considered to be, incorporated by reference into this Form 10-K.

We sell electric energy, capacity and ancillary services on a wholesale basis from our power generation facilities. Energy is the actual output of electricity and is measured in MWh. The capacity of a power generation facility is its electricity production capability, measured in MW. Wholesale electricity customers will, for reliability reasons and to meet regulatory requirements, contract for rights to capacity from generating units. Ancillary services are the products of a power generation facility that support the transmission grid operation, follow real-time changes in load and provide emergency reserves for major changes to the balance of generation and load. We sell these products individually or in combination to our customers under short-, medium- and long-term contractual agreements or tariffs.

Our customers include RTOs and ISOs, integrated utilities, municipalities, electric cooperatives, transmission and distribution utilities, industrial customers, power marketers, financial participants such as banks and hedge funds, and other power generators. All of our products are sold on a wholesale basis for various lengths of time from hourly to multi-year transactions. Some of our customers, such as municipalities or integrated utilities, purchase our products for resale in order to serve their retail, commercial and industrial customers. Other customers, such as some power marketers, may buy from us to serve their own wholesale or retail customers or as a hedge against power sales they have made.

Going Concern. Our accompanying consolidated financial statements have been prepared assuming that we will continue as a going concern, which contemplates realization of assets and the satisfaction of liabilities in the normal course of business for the twelve month period following the date of these consolidated financial statements. However, continued low power prices over the past two years have had a significant adverse impact on our business. Further, as our credit rating has declined, counterparty requirements for posting collateral in support of our risk management positions have become more stringent. Over the next twelve months, we expect that we will continue to need to utilize our Fifth Amended and Restated Credit Agreement, as amended (the "Credit Facility"), through the issuance of letters of credit and/or through the drawing of cash, or secure additional sources of capital to continue to meet our operating needs. The agreements governing our existing Credit Facility require us to meet specific financial covenants both as a matter of course and as a precondition to the incurrence of additional debt and to the making of restricted payments or asset sales, among other things. These specific financial covenants are required to be calculated on a quarterly basis and become more restrictive over the course of 2011. Using the latest available forward commodity price curves and considering our current derivative contracts, we project that it is likely that we will not be able to comply with our EBITDA to Consolidated Interest Expense covenant, as currently set forth in our Credit Facility, particularly in the third and fourth quarters of 2011. Furthermore, we expect that our available liquidity will continue to be reduced as a result of borrowing limitations under the covenant regarding the ratio of Secured Debt to EBITDA, as defined in our Credit Facility. To continue as a going concern over the next twelve months, we must either (i) meet the financial covenants so that we can access our Credit Facility, or (ii) amend or replace our Credit Facility or otherwise secure additional capital.

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At December 31, 2010, we have the following obligations outstanding under the Credit Facility:

- $68 million due April 2013 under the Term Loan B (as defined in Note 18—Debt—Credit Facility);
- $850 million due April 2013 under the Term Facility (as defined in Note 18—Debt—Credit Facility) fully collateralized by $850 million of non-current restricted cash); and
- $375 million in issued letters of credit.

A failure by us to comply with our financial covenants or to comply with the other restrictions in our financing agreements could result in reduced borrowing capacity or even a default, causing our debt obligations under such financing agreements (and any other indebtedness to the extent linked to it by reason of cross-default or cross-acceleration provisions) to potentially become immediately due and payable. If we are unable to cure any such default, or obtain a waiver or replacement financing, and those lenders accelerate the payment of such indebtedness, in the case that we are unable to repay those amounts, the holders of the indebtedness under our secured debt obligations would be entitled to foreclose on, and acquire control of substantially all of our assets, which would have a material adverse impact on our financial condition, results of operations and cash flows.

In light of our likely covenant non-compliance, we are attempting to amend or replace our existing Credit Facility. We expect the capacity of any amended or new credit facility to be less than the current capacity of $1.8 billion and to be at a higher cost. We may also seek additional sources of liquidity in an effort to secure sufficient cash to meet our operating needs. These additional sources of liquidity could include asset sales, public or private issuances of debt, equity or equity-linked securities, debt for equity swaps, or any combination of these. However, we cannot provide any assurances that we will be successful in accomplishing any of these plans.

Our ability to continue as a going concern is dependent on many factors, including, among other things, our ability to achieve the operating results necessary to comply with the covenants in our existing Credit Facility, amend or replace our existing Credit Facility, or achieve the operating results necessary to comply with the covenants in any amended or new credit facility. Such compliance will be dependent on our ability to successfully execute our commercial strategies, manage our collateral requirements, and continue to execute the company-wide cost reduction initiatives that are ongoing. Please read Item 7—Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources for further discussion. Also, for additional discussion of factors that may affect our ability to continue as a going concern and the potential consequences of our failure to do so please see Item 1A—Risk Factors.

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Our Power Generation Portfolio

Our current operating generating facilities are 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 (2)	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
Vermilion Units 1-2 (3)	164	Coal/Gas	Baseload	Oakwood, IL	MISO
Unit 3 (3)	12	Oil	Peaking	Oakwood, IL	MISO
Wood River (4)	446	Coal	Baseload	Alton, IL	MISO
Total Midwest	5,088				
Moss Landing Units 1-2	1,020	Gas	Intermediate	Monterey County, CA	CAISO
Units 6-7	1,509	Gas	Peaking	Monterey County, CA	CAISO
Morro Bay (5)	650	Gas	Peaking	Morro Bay, CA	CAISO
South Bay (6)	—	Gas	Peaking	Chula Vista, CA	CAISO
Oakland	165	Oil	Peaking	Oakland, CA	CAISO
Black Mountain (7)	43	Gas	Baseload	Las Vegas, NV	WECC
Total West	3,387				
Independence	1,064	Gas	Intermediate	Scriba, NY	NYISO
Roseton (8)	1,200	Gas/Oil	Peaking	Newburgh, NY	NYISO
Casco Bay	540	Gas	Intermediate	Veazie, ME	ISO-NE
Danskammer Units1-2	123	Gas/Oil	Peaking	Newburgh, NY	NYISO
Units 3-4 (8)	370	Coal/Gas	Baseload	Newburgh, NY	NYISO
Total Northeast	3,297				
Total Fleet Capacity	11,772				

(1) Unit capabilities are based on winter capacity.

(2) Represents Unit 6 generating capacity. Units 1-5, with a combined net generating capacity of 228 MW, are currently in mothball status and out of operation.

(3) On December 28, 2010, we announced plans to mothball the Vermilion power generation facility at approximately the end of the first quarter 2011.

(4) Represents Units 4 and 5 generating capacity. Units 1-3, with a combined net generating capacity of 119 MW, are currently in mothball status and out of operation.

(5)

Represents Units 3 and 4 generating capacity. Units 1 and 2, with a combined net generating capacity of 352 MW, are currently in mothball status and out of operation.

(6) The South Bay facility was retired on December 31, 2010 and is in the process of being decommissioned.

(7) We own a 50 percent interest in this facility. Total output capacity of this facility is 85 MW.

(8) We lease the Roseton facility and Units 3 and 4 of the Danskammer facility pursuant to a leveraged lease arrangement that is further described in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Disclosure of Contractual Obligations and Contingent Financial Commitments—Off-Balance Sheet Arrangements—DNE Leveraged Lease.

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Our Business Focus

Our business focus seeks to create value through:

- a diverse portfolio of power generation assets;
- a diverse and flexible commercial strategy that includes buying and selling electric energy, capacity and ancillary services either short-, medium- or long-term; sales and purchases of emissions credits, fuel supplies and transportation services and the capture of extrinsic value inherent in our portfolio, to the extent permitted given liquidity constraints;
- safe, low cost plant operations, with a focus on having our plants available and "in the market" when it is economical to do so; and
- maintaining a capital structure to support our business and commercial operations.

Maintain a Diverse Portfolio to Capitalize on Market Opportunities and Mitigate Risk. We operate a portfolio of generation assets that is diversified in terms of dispatch profile, fuel type and geography. Baseload generation is generally low-cost and economically attractive to dispatch around the clock throughout the year. A baseload facility is usually expected to run in excess of 70 percent of the hours in a given year. Intermediate generation may not be as efficient and/or economical as baseload generation, but is typically intended to be dispatched during higher load times such as during daylight hours and sometimes on weekends. Peaking generation is the least efficient and highest cost generation, and is generally dispatched to serve load during the highest load times such as hot summer and cold winter days.

Power prices have significantly declined since the summer of 2008. This decline reflects a similar decline in natural gas prices, which is exacerbated by shale gas proliferation, and the impact of general economic conditions, including a recessionary environment that has negatively impacted the demand for electricity. Despite these effects, we continue to believe that, over the longer term, power demand and power pricing should increase, as more stringent environmental regulations force the retirement of older, less efficient power generation units that have not invested in environmental upgrades. As a result, we believe our coal-fired, baseload fleet that have received environmental upgrades, should benefit from the impact of higher power prices in the Midwest, allowing us to capture higher margins over time. We anticipate that our combined cycle units also should benefit from increased run-times as heat rates expand, with improved margins and cash flows as demand increases in our key markets.

In addition, we believe that our portfolio of assets helps to mitigate certain risks inherent in our business. For example, weather patterns, regulatory regimes and commodity prices often differ by region and state. Geographic diversity lessens the impact of an individual risk in any one region, and we are better positioned to improve the level and consistency of our earnings and cash flows.

Employ a Flexible Commercial Strategy to Maintain Long-Term Market Upside Potential While Protecting Against Downside Risks. We expect to see tightening reserve margins through time in the regions in which our assets are located. As these reserve margins tighten, in the longer term we expect to see our generating assets increase in value through improved cash flows and earnings as capacity utilization and power prices improve. Given current market pricing and conditions, we see limited long-term attractive commercial arrangements.

We plan to continue to volumetrically hedge the expected output from our facilities over a rolling 1-3 year time frame with the goal of achieving an efficient balance of risk and reward; however, liquidity constraints may limit our ability to post the collateral necessary to support this hedging strategy. Keeping the portfolio completely open and selling in the day-ahead market, for instance, would force us to take weather and general economic-related risks, as well as price risk of correlated commodities. These risks can cause significant swings in financial performance in any one year and are not consistent with our efforts to improve predictability of short- and medium-term earnings and cash flows.

Our commercial strategy seeks to balance the goal of protecting cash flow in the short- and medium-term with maintaining the ability to capture value longer term as markets tighten. In order to maximize the value of our assets, we seek to capture intrinsic and extrinsic value. Opportunities to capture extrinsic value – that is, value beyond that ascribed to our generating capacity based solely on a current price strip – arise from time to time in the form of price volatility, differences in counterparties' views of forward prices and other market conditions. In order to execute our strategy, we utilize a wide range of products and contracts such as power purchase agreements, fuel supply contracts, capacity auctions, bilateral capacity contracts, power and natural gas swap agreements, power and natural gas options and other financial instruments.

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We also, to the extent we have sufficient liquidity, seek to balance predictability of earnings and cash flow with achieving the highest level of earnings and cash flow. Short-term market volatility can negatively impact our profitability; we will seek to reduce those negative impacts through the disciplined use of short- and medium-term forward economic hedging instruments. Through the use of forward economic hedging instruments, including various products and contracts such as options and swaps, we seek to capture the extrinsic value inherent in our portfolio. Due to a number of variables – including changes in correlations between gas and power, time decay, changes in commodity prices, volatility and liquidity – we intend to actively and continuously balance our asset and hedge portfolios. However, our ability to execute our strategy may be limited as a result of liquidity constraints.

In carrying out this commercial strategy, we either prepay obligations or post significant amounts of collateral. Various commodity trading counterparties make collateral demands that reflect our non-investment grade credit ratings and the counterparties' views of our creditworthiness, as well as changes in commodity prices. We use a portion of our capital resources, in the form of cash, short-term investments, lien capacity, and letters of credit, to satisfy these counterparty collateral demands. Our commodity agreements are tied to market pricing and may require us to post additional collateral under certain circumstances. If conditions change such that counterparties demand additional collateral, additional strains on our liquidity could result.

As further discussed at Note 1—Organization and Operations—Going Concern, using the latest available forward commodity price curves and considering our current hedging contracts, we project that it is likely that we will not be able to comply with our EBITDA to Consolidated Interest Expense covenant, as set forth in our Credit Facility, particularly in the third and fourth quarters of 2011. In light of our probable covenant non-compliance, we are attempting to amend or replace our existing Credit Facility. We expect the capacity of any amended or new credit facility to be less than the current capacity of $1.8 billion. Depending on the ultimate capacity available, our ability to use forward economic hedging instruments could be limited due to the collateral requirements the use of such instruments entails. Reduced hedging activity would expose us to future increases and decreases in commodity prices and limit our ability to capture the extrinsic value associated with our portfolio of assets.

We set specific limits for "gross margin at risk" for our assets and economic hedges. These limits require power hedging above minimum levels, while requiring that corresponding fuel supplies are appropriately hedged as we progress through time. We also specifically attempt to manage basis risk to more liquid market hubs that are not the natural sales hub for a facility. Any reduction in our hedging activity to reduce liquidity needs will result in a corresponding inability to limit our gross margin at risk.

Operate Our Assets Safely and Cost-Efficiently to Maximize Revenue Opportunities and Operating Margins. We have a history of strong plant operations and are committed to operating our facilities in a safe, reliable, low-cost and environmentally compliant manner. By maintaining and operating our assets in an effort to ensure plant availability, high dispatch and capacity factors and an increased focus on operating and capital costs, we believe we are positioned to capture opportunities in the marketplace to benefit our operating margins.

Our power generation facilities are managed to require a relatively predictable level of maintenance capital expenditures without compromising operational integrity. Our capital expenditures are applied to the maintenance of our facilities to ensure their continued reliability and to investment in new equipment for either environmental compliance or increasing profitability. We seek to operate and maintain our generation fleet efficiently and safely, with an eye toward increased reliability and environmental stewardship. This increased reliability impacts our results to the extent that our generation units are available during times that it is economically sound to run. For units that are subject to contracts for capacity, our ability to secure availability payments from customers is dependent on plant availability.

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Maintain a Capital Structure that is Integrated with our Operating Strategy. We believe that the power industry is a commodity cyclical business with significant commodity price volatility and considerable capital investment requirements. Thus, operating in this market environment requires a capital structure that can withstand fuel and power price volatility as well as a commercial strategy that seeks to capture the value associated with both medium- and long-term price trends. We seek to employ a suitable capital structure, including debt amounts and maturities, debt covenants and overall liquidity, that is appropriate for our commercial strategy and the commodity cyclical market in which we operate. As discussed in Note 1—Organization and Operations—Going Concern, we are attempting to amend or replace our existing Credit Facility in order to continue to meet our operating needs over the next twelve months and/or seek additional sources of liquidity, which could impact our capital structure.

SEGMENT DISCUSSION

Our business operations are focused primarily on the wholesale power generation sector of the energy industry. We report the results of our power generation business, based on geographical location and how we have allocated our resources, as three separate segments in our consolidated financial statements: (i) GEN-MW, (ii) GEN-WE and (iii) GEN-NE. Our consolidated financial results also reflect corporate-level expenses such as general and administrative and interest. Please read Note 25—Segment Information for further information regarding the financial results of our business segments.

NERC Regions, RTOs and ISOs. In discussing our business, we often refer to NERC regions. The NERC and its regional reliability entities were formed to ensure the reliability and security of the electricity system. The regional reliability entities set standards for reliable operation and maintenance of power generation facilities and transmission systems. For example, each NERC region establishes a minimum operating reserve requirement to ensure there is sufficient generating capacity to meet expected demand within its region. Each NERC region reports seasonally and annually on the status of generation and transmission in each region.

Separately, RTOs and ISOs administer the transmission infrastructure and markets across a regional footprint in most of the markets in which we operate. They are responsible for dispatching all generation facilities in their respective footprints and are responsible for both maximum utilization and reliable and efficient operation of the transmission system. RTOs and ISOs administer energy and ancillary service markets in the short-term, usually day ahead and real-time markets. Several RTOs and ISOs also ensure long-term planning reserves through monthly, semi-annual, annual and multi-year capacity markets. The RTOs and ISOs that oversee most of the wholesale power markets currently impose, and will likely continue to impose, both bid and price limits. They may also enforce caps and other mechanisms to guard against the exercise of market dominance in these markets. NERC regions and RTOs/ISOs often have different geographic footprints, and while there may be geographic overlap between NERC regions and RTOs/ISOs, their respective roles and responsibilities do not generally overlap.

In RTO and ISO regions with centrally dispatched market structures, all generators selling into the centralized market receive the same price for energy sold based on the bid price associated with the production of the last MWh that is needed to balance supply with demand within a designated zone or at a given location (different zones or locations within the same RTO/ISO may produce different prices respective to other zones within the same RTO/ISO due to losses and congestion). For example, a less-efficient and/or less economical natural gas-fired unit may be needed in some hours to meet demand. If this unit's production is required to meet demand on the margin, its bid price will set the market clearing price that will be paid for all dispatched generation (although the price paid at other zones or locations may vary because of congestion and losses), regardless of the price that any other unit may have offered into the market. In RTO and ISO regions with centrally dispatched market structures and location-based marginal pricing clearing structures (e.g. PJM, NYISO, MISO and ISO-NE), generators will receive the location-based marginal price for their output. The location-based marginal price, absent congestion, would be the marginal price of the most expensive unit needed to meet demand. In regions that are outside the footprint of RTOs/ISOs, prices are determined on a bilateral basis between buyers and sellers.

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Market-Based Rates. Our ability to charge market-based rates for wholesale sales of electricity, as opposed to cost-based rates, is governed by FERC. We have been granted market-based rate authority for wholesale power sales from our EWG facilities, as well as wholesale power sales by our power marketing entities, DYPM and DMT. The Dynegy EWG facilities include all of our facilities except our investment in the Nevada Cogeneration Associates #2 (“Black Mountain”) facility. This facility is known as a QF, and has various exemptions from federal regulation and sells electricity directly to purchasers under negotiated and previously approved power purchase agreements.

Our market-based rate authority is predicated on a finding by FERC that our entities with market-based rates do not have market power, and a market power analysis is generally conducted once every three years for each region on a rolling basis (known as the triennial market power review). The next triennial market power review for our MISO facilities will be filed with FERC in June 2012. The next triennial market power review for our GEN-NE and PJM facilities will be filed at FERC in June 2011. The triennial market power reviews for our GEN-WE facilities was filed in June 2010 and accepted by FERC in December 2010 with a finding that the GEN-WE facilities satisfied FERC’s requirement that such facilities do not have horizontal or vertical market power.

Power Generation—Midwest Segment

GEN-MW is comprised of eight facilities in Illinois and one in Pennsylvania with a total generating capacity of 5,088 MW. As of December 31, 2010, GEN-MW operated entirely within either the MISO or the PJM.

RTO/ISO Discussion

MISO. The MISO market includes all of Wisconsin and Michigan and portions of Ohio, Kentucky, Indiana, Illinois, Nebraska, Kansas, Missouri, Iowa, Minnesota, North Dakota, Montana and Manitoba, Canada. As of December 31, 2010, we owned seven power generating facilities that sell into the MISO market and are located in Illinois, with an aggregate net generating capacity of 3,308 MW within MISO. On December 28, 2010, we announced plans to mothball the 176 MW Vermilion power generation facility at the end of the first quarter 2011.

The MISO market is designed to ensure that every electric industry participant has access to the grid and that no entity has the ability to deny access to a competitor. MISO also manages the use of transmission lines to make sure that they do not become overloaded. MISO operates physical and financial energy markets using a system known as LMP, which calculates a price for every generator and load point within MISO. This system is “price-transparent”, allowing generators and load serving entities to see real-time price effects of transmission constraints and impacts of generation and load changes to prices at each point. MISO operates day-ahead and real-time markets into which generators can offer to provide energy. MISO does not administer a centralized capacity market.

FTRs allow users to manage the cost of transmission congestion (as measured by LMP differentials, between source and sink points on the transmission grid) and corresponding price differentials across the market area. MISO implemented the Ancillary Services Market (Regulation and Operating Reserves) on January 6, 2009 and implemented an enforceable Planning Reserve Margin for each planning year effective June 1, 2009. A feature of the Ancillary Services Market is the addition of scarcity pricing that, during supply shortages, can raise the combined price of energy and ancillary services significantly higher than the previous cap of $1,000/MWh. An independent market monitor is responsible for ensuring that MISO markets are operating competitively and without exercise of market power.

PJM. The PJM market includes all or parts of Delaware, Illinois, Indiana, Kentucky, Maryland, Michigan, New Jersey, North Carolina, Ohio, Pennsylvania, Tennessee, Virginia, West Virginia and the District of Columbia. As of December 31, 2010, we owned two generating facilities that sell into the PJM market and are located in Illinois and Pennsylvania with an aggregate net generating capacity of 1,780 MW.

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PJM administers markets for wholesale electricity and provides transmission planning for the region, utilizing the LMP system described above. PJM operates day-ahead and real-time markets into which generators can bid to provide electricity and ancillary services. PJM also administers markets for capacity. An independent market monitor continually monitors PJM markets for any exercise of market power or improper behavior by any entity. PJM implemented a forward capacity auction, the RPM, which established long-term markets for capacity in 2007. In addition to entering into bilateral capacity transactions, we have participated in RPM base residual auctions through PJM's planning year 2013-2014, which ends May 31, 2014, as well as ongoing incremental auctions to balance positions and offer residual capacity that may become available.

PJM, like MISO, dispatches power plants to meet system energy and reliability needs, and settles physical power deliveries at LMPs. This value is determined by an ISO-administered auction process, which evaluates and selects the least costly supplier offers or bids to create reliable and least-cost dispatch. The ISO-sponsored LMP energy markets consist of two separate and characteristically distinct settlement time frames. The first is a security-constrained, financially firm, day-ahead unit commitment market. The second is a security-constrained, financially settled, real-time dispatch and balancing market. Prices paid in these LMP energy markets, however, are affected by, among other things, (i) market mitigation measures, which can result in lower prices associated with certain generating units that are mitigated because they are deemed to have the potential to exercise locational market power, and (ii) existing $1,000/MWh energy market price caps that are in place.

Contracted Capacity and Energy

MISO. Power prices in MISO are a significant driver of our overall financial performance due to the fact that a significant portion of our total power generating capacity is located in MISO and is attributable to coal-fired baseload units. We commercialize these assets through a combination of bilateral physical and financial power, fuel and capacity contracts.

PJM. Our generation assets in PJM are natural gas-fired combined cycle intermediate dispatch facilities. We commercialize these assets through a combination of bilateral power, fuel and capacity contracts. We commercialize our capacity through either the RPM auction or on a bilateral basis. In January 2010, we executed an agreement to terminate a 280 MW tolling agreement for our Kendall facility. This agreement was replaced by two smaller tolling agreements which total 135 MW into 2012 and 85 MW into 2017.

Regulatory Considerations

MISO. Actual reserve margins are substantially above MISO's current required reserve margin of 15 percent. The reserve margin based on available capacity was 29 percent during the 2010 summer season as compared to 44 percent during the 2009 summer season.

PJM. Actual reserve margins are somewhat above PJM's current required installed reserve margin of 15 percent. The reserve margin based on deliverable capacity was 26 percent for Planning Year 2010/11 as compared to 20 percent for Planning Year 2009/10. PJM's required installed reserve margin is 16 percent for Planning Year 2010/11.

Power Generation—West Segment

GEN-WE is comprised of three operating natural gas-fired power generation facilities located in California (2) and Nevada (1) and one fuel oil-fired power generation facility located in California, totaling 3,387 MW of electric generating capacity. Our 309 MW South Bay facility is currently out of operation and is in the process of being decommissioned.

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RTO/ISO Discussion

CAISO. CAISO covers approximately 90 percent of the State of California. At December 31, 2010, we owned three operating generation facilities in California within CAISO. The Oakland facility is designated as an RMR unit by the CAISO.

Contracted Capacity and Energy

CAISO. In CAISO, where our assets include intermediate dispatch and peaking facilities, we seek to mitigate spark spread variability through RMR, tolling arrangements and physical and financial bilateral power and fuel contracts. All of the capacity of our Moss Landing Units 6 and 7 and Morro Bay facility are contracted under tolling arrangements through 2013. Our Oakland facility operates under RMR contracts. The RMR contract at our South Bay facility expired on December 31, 2010, and we expect the facility to be demolished.

Regulatory Considerations

CPUC/CAISO. On the state level, there are numerous ongoing market initiatives that impact wholesale generation, principally the development of resource adequacy rules and capacity markets.

The CPUC requires a Resources Adequacy margin of 15 to 17 percent. The actual reserve margin generally moves within, or close to, this range, but seasonal and regional fluctuations exist.

Equity Investment

Black Mountain. We have a 50 percent indirect ownership interest in the Black Mountain facility, which is a PURPA QF located near Las Vegas, Nevada, in the WECC. Capacity and energy from this facility are sold to Nevada Power Company under a long-term PURPA QF contract that runs to 2023.

Power Generation—Northeast Segment

GEN-NE is comprised of four facilities located in New York (3) and Maine (1), with a total capacity of 3,297 MW. We own and operate the Independence, Casco Bay and Danskammer Units 1 and 2 power generating facilities, and we operate the Roseton and Danskammer Units 3 and 4 facilities under long-term lease arrangements. Our Roseton and Danskammer facility sites are adjacent and share common resources such as fuel handling, a docking terminal, personnel and systems.

RTO/ISO Discussion

The market in which GEN-NE resides is characterized by two interconnected and actively traded competitive markets: the NYISO (an ISO) and the ISO-NE (an RTO). In the GEN-NE markets, load-serving entities generally lack their own generation capacity and procure their energy supplies from merchant generation owners through the ISO/RTO markets. Commodity prices are typically more volatile in the Northeast (on an as-delivered basis) than in other regions due to the distance and occasional physical constraints that impact the delivery of fuel into the region.

Although both RTOs/ISOs and their respective energy markets are functionally, administratively and operationally independent, they follow, to a certain extent, similar market designs. Both the NYISO and the ISO-NE dispatch power plants to meet system energy and reliability needs and settle physical power deliveries at LMPs as discussed above. The energy markets in both the NYISO and ISO-NE also have defined, but different, mitigation protocols for bidding.

In addition to energy delivery, the NYISO and ISO-NE administer markets for installed capacity, ancillary services and FTRs.

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NYISO. The NYISO market includes virtually the entire state of New York. At December 31, 2010, we operated three facilities within NYISO with an aggregate net generating capacity of 2,757 MW.

Capacity pricing is calculated as a function of NYISO's annual required reserve margin, the estimated net cost of "new entrant" generation, estimated peak demand and the actual amount of capacity bid into the market at or below the demand curve. The demand curve mechanism provides for incrementally higher capacity pricing at lower reserve margins, such that "new entrant" economics become attractive as the reserve margin approaches required minimum levels. The intent of the demand curve mechanism is to ensure that existing generation facilities have enough revenue to recover their investment when capacity revenues are coupled with energy and ancillary service revenues. Additionally, the demand curve mechanism is intended to attract new investment in generation in the general sector in which it is needed most when that new capacity is needed. To calculate the price and quantity of installed capacity, three ICAP demand curves are utilized: one for Long Island, one for New York City and one for Statewide (commonly referred to as Rest of State). Our facilities operate in the Rest of State market.

Due to transmission constraints, energy prices vary across New York and are generally higher in the Southeastern part of New York, where our Roseton and Danskammer facilities are located, and in New York City and Long Island. Our Independence facility is located in the Northwest part of the state.

ISO-NE. The ISO-NE market includes the six New England states of Vermont, New Hampshire, Massachusetts, Connecticut, Rhode Island and Maine. Much like regional zones in the NYISO, energy prices also vary among the participating states in ISO-NE, and are largely influenced by transmission constraints and fuel supply. The ISO-NE implemented an FCM in June 2010 where capacity prices are determined through auctions. As of December 31, 2010, we owned and operated one power generating facility (Casco Bay) within the ISO-NE, with an aggregate net generating capacity of 540 MW.

Contracted Capacity and Energy

NYISO. We commercialize these assets through a combination of bilateral physical and financial power, fuel and capacity contracts.

At our Independence facility, 740 MW of capacity is contracted under a capacity sales agreement that runs through 2014. Revenue from this capacity obligation is largely fixed with a variable discount that varies each month based on the LMP at Pleasant Valley. Additionally, we supply steam and up to 44 MW of electric energy from our Independence facility to a third party at a fixed price.

For the uncommitted portion of our NYISO fleet, due to the standard capacity market operated by NYISO and liquid over-the-counter market for NYISO capacity products, we are able to sell substantially all of our remaining capacity into the market.

ISO-NE. Four forward capacity auctions have been held to date with capacity clearing prices ranging from $4.50 kW/month for the 2010/2011 market period to $2.95 kW/month for the 2012/2013 market period. These capacity clearing prices represent the floor price and the actual rate paid to market participants that were affected by pro-rationing due to oversupply conditions.

Regulatory Considerations

NYISO. A reserve margin of 15.5 percent has been proposed for the New York Control Area for the period beginning May 1, 2011 and ending April 30, 2012, down from the current requirement of 18 percent. The actual amount of installed capacity is somewhat above NYISO's current required margin.

ISO-NE. Recommended improvements and modifications to the FCM design are currently in litigation at FERC, and discussions to address improvements to the FCM design are currently underway by the ISO and its stakeholders.

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Other

Corporate governance roles and functions, which are managed on a consolidated basis, and specialized support functions such as finance, accounting, commercial, risk control, tax, legal, regulatory, human resources, administration and information technology, are included in Other in our segment reporting. Corporate general and administrative expenses, income taxes and interest expenses are also included, as are corporate-related other income and expense items. Results for our legacy CRM operations, which primarily consist of a minimal number of natural gas trading positions, are also included in Other.

ENVIRONMENTAL MATTERS

Our business is subject to extensive federal, state and local laws and regulations governing discharge of materials into the environment. We are committed to operating within these regulations and to conducting our business in an environmentally responsible manner. The environmental, legal and regulatory landscape is subject to change and has become more stringent over time. The process for acquiring or maintaining permits or otherwise complying with applicable rules and regulations may create unprofitable or unfavorable operating conditions or require significant capital and operating expenditures. Any failure to acquire or maintain permits or to otherwise comply with applicable rules and regulations may result in fines and penalties or negatively impact our ability to advance projects in a timely manner, if at all. Further, changed interpretations of existing regulations may subject historical maintenance, repair and replacement activities at our facilities to claims of noncompliance.

Our aggregate expenditures (both capital and operating) for compliance with laws and regulations related to the protection of the environment were approximately $225 million in 2010 compared to approximately $320 million in 2009 and approximately $245 million in 2008. The 2010 expenditures include approximately $200 million for projects related to our Midwest Consent Decree (which is discussed below) compared to $260 million for Midwest Consent Decree projects in 2009. We estimate that total environmental expenditures in 2011 will be approximately $180 million, including approximately $150 million in capital expenditures and approximately $30 million in operating expenditures. Changes in environmental regulations or outcomes of litigation and administrative proceedings could result in additional requirements that would necessitate increased future spending and could create adverse operating conditions. Please read Note 22—Commitments and Contingencies for further discussion of this matter.

Climate Change

For the last several years, there has been a robust public debate about climate change and the potential for regulations requiring lower emissions of GHG, primarily CO2 and methane. We believe that the focus of any federal program attempting to address climate change should include three critical, interrelated elements: (i) the environment, (ii) the economy and (iii) energy security.

We cannot confidently predict the final outcome of the current debate on climate change nor can we predict with confidence the ultimate requirements of proposed or anticipated federal and state legislation and regulations intended to address climate change. These activities, and the highly politicized nature of climate change, suggest a trend toward increased regulation of GHG that could result in a material adverse effect on our financial condition, results of operations and cash flows. Existing and anticipated federal and state regulations intended to address climate change may significantly increase the cost of providing electric power, resulting in far-reaching and significant impacts on us and others in the power generation industry over time. It is possible that federal and state actions intended to address climate change could result in costs assigned to GHG emissions that we would not be able to fully recover through market pricing or otherwise. If capital and/or operating costs related to compliance with regulations intended to address climate change become great enough to render the operations of certain plants uneconomical, we could, at our option and subject to any applicable financing agreements or other obligations, reduce operations or cease to operate such plants and forego such capital and/or operating costs.

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Power generating facilities are a major source of GHG emissions – in 2010, our facilities in GEN-MW, GEN-WE and GEN-NE emitted approximately 23.5 million, 1.5 million and 4.8 million tons of CO_2e, respectively. The amounts of CO_2e emitted from our facilities during any time period will depend upon their dispatch rates during the period.

Though we consider our largest risk related to climate change to be legislative and regulatory changes intended to slow or prevent it, we are subject to physical risks inherent in industrial operations including severe weather events such as hurricanes and tornadoes. To the extent that changes in climate effect changes in weather patterns (such as more severe weather events) or changes in sea level where we have generating facilities, we could be adversely affected. To the extent that climate change results in changes in sea level, we would expect such effects to be gradual and amenable to structural mitigation during the useful life of the facilities. However, if this is not the case it is possible that we would be impacted in an adverse way, potentially materially so. We could experience both risks and opportunities as a result of related physical impacts. For example, more extreme weather patterns – namely, a warmer summer or a cooler winter – could increase demand for our products. However, we also could experience more difficult operating conditions in that type of environment. We maintain various types of insurance in amounts we consider appropriate for risks associated with weather events.

Federal Legislation Regarding Greenhouse Gases. Several bills have been introduced in Congress since 2003 that if passed would compel reductions in CO_2 emissions from power plants. In June 2009, the House of Representatives passed the American Clean Energy and Security Act of 2009 (“H.R. 2454”). Title III of H.R. 2454 would add a new Title VII to the CAA creating a Global Warming Pollution Reduction Program. H.R. 2454 would also create a national cap-and-trade program aimed at reducing CO_2 emissions to three percent below 2005 levels by 2012, 17 percent below 2005 levels by 2020, 42 percent below 2005 levels by 2030 and 83 percent below 2005 levels by 2050. The companion bill introduced in the Senate, S. 1733, was passed by the Senate Environment and Public Works Committee in November 2009 but did not gain enough support to be brought to a vote of the full Senate. While several other bills have been introduced in the Senate, none have been passed out of committee and the passage of comprehensive GHG legislation in the next two years is considered unlikely.

Federal Regulation of Greenhouse Gases. In April 2007, the U.S. Supreme Court issued its decision in Massachusetts v. EPA, a case involving the regulation of GHG emissions from new motor vehicles. The Court held that GHGs meet the definition of a pollutant under the CAA and that regulation of GHG emissions is authorized by the CAA. The Court ruled that the EPA had a duty to determine whether or not GHG emissions from motor vehicles might reasonably be anticipated to endanger public health or welfare within the meaning of the CAA.

In response to the ruling in Massachusetts v. EPA, the Administrator of the EPA issued a proposed finding in April 2009 that GHG emissions from motor vehicles cause or contribute to air pollution that endangers the public health and welfare. After a comment period, the Administrator issued a final endangerment finding under Section 202(a) of the CAA in December 2009. The decision found that six GHGs in the atmosphere may reasonably be anticipated to endanger public health and welfare. Subsequently, Requests for Reconsideration of EPA’s endangerment finding were filed, and sixteen petitions for review of the final EPA action have been filed in the U.S. Court of Appeals for the District of Columbia by organizations representing industry, an organization representing nine members of Congress, and by the states of Alabama, Texas and Virginia. The EPA denied the Requests for Reconsideration on July 29, 2010 and the denial has been challenged in the U.S. Court of Appeals for the District of Columbia.

The EPA finalized several proposed rules concerning GHGs in 2010:

The EPA and the U.S. Department of Transportation adopted a joint rule to regulate GHG emissions from passenger cars and light trucks under Section 202(a) of the CAA. The final motor vehicle rule was published in the Federal Register on May 7, 2010. While this rule will not directly affect us, it renders GHGs, including CO_2, “subject to regulation” under the CAA.

The EPA final rule requiring mandatory reporting of GHG emissions from all sectors of the economy went into effect in January 2010 and requires that reports of GHG emissions be filed annually thereafter. We have implemented new processes and procedures to report these emissions as required and anticipate filing our first report in March 2011, with annual filings thereafter.

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The EPA Tailoring Rule proposed to "phase in" new GHG emissions applicability thresholds for the PSD permit program and for the operating permit program under Title V of the CAA. The final Tailoring Rule was published in the Federal Register on June 3, 2010. For sources already subject to the PSD program, the rule establishes a GHG emissions PSD applicability threshold at a net increase of 75,000 tons per year of CO2e for new and modified sources from January 2, 2011 through June 30, 2011. From July 1, 2011 through June 30, 2013 the GHG emissions PSD applicability threshold will be 100,000 tons per year for new sources even if these sources are not otherwise subject to the PSD program for other pollutants. The applicability threshold for modifications to existing sources will continue to be a net increase of 75,000 tons per year. Several parties have filed Requests for Reconsideration of the Tailoring Rule with the EPA. The Rule has also been challenged in the U.S. Court of Appeals for the District of Columbia. We cannot predict with confidence the outcome of the litigation. Application of the PSD program to GHG emissions will require implementation of BACT for new and modified sources of GHG. On November 10, 2010, the EPA issued its PSD and Title V Permitting Guidance for Greenhouse Gases. For coal-fired electric generating units, the guidance focuses on steam turbine and boiler efficiency improvements as a reasonable BACT requirement.

On December 30, 2010, the EPA published a Notice of Proposed Settlement Agreement of a CAA citizen suit in New York, et al. v. EPA, a challenge to its final NSPS for electric utility steam generating units ("EGUs"), issued on February 27, 2006. Several states and environmental organizations challenged the rule because it did not establish standards of performance for GHG emissions. Following the Supreme Court's decision in Massachusetts v. EPA, the U.S. Court of Appeals for the District of Columbia Circuit remanded the rule to the EPA for further consideration of the GHG issues. The proposed settlement would require the EPA to issue a proposed NSPS under the CAA for control of GHG emissions from new and modified EGUs, as well as proposed emission guidelines for control of GHG emissions from existing EGUs, by July 26, 2011 and to finalize the standard by May 26, 2012. Any such standards would directly affect several of our power generating facilities.

State Regulation of Greenhouse Gases. Many states where we operate generation facilities have, are considering, or are in some stage of implementing, state-only regulatory programs intended to reduce emissions of GHGs from stationary sources as a means of addressing climate change. Beginning in 2009, our generating facilities in New York and Maine were required to purchase CO2 allowances from the states where they operate in sufficient quantities to cover CO2 emissions. Please see "Northeast" below for further information. Beginning in 2012, our generating facilities in California are also expected to be required to purchase CO2 allowances in sufficient quantities to cover CO2 emissions. Please see "West" below for further information.

Midwest. Our assets in Illinois may become subject to a regional GHG cap-and-trade program being developed under the MGGA. The MGGA is an agreement among six states and one Canadian province to create the MGGRP to establish GHG reduction targets and timeframes consistent with member states' targets and to develop a market-based and multi-sector cap and trade mechanism to achieve the GHG reduction targets. Illinois has set a goal of reducing GHG emissions to 1990 levels by the year 2020, and to 60 percent below 1990 levels by 2050. The MGGRP is, however, still in an early stage of development and specific targets for GHG emission reductions and regulations to achieve such targets have not yet been agreed to by the members.

West. Our assets in California are subject to the California Global Warming Solutions Act ("AB 32"), which became effective in January 2007. AB 32 requires the CARB to develop a GHG emission control program that will reduce emissions of GHG in the state to their 1990 levels by 2020 with a fully effective regulatory program to be in place by January 2012. The formal cap-and-trade rulemaking began with the release of the Staff Report: Initial Statement of Reasons on October 28, 2010. The CARB considered the Proposed Regulation to Implement the California Cap-and-Trade Program at its public hearing on December 16, 2010. At that hearing, the Board adopted a resolution to approve the rule with specified modifications that will be made through additional rulemakings in 2011, including a rulemaking to address allowance allocations. Initially, the program will apply to large stationary sources including power generation facilities beginning in 2012. GHG emission allowances are expected to be sold at auctions beginning in February 2012.

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The State of California is a party to a regional GHG cap-and-trade program being developed under the WCI to reduce GHG emissions in the participating states. The WCI is a collaborative effort among seven states and four Canadian provinces. California's implementation of AB 32 is expected to constitute the state's contribution to the WCI and to form the model for other participating jurisdictions.

Northeast. On January 1, 2009, our assets in New York and Maine became subject to a state-driven GHG emission control program known as RGGI. RGGI was developed and implemented by ten New England and Mid-Atlantic states to reduce CO2 emissions from power plants. The participating RGGI states implemented rules regulating GHG emissions using a cap-and-trade program to reduce CO2 emissions by at least 10 percent of 2009 emission levels by the year 2018. Compliance with the allowance requirement under the RGGI cap-and-trade program can be achieved by reducing emissions, purchasing or trading allowances, or securing offset allowances from an approved offset project. While allowances are sold by year, actual compliance is measured across a three year control period. The first control period is for the 2009-2011 timeframe.

In December 2010, RGGI held its tenth auction, in which approximately 25 million allowances for the current control period, and 1.2 million allowances for future control periods, were sold at clearing prices of $1.86 per allowance. We have participated in each of the quarterly RGGI auctions (or in secondary markets, as appropriate) to secure some allowances for our affected assets. We expect that the increased operating costs resulting from purchase of CO2 allowances will be at least partially reflected in market prices. The RGGI states plan to continue to conduct quarterly auctions in 2011.

Our generating facilities in New York and Maine emitted approximately 4.8 million tons of CO2 during 2010. Based on the average clearing price of $2.51 for current allowances sold in all auctions held to date, we estimate our cost of allowances required to operate these facilities during 2010 would be approximately $12 million. The RGGI compliance period is three years, so the actual cost of allowances required for our 2010 operations may vary from this estimate as a result of purchases and/or sales of allowances between now and 2012, which may result in a lower or higher average allowance cost.

Climate Change Litigation. There is a risk of litigation from those seeking injunctive relief from or to impose liability on sources of GHG emissions, including power generators, for claims of adverse effects due to climate change. Recent court decisions disagree on whether the claims are subject to resolution by the courts and whether the plaintiffs have standing to sue.

In September 2009, the U.S. Court of Appeals for the 2nd Circuit considered the appeal of Connecticut v. AEP and held that the U.S. District Court is an appropriate forum for resolving claims by eight states and New York City against six electric power generators related to climate change. Similarly, in October 2009, the U.S. Court of Appeals for the 5th Circuit considered the appeal of Comer v. Murphy Oil and held that claims related to climate change by property owners along the Mississippi Gulf Coast against energy companies could be resolved by the courts. However, the Comer v. Murphy decision was subsequently vacated. In September 2009, the U.S. District Court for the Northern District of California dismissed claims related to climate change by an Alaskan community against 24 companies in the energy industry, including us, in Native Village of Kivalina and City of Kivalina v. ExxonMobil Corporation, et al. The Kivalina case is pending before the U.S. Court of Appeals for the 9th Circuit. Please read Note 22—Commitments and Contingencies for further discussion of this case.

The conflict in recent court decisions illustrates the unsettled law related to claims based on the effects of climate change. The decisions affirming the jurisdiction of the courts and the standing of the plaintiffs to bring these claims could result in an increase in similar lawsuits and associated expenditures by companies like ours. On December 6, 2010, the U.S. Supreme Court agreed to review Connecticut v. AEP.

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Carbon Initiatives. We participate in several programs that partially offset or mitigate our GHG emissions. In the lower Mississippi River Valley, we have partnered with the U.S. Fish & Wildlife Service to restore more than 45,000 acres of hardwood forests by planting more than 2 million bottomland hardwood seedlings. In California, we are evaluating the use of bio-fuels as a means of reducing reliance on traditional fuels. In Illinois, we are funding prairie, bottomland hardwood and savannah restoration projects in partnership with the Illinois Conservation Foundation. We also have programs to reuse CCR produced at our coal-fired generation units through agreements with cement manufacturers that incorporate the material into cement products, helping to reduce CO2 emissions from the cement manufacturing process.

Our Moss Landing facility in California is involved in a pilot project with Calera Corporation that treats flue gas emissions from the facility in a process that produces materials similar to Portland cement and aggregate. The Calera carbonate mineralization process binds CO2 with minerals in brines or seawater in a manner that has the potential to permanently sequester the CO2 in the solid materials it produces. If this process can be developed on a commercial scale, it would provide a means of capturing CO2 and creating beneficial, marketable products for the building materials industry.

Other Environmental Matters

The Clean Air Act

The CAA and comparable state laws and regulations relating to air emissions impose responsibilities on owners and operators of sources of air emissions, including requirements to obtain construction and operating permits as well as compliance certifications and reporting obligations. The CAA requires that fossil-fueled electric generating plants have sufficient emission allowances to cover actual SO2 emissions and in some regions NOX emissions, and that they meet certain pollutant emission standards as well. Our power generation facilities, some of which have changed their operations to accommodate new control equipment or changes in fuel mix, are currently in compliance with these requirements.

In order to ensure continued compliance with the CAA and related rules and regulations, including ozone-related requirements, we have plans to install additional emission reduction technology at our GEN-MW coal-fired facilities. When our plans are complete, our four coal-fired units at our Baldwin and Havana facilities will have dry flue gas desulphurization systems for the control of SO2 emissions, and electrostatic precipitators and baghouses for the control of particulate emissions. Selective catalytic reduction technology for the control of NOX emissions has been installed and operated on three of these units for several years; GEN-MW’s remaining units use low-NOX burners and overfire air to lower NOX emissions. Our coal-fired units at our Vermilion and Hennepin facilities have electrostatic precipitators and baghouses for the control of particulate matter. We now have activated carbon injection technology for the control of mercury emissions installed and operating on approximately 95 percent of GEN-MW’s coal-fired capacity, and we will install this technology on our final unit by 2013.

Multi-Pollutant Air Emission Initiatives

In recent years, various federal and state legislative and regulatory multi-pollutant initiatives have been introduced. In early 2005, the EPA finalized several rules (i.e. CAIR and CAMR) that would collectively require reductions of approximately 70 percent each in emissions of SO2 and NOx by 2015 and mercury by 2018 from coal-fired power generation units.

CAIR is intended to reduce SO2 and NOx emissions from power generation sources across the eastern United States (29 states and the District of Columbia) and to address fine particulate matter and ground-level ozone National Ambient Air Quality Standards. CAIR was challenged and the U.S. Court of Appeals for the District of Columbia

Circuit remanded the rule to the EPA to correct several aspects of the rule determined by the Court to be unacceptable. The rule remains effective until the EPA completes its proposed Transport Rule to replace CAIR. Our facilities in Illinois and New York are subject to state SO2 and NOx limitations more stringent than those imposed by the currently effective CAIR.

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Transport Rule. On August 2, 2010, the EPA proposed its Federal Implementation Plans to Reduce Interstate Transport of Fine Particulate Matter and Ozone (the "proposed Transport Rule"). The proposed Transport Rule would be implemented through federal implementation plans that would be effective in each affected state as soon as the final rule is issued. The proposed rules are intended to reduce emissions of SO2 and NOx from large electric generating units in 31 eastern states and the District of Columbia. The rules would impose cap and trade programs within each state that would cap emissions of SO2 and NOx at levels predicted to eliminate that state's contribution to nonattainment in, or interference with maintenance of attainment status by, down-wind areas with respect to the National Ambient Air Quality Standards for particulate matter smaller than 2.5 micrometers (PM2.5) and ozone. Our generating facilities in Illinois, New York and Pennsylvania would be subject to the rules.

The rules applicable to annual and ozone season NOx emissions would require compliance by January 1, 2012. The rules applicable to SO2 emissions from electric generating units in Illinois, New York and Pennsylvania would be implemented in two stages with compliance dates of January 1, 2012 and January 1, 2014. The EPA would initially allocate NOx and SO2 emission allowances to existing electric generating units based on the lower of 2009 annual emissions or projected 2012 emissions necessary to meet the EPA's emission budget for the state. The SO2 emission budgets in Illinois, New York and Pennsylvania would be reduced in 2014, and existing electric generating units in these states would be allocated fewer SO2 emission allowances beginning in 2014. Electric generating units would be required to hold one emission allowance for every ton of SO2 and/or NOx emitted during the applicable compliance period. Electric generating units can comply with the required emission reductions by any combination of (i) installing emission control technologies, (ii) operating existing controls more often, (iii) switching fuels, or (iv) curtailing or ceasing operation.

Allowance trading would be allowed under the proposed Transport Rule among sources within the same state with limited interstate allowance trading. Illinois, New York and Pennsylvania would be subject to three new cap and trade programs under the proposed Transport Rule capping emissions of NOx from May 1st through September 30th and capping emissions of SO2 and NOx respectively, on an annual basis.

In the preamble to the proposed Transport Rule, the EPA solicited comments on alternatives and variations to a number of provisions of the proposal including the state emissions budgets, the emission allowance allocation approach, auction of allowances rather than allocation by the EPA, and direct control of emissions through emission rate limits. We submitted comments on the proposed rule on October 1, 2010. On January 7, 2011, the EPA issued a Notice of Data Availability and requested comment on alternative allocation methodologies based on historic heat input. We will continue to monitor the rulemaking process surrounding the proposed Transport Rule and to evaluate any potential impacts it might have on our operations.

Mercury/HAPs. In March 2005, the EPA issued the CAMR for control of mercury emissions from coal-fired power plants and established a cap and trade program requiring states to promulgate rules at least as stringent as CAMR. In December 2006, the Illinois Pollution Control Board approved a state rule for the control of mercury emissions from coal-fired power plants that required additional capital and O&M expenditures at each of our Illinois coal-fired plants beginning in 2007. The State of New York has also approved a mercury rule that will likely require us to incur additional capital and operating costs for our Danskammer power generating facility by January 1, 2015.

In February 2008, the U.S. Court of Appeals for the District of Columbia Circuit vacated the CAMR; however, the Illinois and New York mercury regulations remain in effect. In December 2009, the EPA issued information requests under Section 114 of the CAA to many coal- and oil- fired steam electric generating companies, including certain of our operating companies. These requests required stack tests to develop information on emissions of mercury and other HAPs, including organics, acid gases and non-mercury metals, and will be used by the EPA to develop emission standards for HAPs under Section 112 of the CAA. Under a consent decree, the EPA is required to propose MACT emission standards for HAPs from coal- and oil-fired electric utility steam generating units, pursuant to CAA Section

112, by March 16, 2011 and to issue final standards by November 16, 2011. We will continue to monitor the HAP rulemaking process and evaluate any potential impacts the rulemaking might have on our operations.

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Visibility. CAVR requires states to analyze and include BART requirements for individual facilities in their SIPs to address regional haze. The requirements apply to facilities built between 1962 and 1977 that emit more than 250 tons per year of certain regulated pollutants in specific industrial categories, including utility boilers. In July 1999, the EPA published its final Regional Haze Rule which requires states to submit regional haze implementation plans to the EPA detailing their plans to reduce emissions of visibility-impairing pollutants (NOx, SO2 and particulates) that affect visibility in downwind Federal Class I Areas (i.e. parks and wilderness) with a goal to restore natural visibility conditions in these areas by 2064.

The State of New York has been identified as having certain BART eligible facilities that contribute to regional haze in Class I Areas in other states, including our Roseton power generating facility and Unit 4 at our Danskammer power generating facility. On May 1, 2010, the New York State BART Rule became effective. In compliance with the rule, our Danskammer and Roseton power generating facilities performed a comprehensive, unit specific modeling analysis for their BART eligible units to determine their impact on visibility. In the fall of 2010, we submitted this analysis to NYSDEC along with a proposal to reduce NOx and SO2 emission limits to address impacts on visibility. Compliance at our Roseton facility would be achieved, effective January 1, 2014, by reducing the sulfur content of our fuel oil and optimization of existing NOx emission controls. Compliance at Danskammer Unit 4 would be achieved, effective July 1, 2014, through optimization of existing NOx emission controls, co-firing with natural gas, use of alternative coal, and/or installation of additional emission controls. Our BART proposals are under review by NYSDEC and the EPA. We are continuing to review our compliance options at Danskammer, options which could result in significant expenditures for emission control equipment.

Other Air Emission Initiatives

New York NOx RACT Rule. In June 2010, New York State issued a final rule establishing revised RACT limits for emissions of NOx from stationary combustion sources. Compliance with the revised NOx RACT limits is required by July 1, 2014, and compliance plans must be submitted to NYSDEC by January 1, 2012. Compliance options include meeting presumptive RACT limits, case-by-case RACT determinations, fuel switching during the ozone season (May 1 through September 30), and participation in a system averaging plan. We are continuing to review the potential impact of the revised NOx RACT rule on our subject power generation facilities.

Midwest Consent Decree. In 2005, we settled a lawsuit filed by the EPA and the U.S. Department of Justice that alleged violations of the CAA and related federal and Illinois regulations concerning certain maintenance, repair and replacement activities at our Baldwin generating facility. A consent decree was finalized in July 2005 that would prohibit operation of certain of our power generating facilities after certain dates unless specified emission control equipment is installed (the “Midwest Consent Decree”). We have achieved all emission reductions to date under the Midwest Consent Decree and are in the process of installing additional emission control equipment to meet future Midwest Consent Decree emission limits. We anticipate our costs associated with the Midwest Consent Decree projects, which we expect to incur through 2013, will be approximately $960 million, which includes approximately $730 million spent to date. This estimate required a number of assumptions about uncertainties that are beyond our control, including an assumption that labor and material costs will increase at four percent per year over the remaining project term. The following are the future estimated capital expenditures required to comply with the Midwest Consent Decree:

2011	2012 (in millions)	2013
$ 140	$ 80	$ 10

If the costs of these capital expenditures become great enough to render operation of the affected facility or facilities uneconomical, we could, at our option, cease to operate the facility or facilities and forego these expenditures without any further obligations under the Midwest Consent Decree. Further, our production may be affected if we fail to meet certain performance standards under the Midwest Consent Decree.

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Please see Item 7—Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources for further discussion.

Information Request under Section 114 of the Clean Air Act. In March 2009, we received an information request from the EPA regarding maintenance, repair and replacement projects undertaken between January 2000 and the present at the Danskammer power generation facility. We submitted responses to the information request in April and July 2009 and are continuing to cooperate with the EPA to provide additional information as requested. The information request is related to a nationwide enforcement initiative by the EPA targeting electric utilities. The EPA's inquiry may lead to claims of CAA violations that could result in an enforcement action, the scope of which cannot be predicted with confidence at this time, but which could have a material adverse effect on our financial condition, results of operations and cash flows.

The Clean Water Act

Our water withdrawals and wastewater discharges are permitted under the CWA and analogous state laws. The cooling water intake structures at several of our facilities are regulated under Section 316(b) of the CWA. This provision generally directs that standards set for facilities require that the location, design, construction and capacity of cooling water intake structures reflect BTA for minimizing adverse environmental impact. These standards are developed and implemented for power generating facilities through NPDES permits or SPDES permits. Historically, standards for minimizing adverse environmental impacts of cooling water intakes have been made by permitting agencies on a case-by-case basis considering the best professional judgment of the permitting agency.

In 2004, the EPA issued the Cooling Water Intake Structures Phase II Rules (the "Phase II Rules"), which set forth standards to implement the BTA requirements for cooling water intakes at existing facilities. The rules were challenged by several environmental groups and in 2007 were struck down by the U.S. Court of Appeals for the 2nd Circuit in Riverkeeper, Inc. v. EPA. The Court's decision remanded several provisions of the rules to the EPA for further rulemaking. Several parties sought review of the decision before the U.S. Supreme Court. In April 2009, the U.S. Supreme Court ruled that the EPA permissibly relied on cost-benefit analysis in setting the national BTA performance standard and in providing for cost-benefit variances from those standards as part of the Phase II Rules.

In July 2007, following remand of the rules by the U.S. Court of Appeals, the EPA suspended its Phase II Rules and advised that permit requirements for cooling water intake structures at existing facilities should once more be established on a case-by-case best professional judgment basis until replacement rules are issued. Under a settlement agreement, the EPA will issue proposed cooling water intake structure rules for existing facilities in March 2011 and finalize the rules in July 2012. The scope of requirements, timing for compliance and the compliance methodologies that will ultimately be allowed by future rulemaking may become more restrictive, potentially resulting in significantly increased costs.

The environmental groups that participate in our NPDES and SPDES permit proceedings generally argue that only closed cycle cooling meets the BTA requirement. The issuance and renewal of NPDES or SPDES permits for three of our power generation facilities (Danskammer, Roseton and Moss Landing) have been challenged on this basis. The Danskammer SPDES permit, which was renewed and issued in June 2006, does not require installation of a closed cycle cooling system; however, it does require aquatic organism mortality reductions resulting from NYSDEC's determination of BTA requirements under its regulations. All appeals of this permit have been exhausted. Two permit challenges are still pending.

Roseton SPDES Permit — In April 2005, the NYSDEC issued a Draft SPDES Permit renewal for the Roseton plant. The permit is opposed by environmental groups challenging the BTA determination. In October 2006, various holdings in the administrative law judge's ruling admitting the environmental group petitioners to party status and setting forth the issues to be adjudicated in the permit renewal hearing were appealed to the Commissioner of NYSDEC by the petitioners, NYSDEC staff and us. The permit renewal hearing will be scheduled after the Commissioner rules on those appeals. We believe that the petitioners' claims lack merit and we plan to oppose those claims vigorously.

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Moss Landing NPDES Permit — The California Regional Water Quality Control Board ("Water Board") issued an NPDES permit for the Moss Landing power generating facility in 2000 that did not require closed cycle cooling. A local environmental group challenged the BTA determination of the permit. The Water Board's decision was affirmed by the Superior Court in 2004 and by the Court of Appeals in 2007. The Supreme Court of California granted review in March 2008. The petitioner's brief was filed in December 2009. We filed a motion to dismiss and our responsive brief in March 2010. The petitioner's reply brief was filed in May 2010. Our motion to dismiss was denied in June 2010. In July 2010, the California Energy Commission filed an application for leave to file a brief in support of our argument challenging the jurisdiction of the Superior Court. In September 2010, four air quality control districts filed an application for leave to file a brief in support of jurisdiction of the Superior Court. We believe that petitioner's claims lack merit and we plan to continue to oppose those claims vigorously.

Due to the nature of these claims, an adverse result in either of these proceedings could have a material effect on our financial condition, results of operations and cash flows; however, given the numerous variables and factors involved in calculating the potential costs associated with installing a closed cycle cooling system, any decision to install such a system at any of our facilities would be made on a case-by-case basis considering all relevant factors at such time. If capital expenditures related to cooling water systems become great enough to render the operation of the plant uneconomical, we could, at our option, and subject to any applicable financing agreements or other obligations to make payments as required under applicable leases, reduce operations or cease to operate that facility and forego the capital expenditures.

California Water Intake Policy. The California State Water Board adopted its Statewide Water Quality Control Policy on the Use of Coastal and Estuarine Waters for Power Plant Cooling (the "Policy") at its meeting on May 4, 2010, introducing and adopting several amendments making it more stringent than the proposed draft Policy. The approved Policy requires that existing power plants: (i) reduce their water intake flow rate to a level commensurate with that which can be achieved by a closed cycle cooling system; or (ii) if it is not feasible to reduce the water intake flow rate to this level, reduce impingement mortality and entrainment to a level comparable to that achieved by such a reduced water intake flow rate using operational or structural controls, or both. The Policy became effective October 1, 2010. Compliance with the Policy would be required at our Morro Bay power generation facility by December 31, 2015 and at our Moss Landing power generation facility by December 31, 2017. On October 27, 2010, Dynegy Morro Bay, LLC and Dynegy Moss Landing, LLC joined with other California power plant owners in filing a lawsuit in the Sacramento County Superior Court challenging the Policy.

On September 29, 2010, the State Water Board proposed to amend the Policy to allow an owner or operator of a power plant with previously installed combined-cycle power generating units to continue to use once-through cooling at combined-cycle units until the unit reaches the end of its useful life under certain circumstances. A hearing to receive comment and to take action on the proposed amendment was held on December 14, 2010; however, the State Water Board declined to approve the amendment. We are continuing to review the potential impact of the Policy on our affected power generation facilities and our compliance options.

It may not be possible to meet the requirements of the Policy in its final form without installing closed cycle cooling systems. Given the numerous variables and factors involved in calculating the potential costs of closed- cycle cooling systems, any decision to install such a system would be made on a case-by-case basis considering all relevant factors at the time. If capital expenditure requirements related to cooling water systems become great enough to render the continued operation of a particular plant uneconomical, we could at our option, and subject to any applicable financing agreements and other obligations, reduce operations or cease to operate the plant and forego such capital expenditures.

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New York Water Intake Policy. On March 4, 2010, the NYSDEC issued a draft policy (the "NYSDEC Policy") on "BTA for Cooling Water Intake Structures." The NYSDEC Policy, which was subject to comment until July 8, 2010, would establish closed cycle cooling or its equivalent as the minimum performance goal for existing power plants. If NYSDEC determines that closed cycle cooling is not available for a facility, the NYSDEC Policy would establish a performance goal of 90 percent or greater reduction in impingement mortality and entrainment from that which could be achieved by closed cycle cooling. The NYSDEC Policy would exempt certain power generation facilities that operate at very low capacity. We are continuing to review the potential impact of the NYSDEC Policy, if adopted, on our subject power generation facilities.

Given the numerous variables and factors involved in calculating the potential costs associated with closed cycle cooling, any decision to install such a system at any of our facilities, should they be required, would be made on a case-by-case basis considering all relevant factors at such time. If capital expenditures related to cooling water systems become great enough to render the operation of the plant uneconomical, we could, at our option, and subject to any applicable financing agreements or other obligations, reduce operations or cease to operate such facility and forego these capital expenditures.

The requirements applicable to water quality are expected to increase in the future. A number of efforts are under way within the EPA to evaluate water quality criteria for parameters associated with the by-products of fossil fuel combustion. These parameters relate primarily to arsenic, mercury and selenium. In addition, under a proposed consent decree, the EPA would be required to propose revisions to the Effluent Guidelines for steam electric units by July 23, 2012 and to take final action on the proposal by January 31, 2014. Significant changes in these requirements could impact discharge limits and could require us to spend significant environmental capital to install additional water treatment equipment at our facilities.

Coal Combustion Residuals

The combustion of coal to generate electric power creates large quantities of ash that are managed at power generation facilities in dry form in landfills and in liquid or slurry form in surface impoundments. Each of our coal-fired plants has at least one CCR management unit. At present, CCR management is regulated by the states as solid waste. The EPA has considered whether CCR should be regulated as a hazardous waste on two separate occasions, including most recently in 2000, and both times has declined to do so. The December 2008 failure of a CCR surface impoundment dike at the Tennessee Valley Authority's Kingston Plant in Tennessee accompanied by a very large release of ash slurry has resulted in renewed scrutiny of CCR management.

In response to the Kingston ash slurry release, the EPA initiated an investigation of the structural integrity of certain CCR surface impoundment dams including those at our GEN-MW facilities. We responded to EPA requests for information, and our surface impoundment dams that the EPA has assessed to date were found to be in fair to satisfactory condition.

In addition, on June 21, 2010, the EPA proposed two alternative rules under RCRA for federal regulation of the management and disposal of CCR from electric utilities and independent power producers. One proposal would regulate CCR as a special waste under RCRA subtitle C rules when those wastes are destined for disposal in a landfill or surface impoundment. The subtitle C proposal would subject persons who generate, transport, treat, store or dispose of such CCR to many of the existing RCRA regulations applicable to hazardous waste. While certain types of beneficial use of CCR would be exempt from regulation under the subtitle C proposal, the impact of subtitle C regulation on the continued viability of beneficial use is debated. Regulation under subtitle C would effectively phase out the use of ash ponds for disposal of CCR.

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The second alternative proposal would regulate CCR disposed in landfills or surface impoundments as a solid waste under subtitle D of RCRA. The subtitle D proposal would establish national criteria for disposal of CCR in landfills and surface impoundments, requiring new units to install composite liners. The subtitle D proposal might also require existing surface impoundments without liners to close or be retrofitted with composite liners within five years.

Certain environmental organizations have advocated designation of CCR as a hazardous waste; however, many state environmental agencies have expressed strong opposition to such designation. EPA accepted comments on its proposals through November 19, 2010 and is expected to issue final regulations governing CCR management in 2012. The nature and scope of these requirements cannot be predicted with confidence at this time, but could have a material adverse effect on our financial condition, results of operations and cash flows. Further, public perceptions of new regulations regarding the reuse of coal ash may limit or eliminate the market that currently exists for coal ash reuse, which could have material adverse effects on our financial condition, results of operations and cash flows.

Remedial Laws

We are subject to environmental requirements relating to handling and disposal of toxic and hazardous materials, including provisions of CERCLA and RCRA and similar state laws. CERCLA imposes strict liability for contributions to contaminated sites resulting from the release of “hazardous substances” into the environment. Those with potential liabilities include the current or previous owner and operator of a facility and companies that disposed, or arranged for disposal, of hazardous substances found at a contaminated facility. CERCLA also authorizes the EPA and, in some cases, private parties to take actions in response to threats to public health or the environment and to seek recovery for costs of cleaning up hazardous substances that have been released and for damages to natural resources from responsible parties. Further, it is not uncommon for neighboring landowners and other affected parties to file claims for personal injury and property damage allegedly caused by hazardous substances released into the environment. CERCLA or RCRA could impose remedial obligations with respect to a variety of our facilities and operations.

As a result of their age, a number of our facilities contain quantities of asbestos-containing materials, lead-based paint and/or other regulated materials. Existing state and federal rules require the proper management and disposal of these materials. We have developed a management plan that includes proper maintenance of existing non-friable asbestos installations and removal and abatement of asbestos-containing materials where necessary because of maintenance, repairs, replacement or damage to the asbestos itself.

COMPETITION

Demand for power may be met by generation capacity based on several competing generation technologies, such as natural gas-fired, coal-fired or nuclear generation, as well as power generating facilities fueled by alternative energy sources, including hydro power, synthetic fuels, solar, wind, wood, geothermal, waste heat and solid waste sources. Our power generation businesses in the Midwest, West and Northeast compete with other non-utility generators, regulated utilities, unregulated subsidiaries of regulated utilities, other energy service companies and financial institutions. We believe that our ability to compete effectively in these businesses will be driven in large part by our ability to achieve and maintain a low cost of production, primarily by managing fuel costs and to provide reliable service to our customers. Our ability to compete effectively will also be impacted by various governmental and regulatory activities designed to reduce GHG emissions and to support the construction and operation of renewable-fueled power generation facilities. For example, regulatory requirements for load-serving entities to acquire a percentage of their energy from renewable-fueled facilities will potentially reduce the demand for energy from coal-fired facilities such as those we own and operate. We believe our primary competitors consist of at least 20 companies in the power generation business.

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SIGNIFICANT CUSTOMERS

For the year ended December 31, 2010, approximately 30 percent, 15 percent and 13 percent of our consolidated revenues were derived from transactions with MISO, NYISO and PJM, respectively. For the year ended December 31, 2009, approximately 19 percent, 12 percent and 11 percent of our consolidated revenues were derived from transactions with MISO, NYISO and PJM, respectively. For the year ended December 31, 2008, approximately 25 percent and 11 percent of our consolidated revenues were derived from transactions with MISO and NYISO, respectively. No other customer accounted for more than 10 percent of our consolidated revenues during 2010, 2009 or 2008.

EMPLOYEES

At December 31, 2010, we had approximately 419 employees at our corporate headquarters and approximately 1,235 employees at our facilities, including field-based administrative employees. In February 2011, we reduced our workforce by approximately 135 positions as part of our cost savings programs. As of March 3, 2011, we had approximately 334 employees at our corporate headquarters and approximately 1,185 employees at our facilities. Approximately 748 employees at Dynegy-operated facilities are subject to collective bargaining agreements with various unions. We believe relations with our employees are satisfactory.

Item 1A. Risk Factors

FORWARD-LOOKING STATEMENTS

This Form 10-K includes 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 annual report, other than statements of historical fact, that address activities, events or developments that we or our management expect, believe or anticipate will or may occur in the future are forward-looking statements. These statements represent our reasonable judgment on 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 our actual results and financial position 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 use words such as “anticipate,” “estimate,” “project,” “forecast,” “plan,” “may,” “will”, “should”, “expect” and other words of similar meaning. In particular, these includ are not limited to, statements relating to the following:

- beliefs and assumptions regarding our ability to continue as a going concern;

- the impact of the turnover in our executive team and Dynegy’s Board of Directors on our ability to execute our business plan;

- beliefs and assumptions relating to our liquidity, available borrowing capacity and capital resources generally, including the extent to which such liquidity could be affected by poor economic and financial market conditions or new regulations and any resulting impacts on financial institutions and other current and potential counterparties;

- the outcome of any legal proceedings that may be instituted against Dynegy and/or others relating to the Blackstone Merger Agreement and Icahn Merger Agreement;

- diversion of management’s attention from ongoing business concerns;

limitations on our ability to utilize Dynegy's previously incurred federal net operating losses or alternative minimum tax credits;

the amount of the costs, fees, expenses, and other charges related to the Blackstone Merger Agreement and the Icahn Merger Agreement;

the timing and anticipated benefits to be achieved through our company-wide cost savings programs;

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- expectations regarding environmental matters, including costs of compliance, availability and adequacy of emission credits, and the impact of ongoing proceedings and potential regulations or changes to current regulations, including those relating to climate change, air emissions, cooling water intake structures, coal combustion byproducts, and other laws and regulations to which we are, or could become, subject;
- beliefs, assumptions and projections regarding the overall economy, demand for power, generation volumes and commodity pricing , including natural gas prices and the impact on such prices from shale gas proliferation and the timing of a recovery in natural gas prices, if any;
- sufficiency of, access to and costs associated with coal, fuel oil and natural gas inventories and transportation thereof;
- beliefs and assumptions about market competition, generation capacity and regional supply and demand characteristics of the wholesale power generation market, including the anticipation of higher market pricing over the longer term;
- the possibility of further consolidation in the power generation industry and the impact of any such activity on Dynegy;
- beliefs and assumptions regarding our ability to enhance or protect long-term value for stockholders;
- the effectiveness of our strategies to capture opportunities presented by changes in commodity prices and to manage our exposure to energy price volatility;
- beliefs and assumptions about weather and general economic conditions;
- projected operating or financial results, including anticipated cash flows from operations, revenues and profitability;
- expectations regarding our revolver capacity, credit facility compliance, financial covenants, collateral demands, capital expenditures, interest expense and other payments;
- beliefs or expectations regarding the potential amendment or refinancing of our Credit Facility, or the timing thereof;
- our focus on safety and our ability to efficiently operate our assets so as to capture revenue generating opportunities and operating margins;
- beliefs about the outcome of legal, regulatory, administrative and legislative matters; and
- expectations regarding performance standards and estimates regarding capital and maintenance expenditures, including the Midwest Consent Decree and its associated costs and performance standards.

Any or all of our forward-looking statements may turn out to be wrong. They can be affected by inaccurate assumptions or by known or unknown risks, uncertainties and other factors, many of which are beyond our control, including those set forth below.

FACTORS THAT MAY AFFECT FUTURE RESULTS

Risks Related to Our Financial Structure, Level of Indebtedness and Access to Capital Markets

We have received audit reports on our consolidated financial statements that express uncertainty about our ability to continue as a going concern.

Our independent registered public accounting firm has included an explanatory paragraph in their reports on our December 31, 2010, 2009 and 2008 consolidated financial statements regarding doubt as to our ability to continue as a going concern. This may have a negative impact on the trading price of Dynegy's common stock and may make it more difficult to amend or replace our current Credit Facility, or to seek additional sources of liquidity.

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We have significant debt that could negatively impact our business.

We have and will continue to have a significant amount of debt outstanding. As of December 31, 2010, we had total consolidated debt of approximately $4.8 billion (including debt outstanding under our Credit Facility). Our significant level of debt could:

- make it difficult to satisfy our financial obligations, including debt service requirements;
- limit our ability to obtain additional financing to operate our business;
- limit our financial flexibility in planning for and reacting to business and industry changes;
- impact the evaluation of our creditworthiness by counterparties to commercial agreements and affect their willingness to transact with us and/or the level of collateral we are required to post under such agreements;
- place us at a competitive disadvantage compared to less leveraged companies;
- increase our vulnerability to general adverse economic and industry conditions, including changes in interest rates and volatility in commodity prices; and
- require us to dedicate a substantial portion of our cash flows to principal and interest payments on our debt, thereby reducing the availability of our cash flow for other purposes including our operations, capital expenditures and future business opportunities.

Furthermore, we may incur or assume additional debt in the future. If new debt is added to our current debt levels and those of our subsidiaries, the related risks that we and they face could increase significantly.

Our financing agreements governing our debt obligations require us to satisfy specific financial covenants. Using the latest available forward commodity price curves and considering our current derivative contracts, we project that it is likely that we will not be able to comply with our EBITDA to Consolidated Interest Expense covenant, particularly in the third and fourth quarters of 2011. Our failure to comply with the financial covenants would have a material adverse impact on our business, financial condition, results of operations and cash flows. If we are unable to successfully execute our plan to amend or replace our Credit Facility or otherwise obtain additional sources of liquidity, it may be necessary for us to seek protection from creditors under Chapter 11 of the U.S. Bankruptcy Code, or an involuntary petition for bankruptcy may be filed against us.

Our financing agreements, including the Credit Facility, require us to meet specific financial covenants both as a matter of course and as a precondition to the incurrence of additional debt and to the making of restricted payments or asset sales, among other things. Our obligations relating to ongoing financial covenants include the maintenance of specified financial ratios regarding Secured Debt to EBITDA and EBITDA to Consolidated Interest Expense (as each such term is defined in the Credit Facility) (together, the “Maintenance Covenants”). The financial covenants set forth as a condition to the events described above include the demonstration, on a pro forma basis, of a specified ratio of Total Indebtedness to EBITDA (as each such term is defined in the Credit Facility). Each of these three ratios becomes more restrictive over the course of 2011 and into 2012.

As of December 31, 2010, we were in compliance with the Maintenance Covenants. Using the latest available forward commodity price curves and considering our current derivative contracts, we project that it is likely that we will not be able to comply with our EBITDA to Consolidated Interest Expense covenant, as currently set forth in our Credit Facility, particularly in the third and fourth quarters of 2011, which could result in an event of default causing our indebtedness thereunder (and any other indebtedness to the extent linked to it by reason of cross-default or cross-acceleration provisions) to potentially become immediately due and payable. If we are unable to cure or obtain a waiver for any such default, or are unable to obtain replacement financing or otherwise pay off such amounts, and our lenders accelerate the payment of such indebtedness, our lenders would be entitled to foreclose on, and acquire control of substantially all of our assets, which would have a material adverse effect on our business, financial condition, results of operations and cash flows.

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In light of our likely non-compliance, we are attempting to amend or replace our existing Credit Facility. If we are able to amend our Credit Facility or enter into a new facility, we expect that capacity of any such facility to be less than the current capacity of $1.8 billion and to be at a higher cost, which reduced capacity and increased costs could have a material adverse effect on our ability to successfully run our business. We may also seek additional sources of liquidity in an effort to secure sufficient cash to meet our operating needs. These additional sources of liquidity could include asset sales, public or private issuances of debt, equity or equity-linked securities, debt for equity swaps, or any combination of these. However, we cannot provide any assurances that we will be successful in accomplishing any of these plans. If we are unable to successfully execute our plan to amend or replace our Credit Facility or otherwise obtain additional sources of liquidity, it may be necessary for us to seek protection from creditors under Chapter 11 of the U.S. Bankruptcy Code, or an involuntary petition for bankruptcy may be filed against us.

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

We acquired the DNE power generating facilities in January 2001 for $950 million. In May 2001, we entered into an asset-backed sale-leaseback transaction relating to these facilities to provide us with long-term acquisition financing. In this transaction, we sold four of the six generating units comprising these facilities for approximately $920 million to Danskammer OL LLC and Roseton OL LLC, and we concurrently agreed to lease them back from these entities. Obligations under these leases are guaranteed by DHI. We have no option to purchase the leased facilities at Roseton or Danskammer at the end of their respective 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 (such as substantial damage to a facility or a condemnation or similar governmental taking or action), because it becomes illegal for us to comply with the lease, or because the facility becomes economically or technologically obsolete, we would be required to make a termination payment in an amount sufficient to compensate the lessor for termination of the lease, including redeeming the pass-through trust certificates related to the unit or facility for which the lease is terminated plus, in the case of an obsolescence termination (other than as a result of a change in law or the requirement by a governmental entity of significant capital improvements), a make whole premium for the remaining term of the pass through certificates. As of December 31, 2010, the termination payment would be approximately $816 million and the make whole premium would be approximately $109 million for all of our DNE facilities. It could be difficult for us 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 our financial condition, results of operations and cash flows.

Our access to the capital markets may be limited.

As previously described, we will require additional capital in the near-term. Because of our non-investment grade credit rating, the going concern emphasis paragraph in our most recent audit report, the recent changes in senior management and Dynegy's Board of Directors, and/or general conditions in the financial and credit markets, our access to the capital markets may be limited. Moreover, the urgency of a capital-raising transaction may require us to pursue additional capital at an inopportune time. Our ability to obtain capital and the costs of such capital are dependent on numerous factors, including:

- covenants in our existing debt and credit agreements;
- investor confidence in us and the regional wholesale power markets;
- our financial performance and the financial performance of our subsidiaries;
- our levels of debt;

our requirements for posting collateral under various commercial agreements;

our credit ratings;

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our cash flow;

our long-term business prospects; and

general economic and capital market conditions, including the timing and magnitude of any market recovery.

We may not be successful in obtaining additional capital for these or other reasons. An inability to access capital may limit our ability to meet our operating needs and, as a result, may have a material adverse effect on our financial condition, results of operations and cash flows.

Our non-investment grade status may adversely impact our operations, increase our liquidity requirements and increase the cost of refinancing opportunities. We may not have adequate liquidity to post required amounts of additional collateral.

Our credit ratings are currently below investment grade, and on March 1, 2011, Standard & Poor's downgraded our corporate family ratings to "CCC" from "B-". We cannot assure you that our credit ratings will improve, or that they will not decline, in the future. Our credit ratings may affect the evaluation of our creditworthiness by trading counterparties and lenders, which could put us at a disadvantage to competitors with higher or investment grade ratings.

In carrying out our commercial business strategy, our current non-investment grade credit ratings have resulted and will likely continue to result in requirements that we either prepay obligations or post significant amounts of collateral to support our business. Various commodity trading counterparties may be unwilling to transact with us or may make collateral demands that reflect our non-investment grade credit ratings, the counterparties' views of our creditworthiness, as well as changes in commodity prices. We use a portion of our capital resources, in the form of cash, short-term investments, lien capacity, and letters of credit, to satisfy these counterparty collateral demands. Our commodity agreements are tied to market pricing and may require us to post additional collateral under certain circumstances. If market conditions change such that counterparties are entitled to additional collateral, our liquidity could be strained and may have a material adverse effect on our financial condition, results of operations and cash flows. Factors that could trigger increased demands for collateral include changes in our credit rating or liquidity and changes in commodity prices for power and fuel, among others. In connection with the most recent downgrade by Standard & Poor's, certain of our counterparties have requested collateral support. Other counterparties may require further collateral support in the future.

Additionally, our non-investment grade credit ratings may limit our ability to obtain additional sources of liquidity, refinance our debt obligations or access the capital markets at the lower borrowing costs that would presumably be available to competitors with higher or investment grade ratings. Should our ratings continue at their current levels, or should our ratings be further downgraded, we would expect these negative effects to continue and, in the case of a downgrade, become more pronounced.

We conduct virtually all of our operations through our subsidiaries and may be limited in our ability to access funds from these subsidiaries to service our debt.

We conduct virtually all of our operations through our subsidiaries and, therefore, depend upon dividends and other intercompany transfers of funds from our subsidiaries to meet our debt service and other obligations. In addition, the ability of our subsidiaries to pay dividends and make other payments to us may be restricted by, among other things, applicable corporate and other laws, potentially adverse tax consequences and agreements of our subsidiaries. If we are unable to access the cash flow of our subsidiaries, we may have difficulty meeting our debt obligations.

If we are unable to successfully execute our plans to amend or replace our Credit Facility or otherwise obtain alternative sources of liquidity, we may seek protection pursuant to a voluntary bankruptcy filing under Chapter 11 of the U.S. Bankruptcy Code, or an involuntary petition for bankruptcy may be filed against us.

As described in Item 7—Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources, using the latest available forward commodity price curves and considering our current derivative contracts, we project that it is likely that we will not be able to comply with the covenant regarding the EBITDA to Consolidated Interest Expense ratio contained in our Credit Facility, particularly in the third and fourth quarters 2011, which could result in an event of default causing our indebtedness thereunder (and any other indebtedness to the extent linked to it by reason of cross-default or cross-acceleration provisions) to potentially become immediately due and payable. In light of our likely non-compliance, we are attempting to amend or replace our existing Credit Facility. We may also seek additional sources of liquidity in an effort to secure sufficient cash to meet our operating needs. These additional sources of liquidity could include asset sales, public or private issuances of debt, equity or equity-linked securities, debt for equity swaps, or any combination of these. However, we cannot provide any assurances that we will be successful in accomplishing any of these plans. If we are unsuccessful, we may consider or pursue various forms of negotiated restructurings of our debt obligations and/or asset sales under court supervision pursuant to a voluntary bankruptcy filing under Chapter 11 of the U.S. Bankruptcy Code. In addition, under certain circumstances our creditors may file an involuntary petition for bankruptcy against us.

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If we file for bankruptcy protection, our business and operations will be subject to certain risks.

A bankruptcy filing by or against Dynegy, DHI and/or certain of our subsidiaries (each referred to as a “filer”) would subject our business and operations to various risks, including but not limited to, the following:

- A bankruptcy filing by or against a filer may adversely affect our business prospects, including our ability to continue to obtain and maintain the contracts necessary to operate our business on competitive terms;
- We may be unable to retain and motivate key executives and employees through the process of reorganization, and we may have difficulty attracting new employees;
- There can be no assurance as to our ability to maintain or obtain sufficient financing sources for operations or to fund any reorganization plan and meet future obligations;
- There can be no assurance that we will be able to successfully develop, prosecute, confirm and consummate one or more plans of reorganization that are acceptable to the bankruptcy court and our creditors, equity holders and other parties in interest;
- Our ability to use our federal NOLs and AMT credits, which totaled $222 million and $271 million, respectively, at December 31, 2010 could be limited or modified as a result of bankruptcy proceedings; and
- The value of Dynegy’s common stock could be reduced to zero as result of a bankruptcy filing.

Risks Related to the Operation of Our Business

The recent resignations of certain members of our executive team and the decision of Dynegy's board of directors to not stand for reelection at Dynegy's upcoming annual meeting could have a material adverse impact on our business, financial condition and results of operations.

On February 21, 2011, we announced that Bruce A. Williamson, the Chairman of Dynegy’s Board of Directors and our President and Chief Executive Officer, and Holli C. Nichols, our Executive Vice President and Chief Financial Officer, were resigning from their executive positions effective March 11, 2011. Mr. Williamson resigned as a director and Chairman effective February 21, 2011. Also, on February 21, 2011, Dynegy’s then-remaining directors each informed Dynegy that he or she does not currently intend to stand for reelection as a director of Dynegy at Dynegy’s upcoming annual meeting of stockholders. The loss of these executives and directors and their skills, experience and industry knowledge could have a material adverse impact on our business, financial condition and results of operations. Furthermore, our inability to attract, motivate and retain other key employees, including new senior executives, and to replace the directors that will not stand for reelection at the annual meeting with qualified and knowledgeable directors, could have a negative effect on our business, financial condition, results of operations and cash flows.

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Because wholesale power prices are subject to significant volatility and because many of our power generation facilities operate without long-term power sales agreements, our revenues and profitability are subject to wide fluctuations.

Because we largely sell electric energy, capacity and ancillary services into the wholesale energy spot market or into other power markets on a term basis, we are not guaranteed any rate of return on our capital investments. Rather, our financial condition, results of operations and cash flows will 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. Such factors that may materially impact the power markets and our financial results include:

economic conditions, the existence and effectiveness of demand-side management and conservation efforts and the extent to which they impact electricity demand;

regulatory constraints on pricing (current or future) or the functioning of the energy trading markets and energy trading generally;

the proliferation of advanced shale gas drilling increasing domestic natural gas supplies;

fuel price volatility; and

increased competition or price pressure driven by generation from renewable sources.

Many of our facilities operate as “merchant” facilities without long-term power sales agreements. Consequently, we cannot be sure that we 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 our facilities will be able to operate profitably. This could lead to decreased financial results as well as future impairments of our property, plant and equipment or to the retirement of certain of our facilities resulting in economic losses and liabilities.

Given the volatility of power commodity prices, to the extent we do not secure long-term power sales agreements for the output of our power generation facilities, our revenues and profitability will be subject to increased volatility, and our financial condition, results of operations and cash flows could be materially adversely affected. Further, declines in the market prices of natural gas and wholesale electricity have reduced the outlook for cash flow that can be expected to be generated by us in the next several years.

Our commercial strategy may not be executed as planned or may result in lost opportunities.

We seek to commercialize our assets through sales arrangements of various tenors. In doing so, we attempt to balance a desire for greater predictability of earnings and cash flows in the short- and medium-term with a belief that commodity prices will rise over the longer term, creating upside opportunities for those with unhedged generation volumes. Our ability to successfully execute this strategy is dependent on a number of factors, many of which are outside our control, including market liquidity, the availability of counterparties willing to transact with us or to transact with us at prices we believe are commercially acceptable, the availability of liquidity to post collateral in support of our derivative instruments, and the reliability of the people and systems comprising our commercial operations function. The availability of market liquidity and willing counterparties could be negatively impacted by poor economic and financial market conditions, including impacts on financial institutions and other current and potential counterparties as well as counterparties' views of our creditworthiness. If we are unable to transact in the short- and medium-term, our financial condition, results of operations and cash flows will be subject to significant uncertainty and volatility. Alternatively, significant contract execution for any such period may precede a run-up in commodity prices, resulting in lost upside opportunities and mark-to-market accounting losses causing significant variability in net income and other GAAP reported measures.

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We are exposed to the risk of fuel and fuel transportation cost increases and interruptions in fuel supplies because some of our facilities do not have long-term coal, natural gas or fuel oil supply agreements.

We purchase the fuel requirements for many of our power generation facilities, primarily those that are natural gas-fired, under short-term contracts or on the spot market. As a result, we face the risks of supply interruptions and fuel price volatility, as fuel deliveries may not exactly match those required for energy sales, due in part to our need to pre-purchase fuel inventories for reliability and dispatch requirements.

Moreover, profitable operation of many of our coal-fired generation facilities is highly dependent on our ability to procure coal at prices we consider reasonable. Power generators in the Midwest and the Northeast have experienced significant pressures on available coal supplies that are either transportation or supply related. In the Midwest, our coal requirements are approximately 96 percent contracted in 2011 and 99 percent contracted for 2012. All forecast coal requirements are 96 percent priced through 2011 and 69 percent are priced for 2012. Forecasted coal requirements that are currently unpriced are subject to a price collar structure. Our Midwest coal transportation requirements are 100 percent contracted and priced through 2013. We have entered into term contracts for South American coal, which we use for our GEN-NE coal facility, and for PRB coal, which we use for our GEN-MW coal facilities. We cannot assure you that we will be able to renew our coal procurement and transportation contracts when they terminate on terms that are favorable to us or at all. Further, our and our suppliers' ability to procure South American coal is subject to local political and other factors that could have a negative impact on our coal deliveries regardless of our contract situation. Permit limitations that restrict the sulfur content of coal used at our coal facilities limit our options for coal fuel supply, creating risk for us in terms of our ability to procure coal for periods and at prices we believe are firm and favorable.

Further, any changes in the costs of coal, fuel oil, natural gas or transportation rates and changes in the relationship between such costs and the market prices of power will affect our financial results. If we are unable to procure fuel for physical delivery at prices we consider favorable, our financial condition, results of operations and cash flows could be materially adversely affected.

Our costs of compliance with existing environmental requirements are significant, and costs of compliance with new environmental requirements or factors could materially adversely affect our financial condition, results of operations and cash flows.

Our business is 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, transportation, treatment, storage and disposal of hazardous substances and waste and in connection with spills, releases and emissions of various substances (including GHG) into the environment, and in connection with environmental impacts associated with cooling water intake structures. Existing environmental laws and regulations may be revised or reinterpreted, new laws and regulations may be adopted or may become applicable to us or our facilities, and litigation or enforcement proceedings could be commenced against us. Proposals being considered by federal and state authorities (including proposals regarding regulation of GHGs) could, if and when adopted or enacted, require us to make substantial capital and operating expenditures or consider retiring certain of our facilities. If any of these events occur, our financial condition, results of operations and cash flows could be materially adversely affected.

Many environmental laws require approvals or permits from governmental authorities before construction, modification or operation of a power generation facility may commence. Certain environmental permits must be renewed periodically in order for us to continue operating our facilities. The process of obtaining and renewing 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. We are required to comply with numerous environmental laws and regulations, and to obtain numerous governmental permits when we construct, modify and operate our facilities. If there is a delay in obtaining any required environmental regulatory approvals or permits, if we fail to obtain any required approval or permit, or if we are unable to comply with the terms of such approvals or permits, the operation of our facilities may be interrupted or become subject to additional costs. Further, changed interpretations of existing regulations may subject historical maintenance, repair and replacement activities at our facilities to claims of noncompliance. As a result, our financial condition, results of operations and cash flows could be materially adversely affected. Certain of our facilities 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 environmental standards and more extensive regulatory and permitting requirements, our capital and operating environmental expenditures are likely to be substantial and may increase in the future.

Our business is subject to complex government regulation. Changes in these regulations or in their implementation may affect costs of operating our facilities or our ability to operate our facilities, or increase competition, any of which would negatively impact our results of operations.

We are subject to extensive federal, state and local laws and regulations governing the generation and sale of energy commodities in each of the jurisdictions in which we have operations. Compliance with these ever-changing laws and regulations requires expenses (including legal representation) and monitoring, capital and operating expenditures. Potential changes in laws and regulations that could have a material impact on our business include: re-regulation of the power industry in markets in which we conduct business; the introduction, or reintroduction, of rate caps or pricing constraints; increased credit standards, collateral costs or margin requirements, as well as reduced market liquidity, as a result of potential OTC market regulation; or a variation of these. Furthermore, these and other market-based rules and regulations are subject to change at any time, and we cannot predict what changes may occur in the future or how such changes might affect any facet of our business.

The costs and burdens associated with complying with the increased number of regulations may have a material adverse effect on us, if we fail to comply with the laws and regulations governing our business or if we fail to maintain or obtain advantageous regulatory authorizations and exemptions. Moreover, increased competition within the sector resulting from potential legislative changes, regulatory changes or other factors may create greater risks to the stability of our power generation earnings and cash flows generally.

Availability and cost of emission allowances could materially impact our costs of operations.

We are required to maintain, either through allocation or purchase, sufficient emission allowances to support our operations in the ordinary course of operating our power generation facilities. These allowances are used to meet our obligations imposed by various applicable environmental laws and the trend toward more stringent regulations (including regulations regarding GHG emissions) will likely require us to obtain new or additional emission allowances. If our operational needs require more than our allocated quantity of emission allowances, we may be forced to purchase such allowances on the open market, which could be costly. If we are unable to maintain sufficient emission allowances to match our operational needs, we may have to curtail our operations so as not to exceed our available emission allowances, or install costly new emissions controls. As we use the emissions allowances that we have purchased on the open market, costs associated with such purchases will be recognized as operating expense. If such allowances are available for purchase, but only at significantly higher prices, their purchase could materially increase our costs of operations in the affected markets and materially adversely affect our financial condition, results of operations and cash flows.

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

We have numerous competitors, and additional competitors may enter the industry. Our power generation business competes with other non-utility generators, regulated utilities, unregulated subsidiaries of regulated utilities, other energy service companies and financial institutions in the sale of electric energy, capacity and ancillary services, 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 oversupply of power generation capacity in certain regional markets we serve.

We also compete against other energy merchants on the basis of our relative operating skills, financial position and access to credit sources. Electric 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 we compete may have greater resources in these areas. In addition, certain of our current facilities are relatively old. Newer plants owned by competitors will often be more efficient than some of our plants, which may put these plants at a competitive disadvantage. Over time, some of our plants may become unable to compete, because of the construction of new plants which could have a number of advantages including; more efficient equipment, newer technology that could result in fewer emissions, or more advantageous locations on the electric transmission system. Additionally, these competitors may be able to respond more quickly to new laws and regulations because of the newer technology utilized in their facilities or the additional resources derived from owning more efficient facilities. Taken as a whole, the potential disadvantages of our aging fleet could result in lower run-times or even early asset retirement.

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 owned by lenders and investment companies. Furthermore, mergers and asset reallocations in the industry could create powerful new competitors. Under any scenario, we anticipate that we 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 or are discontinuing their unregulated activities and seeking to divest or spin-off 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. To the extent that competition increases, our financial condition, results of operations and cash flows may be materially adversely affected.

We do not own or control transmission facilities required to sell the wholesale power from our generation facilities. If the transmission service is inadequate, our ability to sell and deliver wholesale power may be materially adversely affected. Furthermore, these transmission facilities are operated by RTOs and ISOs, which are subject to changes in structure and operation and impose various pricing limitations. These changes and pricing limitations may affect our ability to deliver power to the market that would, in turn, adversely affect the profitability of our generation facilities.

We do not own or control the transmission facilities required to sell the wholesale power from our generation facilities. If the transmission service from these facilities is unavailable or disrupted, or if the transmission capacity infrastructure is inadequate, our ability to sell and deliver wholesale power may be materially adversely affected. RTOs and ISOs provide transmission services, administer transparent and competitive power markets and maintain system reliability. Many of these RTOs and ISOs operate in the real-time and day-ahead markets in which we sell energy. The RTOs and ISOs that oversee most of the wholesale power markets impose, and in the future may continue to impose, offer caps and other mechanisms to guard against the potential exercise of market power in these markets as well as price limitations. These types of price limitations and other regulatory mechanisms may adversely affect the profitability of our generation facilities that sell energy and capacity into the wholesale 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 also affect our ability to sell, the prices we receive or the cost to transmit power produced by our generating facilities. Rules governing the various regional power markets may also change from time to time, which could affect our costs or revenues. Additionally, if the transmission service from these facilities is unavailable or disrupted, or if the transmission capacity infrastructure is inadequate, our 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 thus are subject to changes, some of which could be significant. As a result, our financial condition, results of operations and cash flows may be materially adversely affected.

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Our financial condition, results of operations and cash flows would be adversely impacted by strikes or work stoppages by our unionized employees.

A majority of the employees at our facilities are subject to collective bargaining agreements with various unions. Additionally, unionization activities, including votes for union certification, could occur at our non-union generating facilities in our fleet. If union employees strike, participate in a work stoppage or slowdown or engage in other forms of labor strife or disruption, we could experience reduced power generation or outages if replacement labor is not procured. The ability to procure such replacement labor is uncertain. Strikes, work stoppages or an inability to negotiate future collective bargaining agreements on commercially reasonable terms could have a material adverse effect on our financial condition, results of operations and cash flows.

Our ability to comply with our Midwest Consent Decree may be materially adversely impacted by our future operating cash flows or unforeseen labor, material and equipment costs.

As a result of the Midwest Consent Decree, we are required to not operate certain of our most profitable power generating facilities after specified dates unless certain emission control equipment is installed. We have incurred significant costs in complying with the Midwest Consent Decree and anticipate incurring additional significant costs over the course of the next three years. Further, we are exposed to the risk of substantial price increases in the costs of materials, labor and equipment used in the construction of emission control equipment. We are further exposed to risk in that counterparties to the construction contracts may fail to perform, in which case we would be forced to enter into alternative arrangements at then-current market prices that may exceed our contractual prices and possibly cause delays to the project timelines. If the costs of these capital expenditures become great enough to render the operation of the facility uneconomical, we could, at our option, cease to operate the facility or facilities and forego these capital expenditures without incurring any further obligations under the Midwest Consent Decree. Further, our production may be affected if we fail to meet certain performance standards under the Midwest Consent Decree.

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We may pursue dispositions or business combinations that could fail or present unanticipated problems for our business in the future, which would adversely affect our ability to realize the anticipated benefits of those transactions.

We may seek to enter into transactions that may include disposing of assets or combining with other businesses. We may not be able to identify suitable transaction opportunities or finance and complete any particular transaction successfully. Furthermore, transactions involve a number of risks and challenges, including:

- diversion of our management’s attention;
- the ability to obtain required regulatory and other approvals;
- the need to integrate operations;
- potential loss of key employees;
- difficulty in evaluating the power assets, operating costs, infrastructure requirements, environmental and other liabilities and other factors beyond our control;
- potential lack of operating experience in new geographic/power markets or with different fuel sources;
- an increase in our expenses and working capital requirements; and
- the possibility that we may be required to issue a substantial amount of additional equity or debt securities or assume additional debt in connection with any such transactions.

Any of these factors could adversely affect our ability to achieve anticipated levels of cash flows or realize synergies or other anticipated benefits from a strategic transaction. Furthermore, the market for transactions is highly competitive, and our capital resources are such that we may not be well positioned in the market to execute a transaction, which may adversely affect our ability to find transactions that fit our strategic objectives. Consistent with industry practice, we routinely engage in discussions with industry participants regarding potential transactions, large and small. We intend to continue to engage in strategic discussions and will need to respond to potential opportunities quickly and decisively. As a result, strategic transactions may occur at any time and may be significant in size relative to our assets and operations.

Issuances or acquisitions of Dynegy's common stock, or sales or dispositions of Dynegy's common stock by stockholders could inhibit Dynegy’s ability to use its federal net operating losses or alternative minimum tax credits to offset its future taxable income may be limited under Sections 382 and 383 of the Internal Revenue Code.

Dynegy’s ability to utilize previously incurred federal NOLs and AMT credits to offset future taxable income would be limited if it were to undergo an “ownership change” within the meaning of Section 382 of the Internal Revenue Code (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, issuances or acquisitions of Dynegy's common stock or sales or dispositions of Dynegy's common stock by stockholders could trigger an “ownership change,” and apart from the application of the provisions of our current Stockholder Protection Rights Agreement, we will have limited control over the timing of any such sales or dispositions of our common stock.

More specifically, depending on prevailing interest rates and our 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 our previously incurred federal NOLs and AMT credits against the total future taxable income of a given year. The recent stockholder activity increases the likelihood that previously incurred federal NOLs and AMT credits will become subject to the limitations set forth in Sections 382 and 383 of the Code.

The magnitude of such limitations and their effect on us are difficult to assess and depend in part on our value at the time of any such ownership change and prevailing interest rates. For accounting purposes, at December 31, 2010, Dynegy's net operating loss deferred tax asset attributable to its previously incurred federal NOLs was approximately $222 million and its AMT credits were approximately $271 million.

Item 1B. Unresolved Staff Comments

Not applicable.

Item 2. Properties

We have included descriptions of the location and general character of our principal physical operating properties by segment in "Item 1. Business" for further discussion, which is incorporated herein by reference. Substantially all of our assets, including the power generation facilities we own, are pledged as collateral to secure the repayment of, and our other obligations under, the Credit Facility. Please read Note 18—Debt for further discussion.

Our principal executive office located in Houston, Texas is held under a lease that expires in December 2017. We also lease additional offices or warehouses in the states of California, Colorado, Illinois, Indiana, New York, Pennsylvania and Texas.

Item 3. Legal Proceedings

Please read Note 22—Commitments and Contingencies—Legal Proceedings for a description of our material legal proceedings, which is incorporated herein by reference.

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PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Dynegy

Dynegy's common stock, $0.01 par value per share, is listed and traded on the New York Stock Exchange under the ticker symbol "DYN." The number of stockholders of record of its common stock as of March 3, 2011, based upon records of registered holders maintained by its transfer agent, was 11,763.

On May 21, 2010, Dynegy's stockholders approved a reverse stock split of outstanding common stock at a reverse ratio of 1-for-5. This reverse stock split was effected on May 25, 2010. The following table sets forth, for the fiscal periods indicated, the high and low closing sales prices for Dynegy's common stock on the NYSE after giving effect to this reverse stock split (including for share prices prior to May 25, 2010), as reported on the New York Stock Exchange Composite Tape.

Summary of Dynegy's Common Stock Price

	High	Low
2011:		
First Quarter (through March 3, 2011)	$ 6.29	$ 5.57
2010:		
Fourth Quarter	$ 5.89	$ 4.44
Third Quarter	5.10	2.78
Second Quarter	6.80	3.85
First Quarter	9.95	6.10
2009:		
Fourth Quarter	$ 13.15	$ 9.05
Third Quarter	12.75	8.90
Second Quarter	12.35	7.25
First Quarter	13.45	5.20

During the fiscal years ended December 31, 2010 and 2009, Dynegy's Board of Directors did not elect to pay a cash common stock dividend. Please read "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Dividends on Dynegy Common Stock" for further discussion of its dividend policy and the impact of dividend restrictions contained in its financing agreements. Dynegy has not paid a dividend on any class of its common stock since 2002. Any decision to pay a dividend will be at the discretion of Dynegy's Board of Directors, and subject to the terms of its then-outstanding indebtedness, but Dynegy does not expect to pay a dividend on its common stock in the foreseeable future. Please read Note 23—Capital Stock—Common Stock for further discussion.

Stockholder Protection Rights Agreement. On November 22, 2010, Dynegy's Board of Directors adopted a Stockholder Protection Rights Plan (as subsequently amended, the "Rights Plan") and declared a dividend of one stock purchase right (collectively, the "Rights") for each share of common stock held by stockholders of record as of the close of business on December 2, 2010.

Dynegy's Board of Directors adopted this short-term, narrowly tailored Rights Plan to prevent any person from obtaining control or de facto control of Dynegy without offering a control premium to all Dynegy stockholders. The issuance of the Rights is not intended to prevent a sale of control of Dynegy that is determined by Dynegy's Board of Directors to be fair, advisable and in the best interests of all Dynegy stockholders. The Rights Plan provides that, unless terminated earlier by Dynegy, the Rights will expire following Dynegy's next annual meeting of stockholders after the filing of the Form 10-K for the fiscal year 2010, unless the Rights Plan is approved by Dynegy's stockholders (in which case it will expire at the first subsequent annual meeting at which it is not approved by a stockholder vote).

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Following distribution of the Rights, each Right will entitle its holder to purchase fractions of Participating Preferred Stock having economic and voting terms similar to those of one share of Dynegy's common stock for an exercise price of $12.50 (subject to adjustment).

The Rights will be exercisable for shares of Dynegy common stock if Dynegy announces that a person or group has acquired 20 percent or more of Dynegy's common stock or any person or group acquires more than 30 percent of Dynegy's common stock. Under the Rights Plan, synthetic ownership of Dynegy's common stock in the form of certain derivative securities counts towards the 20 percent and 30 percent ownership thresholds, if Dynegy's Board of Directors determines that the owner of such derivative securities is seeking to use the existence of such securities for the purpose or effect of changing or influencing control of Dynegy.

The Rights Plan also exempts from its provisions all-cash, fully financed offers for all outstanding shares of Dynegy's common stock that provide for a per share price in excess of $5.00 and meet certain other requirements. If the Rights become exercisable for Dynegy's common stock, all Rights holders (other than the person or group triggering the Rights) will be entitled to purchase Dynegy's common stock at a 50 percent discount. For example, if at the time the Rights become exercisable for Dynegy's common stock the exercise price is still $12.50 and Dynegy's common stock has a per share market value of $5, each Right would be exercisable for five shares of common stock ($25 of market value) at an exercise price of $12.50, (i.e., five shares of common stock at a 50 percent discount). Rights held by the person or group triggering the Rights will become void and will not be exercisable. If any person or group acquires between 10 percent and 50 percent of Dynegy's common stock, Dynegy's Board of Directors may, at its option, cause the exchange of one share of Dynegy common stock for each Right.

The distribution of the Rights is not taxable to stockholders. Until their distribution, the Rights will trade with Dynegy's common stock. Dynegy's Board of Directors may terminate the Rights Plan prior to the time the Rights are triggered. Please read Note 23—Capital Stock—Stockholder Protection Rights Agreement for further discussion.

Shareholder Agreements. In November 2009, as part of the transactions with LS Power, Dynegy and LS Power terminated a then-existing shareholder agreement and entered into a second shareholder agreement (the "New Shareholder Agreement") which, among other things, generally restricts LS Power from increasing its ownership for a specified period up to 30 months. The New Shareholder Agreement does not, however, include any of the special rights (such as Board rights, special approval rights or preemption rights) previously associated with LS Power's ownership.

Stockholder Return Performance Presentation. The graph below compares the cumulative 5-year total return of holders of Dynegy's common stock with the cumulative total returns of the S&P Midcap 400 index, and a customized peer group. The peer group includes: Calpine Corp., NRG Energy Inc. and GenOn Energy. The graph tracks the performance of a $100 investment in Dynegy's common stock, the peer group, and the index (with the reinvestment of all dividends) from December 31, 2005 to December 31, 2010.

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	12/05	12/06	12/07	12/08	12/09	12/10
Dynegy Inc.	100.00	149.59	147.52	41.32	37.40	23.22
S&P Midcap 400	100.00	110.32	119.12	75.96	104.36	132.16
Peer Group	100.00	127.39	211.71	82.56	95.35	90.33

The stock price performance included in this graph is not necessarily indicative of future stock price performance.

The above stock price performance comparison and related discussion is not to be deemed incorporated by reference by any general statement incorporating by reference this Form 10-K into any filing under the Securities Act of 1933 or under the Securities Exchange Act of 1934, or otherwise, except to the extent that we specifically incorporate this stock price performance comparison and related discussion by reference, and is not otherwise deemed “filed” under the Acts.

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Unregistered Sales of Equity Securities and Use of Proceeds. When restricted stock awarded by Dynegy becomes taxable compensation to employees, shares may be withheld to cover the employees' withholding taxes. Information on Dynegy's purchases of equity securities by means of such share withholdings during the quarter follows:

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
October 1 to October 31, 2010	359	$4.82	—	N/A
November 1 to November 30, 2010	—	$—	—	N/A
December 1 to December 31, 2010	—	$—	—	N/A
Total	359	$4.82	—	N/A

These were the only repurchases of equity securities made by Dynegy during the three months ended December 31, 2010. Dynegy does not have a stock repurchase program.

DHI

All of DHI's outstanding equity securities are held by its parent, Dynegy. There is no established trading market for such securities and they are not traded on any exchange.

Securities Authorized for Issuance Under Equity Compensation Plans

Please read Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters—Dynegy for information regarding securities authorized for issuance under our equity compensation plans.

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Item 6. Selected Financial Data

The selected financial information presented below was derived from, and is qualified by, reference to our Consolidated Financial Statements, including the notes thereto, contained elsewhere herein. The selected financial information should be read in conjunction with the Consolidated Financial Statements and related notes and Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Dynegy's Selected Financial Data

	Year Ended December 31,				
	2010	2009	2008	2007	2006
	(in millions, except per share data)				
Statement of Operations Data (1):					
Revenues	$2,323	$2,468	$3,324	$2,918	$1,758
Depreciation and amortization expense	(392)	(335)	(346)	(306)	(208)
Goodwill impairment	—	(433)	—	—	—
Impairment and other charges, exclusive of goodwill impairment shown separately above	(148)	(538)	—	—	(9)
General and administrative expenses	(163)	(159)	(157)	(203)	(196)
Operating income (loss)	(11)	(834)	744	576	220
Interest expense and debt extinguishment costs (2)	(363)	(461)	(427)	(384)	(631)
Income tax (expense) benefit	197	315	(90)	(140)	116
Income (loss) from continuing operations	(235)	(1,040)	188	105	(242)
Income (loss) from discontinued operations (3)	1	(222)	(17)	166	(92)
Cumulative effect of change in accounting principles	—	—	—	—	1
Net income (loss)	$(234)	$(1,262)	$171	$271	$(333)
Net income (loss) attributable to Dynegy Inc. common stockholders	(234)	(1,247)	174	264	(342)
Basic earnings (loss) per share from continuing operations attributable to Dynegy Inc. common stockholders	$(1.96)	$(6.25)	$1.14	$1.10	$(2.72)
Basic net income (loss) per share attributable to Dynegy Inc. common stockholders	(1.95)	(7.60)	1.04	1.75	(3.72)
Diluted earnings (loss) per share from continuing operations attributable to Dynegy Inc. common stockholders	$(1.96)	$(6.25)	$1.14	$1.10	$(2.72)
Diluted net income (loss) per share attributable to Dynegy Inc. common stockholders	(1.95)	(7.60)	1.04	1.75	(3.72)
Shares outstanding for basic EPS calculation	120	164	168	151	92
Shares outstanding for diluted EPS calculation	121	165	168	151	102
Cash dividends per common share	$—	$—	$—	$—	$—
Cash Flow Data:					
Net cash provided by (used in) operating activities	$423	$135	$319	$341	$(194)

Net cash provided by (used in) investing activities	(534)	251	(102)	(817)	358
Net cash provided by (used in) financing activities	(69)	(608)	148	433	(1,342)
Cash dividends or distributions to partners, net	—	—	—	—	(17)
Capital expenditures, acquisitions and investments	(531)	(594)	(640)	(504)	(163)

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	December 31,				
	2010	2009	2008	2007	2006
	(in millions)				
Balance Sheet Data (4):					
Current assets	$2,244	$2,038	$2,803	$1,663	$1,989
Current liabilities	1,565	1,847	1,702	999	1,166
Property and equipment, net	6,273	7,117	8,934	9,017	4,951
Total assets	10,013	10,953	14,213	13,221	7,537
Long-term debt (excluding current portion)	4,626	4,775	6,072	5,939	3,190
Notes payable and current portion of long-term debt	148	807	64	51	68
Capital leases not already included in long-term debt	—	4	4	5	6
Total equity	2,746	2,979	4,485	4,529	2,267

(1) The merger with LS Power (April 2, 2007) was accounted for in accordance with the purchase method of accounting and the results of operations attributable to the acquired business is included in our financial statements and operating statistics beginning on the acquisition's effective date for accounting purposes.

(2) Includes $249 million of debt conversion costs for the twelve months ended December 31, 2006.

(3) Discontinued operations include the results of operations from the following businesses:

The Arlington Valley and Griffith power generation facilities (collectively, the Arizona power generation facilities") (sold fourth quarter 2009);

Bluegrass power generating facility (sold fourth quarter 2009);

Heard County power generating facility (sold second quarter 2009);

Calcasieu power generating facility (sold first quarter 2008); and

CoGen Lyondell power generating facility (sold third quarter 2007).

(4) The merger with LS Power (April 2, 2007) was accounted for under the purchase method of accounting. Accordingly, the purchase price was allocated to the assets acquired and liabilities assumed based on their estimated fair values as of the effective date of the transaction.

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Dynegy Holdings' Selected Financial Data

	Year Ended December 31, 2010	2009	2008	2007	2006
	(in millions, except per share data)				
Statement of Operations Data (1):					
Revenues	$2,323	$2,468	$3,324	$2,918	$1,758
Depreciation and amortization expense	(392)	(335)	(346)	(306)	(208)
Goodwill impairment	—	(433)	—	—	—
Impairment and other charges, exclusive of goodwill impairment shown separately above	(148)	(538)	—	—	(9)
General and administrative expenses	(158)	(159)	(157)	(184)	(193)
Operating income (loss)	(6)	(836)	744	595	223
Interest expense and debt extinguishment costs (2)	(363)	(461)	(427)	(384)	(579)
Income tax (expense) benefit	184	313	(138)	(105)	89
Income (loss) from continuing operations	(243)	(1,046)	222	165	(217)
Income (loss) from discontinued operations (3)	1	(222)	(17)	166	(91)
Net income (loss)	$(242)	$(1,268)	$205	$331	$(308)
Net income (loss) attributable to Dynegy Holdings Inc.	$(242)	$(1,253)	$208	$324	$(308)
Cash Flow Data:					
Net cash provided by (used in) operating activities	$423	$152	$319	$368	$(205)
Net cash provided by (used in) investing activities	(520)	790	(87)	(688)	357
Net cash provided by (used in) financing activities	(69)	(1,193)	146	369	(1,235)
Capital expenditures, acquisitions and investments	(517)	(596)	(626)	(350)	(155)

	December 31, 2010	2009	2008	2007	2006
	(in millions)				
Balance Sheet Data (1):					
Current assets	$2,180	$1,988	$2,780	$1,614	$1,828
Current liabilities	1,562	1,848	1,681	999	1,165
Property and equipment, net	6,273	7,117	8,934	9,017	4,951
Total assets	9,949	10,903	14,174	13,107	8,136
Long-term debt (excluding current portion)	4,626	4,775	6,072	5,939	3,190
Notes payable and current portion of long-term debt	148	807	64	51	68
Capital leases not already included in long-term debt	—	4	4	5	6
Total equity	2,719	3,003	4,583	4,620	3,036

(1) The LS Power assets were contributed to DHI contemporaneously with the merger with LS Power (April 2, 2007). This contribution was accounted for as a transaction between entities under common control. As such, the assets and liabilities were recorded by DHI at Dynegy's historical cost on Dynegy's date of acquisition. Additionally, the Sithe Energies assets were contributed to DHI on April 2, 2007. This contribution was accounted for as a transaction between entities under common control. As such, the assets and liabilities were recorded by DHI at Dynegy's historical cost on Dynegy's date of acquisition, January 31, 2005. In addition, DHI's historical financial statements have been adjusted in all periods presented to reflect the contribution as though DHI had owned these assets beginning January 31, 2005.

(2) Includes $204 million of debt conversion costs for the twelve months ended December 31, 2006.

(3) Discontinued operations include the results of operations from the following businesses:

The Arizona power generation facilities (sold fourth quarter 2009);

Bluegrass power generating facility (sold fourth quarter 2009);

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- Heard County power generating facility (sold second quarter 2009);
- Calcasieu power generating facility (sold first quarter 2008); and
- CoGen Lyondell power generating facility (sold third quarter 2007).

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read together with the audited consolidated financial statements and the notes thereto included in this report.

OVERVIEW

We are holding companies and conduct substantially all of our business operations through our subsidiaries. Our current business operations are focused primarily on the power generation sector of the energy industry. We report the results of our power generation business as three separate segments in our consolidated financial statements: (i) GEN-MW; (ii) GEN-WE; and (iii) GEN-NE. Because of the diversity among their respective operations and how we allocate our resources, we report the results of each business as a separate segment in our consolidated financial statements. Our consolidated financial results also reflect corporate-level expenses such as general and administrative, interest and depreciation and amortization. Our investment in PPEA Holding Company, which was sold in the fourth quarter 2010, is included in GEN-MW for reporting purposes.

Going Concern. Our accompanying consolidated financial statements have been prepared assuming that we will continue as a going concern, which contemplates realization of assets and the satisfaction of liabilities in the normal course of business for the twelve month period following the date of these consolidated financial statements. However, continued low power prices over the past two years have had a significant adverse impact on our business. Further, as our credit rating has declined, counterparty requirements for posting collateral in support of our risk management positions have become more stringent. Over the next twelve months, we expect that we will continue to need to utilize our Credit Facility, through the issuance of letters of credit and/or through the drawing of cash, or secure additional sources of capital to continue to meet our operating needs. The agreements governing our existing Credit Facility require us to meet specific financial covenants both as a matter of course and as a precondition to the incurrence of additional debt and to the making of restricted payments or asset sales, among other things. These specific financial covenants are required to be calculated on a quarterly basis and become more restrictive over the course of 2011. Using the latest available forward commodity price curves and considering our current derivative contracts, we project that it is likely that we will not be able to comply with our EBITDA to Consolidated Interest Expense covenant as currently set forth in our Credit Facility, particularly in the third and fourth quarters of 2011. Furthermore, we expect that our available liquidity will continue to be reduced as a result of borrowing limitations under the covenant regarding the ratio of Secured Debt to EBITDA, as defined in our Credit Facility. To continue as a going concern over the next twelve months, we must either (i) meet the financial covenants so that we can access our Credit Facility, or (ii) amend or replace our Credit Facility or otherwise secure additional capital.

At December 31, 2010, we have the following obligations outstanding under the Credit Facility:

- $68 million due April 2013 under the Term Loan B;
- $850 million due April 2013 under the Term Facility (fully collateralized by $850 million of non-current restricted cash); and
- $375 million in issued letters of credit.

A failure by us to comply with our financial covenants or to comply with the other restrictions in our financing agreements could result in reduced borrowing capacity or even a default, causing our debt obligations under such financing agreements (and any other indebtedness to the extent linked to it by reason of cross-default or cross-acceleration provisions) to potentially become immediately due and payable. If we are unable to cure any such default, or obtain a waiver or replacement financing, and those lenders accelerate the payment of such indebtedness, in the case that we are unable to repay those amounts, the holders of the indebtedness under our secured debt obligations would be entitled to foreclose on, and acquire control of substantially all of our assets, which would have a material adverse impact on our financial condition, results of operations and cash flows.

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In light of our likely covenant non-compliance, we are attempting to amend or replace our existing Credit Facility. We expect the capacity of any amended or new credit facility to be less than the current capacity of $1.8 billion and to be at a higher cost. We may also seek additional sources of liquidity in an effort to secure sufficient cash to meet our operating needs. These additional sources of liquidity could include asset sales, public or private issuances of debt, equity or equity-linked securities, debt for equity swaps, or any combination of these. However, we cannot provide any assurances that we will be successful in accomplishing any of these plans.

Our ability to continue as a going concern is dependent on many factors, including, among other things, our ability to achieve the operating results necessary to comply with the covenants in our existing Credit Facility, amend or replace our existing Credit Facility, or achieve the operating results necessary to comply with the covenants in any amended or new credit facility. Such compliance will be dependent on our ability to successfully execute our commercial strategies, manage our collateral requirements, and continue to execute the company-wide cost reduction initiatives that are ongoing.

Recent transactions. Beginning in 2010 and extending through January 2011, we engaged in an ongoing review of our operating and strategic opportunities and risks. That review was conducted against a backdrop of continuing declines in the market prices of natural gas and wholesale electricity. These declines have reduced the outlook for the cash flow that can be expected to be generated by us in the next several years. Our declining cash flow, combined with our high level of indebtedness and the probable need to incur additional indebtedness to fund operations and required environmental capital expenditures led us to conclude that the risks of pursing a standalone business strategy are considerable.

On August 13, 2010, Dynegy entered into a merger agreement with an affiliate of The Blackstone Group L.P. (as amended, the "Blackstone Merger Agreement"), pursuant to which Dynegy would be acquired and Dynegy's stockholders would receive $4.50 per share in cash. On November 16, 2010, the agreement was amended to increase the merger consideration to $5.00 per share in cash. The Blackstone Merger Agreement was not approved by Dynegy's stockholders at a special stockholders' meeting on November 23, 2010 and was subsequently terminated by the parties in accordance with the terms of the agreement. The Blackstone Merger Agreement requires Dynegy to pay Blackstone a termination fee in the amount of approximately $16 million in the event that within 18 months of November 23, 2010, Dynegy consummates an alternative transaction having an aggregate value of more than $4.50 per share.

On November 23, 2010, we commenced the solicitation of transaction proposals from a broad group of potentially interested parties, including Icahn Enterprises L.P. ("Icahn") and other potential strategic and financial buyers. As a result of those efforts, on December 15, 2010, Dynegy's Board of Directors unanimously approved a merger agreement between Dynegy and an affiliate of Icahn (as amended, the "Icahn Merger Agreement"). In connection with the Icahn Merger Agreement, Icahn launched a cash tender offer on December 22, 2010 for all of the issued and outstanding shares of common stock at $5.50 per share (the "Tender Offer"). On January 25, 2011, Dynegy announced that it did not receive any bona fide acquisition proposals. At the expiration time of the Tender Offer on February 18, 2011, an insufficient number of shares had been tendered in response to the Tender Offer, and as a result the Icahn Merger Agreement automatically terminated. In connection with the termination and as required by the Icahn Merger Agreement, in February 2011, Dynegy paid $5 million to Icahn with respect to expenses incurred by Icahn related to the Icahn Merger Agreement, and we may be required to pay additional fees of $11 million in the event that within 18 months of February 18, 2011, Dynegy consummates an alternative transaction having an aggregate value of more than $5.50 per share.

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Business Discussion

The following is a brief discussion of each of our power generation segments, including a list of key factors that have affected, and are expected to continue to affect, their respective earnings and cash flows. We also present a brief discussion of our corporate-level expenses.

Power Generation Business

We generate earnings and cash flows in the three segments within our power generation business through sales of electric energy, capacity and ancillary services. Primary factors affecting our earnings and cash flows in the power generation business include:

Prices for power, natural gas, coal and fuel oil, which in turn are largely driven by supply and demand. Demand for power can vary due to weather and general economic conditions, among other things. For example, a warm summer or a cold winter typically increases demand for electricity. Conversely, the recent recessionary economic environment has negatively impacted demand for electricity, and the proliferation of advanced shale gas drilling has increased domestic natural gas supplies, suppressing natural gas prices. Power supplies similarly vary by region and are impacted significantly by available generating capacity, transmission capacity and federal and state regulation;

The relationship between electricity prices and prices for natural gas and coal, commonly referred to as the "spark spread" and "dark spread", respectively, which impacts the margin we earn on the electricity we generate; and

Our ability to enter into commercial transactions to mitigate short- and medium- term earnings volatility and our ability to manage our liquidity requirements resulting from potential changes in collateral requirements as prices move.

Other factors that have affected, and are expected to continue to affect, earnings and cash flows for this business include:

Transmission constraints, congestion, and other factors that can affect the price differential between the locations where we deliver generated power and the liquid market hub;

Our ability to control capital expenditures, which primarily include maintenance, safety, environmental and reliability projects, and to control operating expenses through disciplined management;

Our ability to optimize our assets by maintaining a high in-market availability, reliable run-time and safe, low-cost operations;

Our ability to operate and market our facilities during periods of planned/unplanned electric transmission outages;

Our ability to post the collateral necessary to execute our commercial strategy;

The cost of compliance with existing and future environmental requirements that are likely to be more stringent and more comprehensive (please see Item 1. Business—Environmental Matters for further discussion); and

Market supply conditions resulting from federal and regional renewable power mandates and initiatives.

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Please read Item 1A. Risk Factors for additional factors that could affect our future operating results, financial condition and cash flows.

In addition to these overarching factors, other factors have influenced, and are expected to continue to influence, earnings and cash flows for our three reportable segments within the power generation business as further described below.

Power Generation—Midwest Segment. Our assets in GEN-MW include coal-fired facilities and natural gas-fired facilities. The following specific factors affect or could affect the performance of this reportable segment:

- Our ability to maintain sufficient coal inventories, which is dependent upon the continued performance of the railroads for deliveries of coal in a consistent and timely manner, and its impact on our ability to serve the critical winter and summer on-peak loads;
- Our requirement to utilize a significant amount of cash for capital expenditures required to comply with the Midwest Consent Decree;
- Regional renewable energy mandates and initiatives that may alter supply conditions within the ISO and our generating units' positions in the aggregate supply stack;
- Changes in the MISO market design or associated rules; and
- Changes in the existing PJM RPM capacity markets or in the bilateral MISO capacity markets and any resulting effect on future capacity revenues.

Power Generation—West Segment. Our assets in GEN-WE are all natural gas-fired power generating facilities with the exception of our fuel oil-fired Oakland facility. The following specific factors impact or could impact the performance of this reportable segment:

- Our ability to maintain and operate our plants in a manner that ensures we receive full capacity payments under our various tolling agreements;
- Our ability to maintain the necessary permits to continue to operate our Moss Landing and Morro Bay facilities with once-through, seawater cooling systems; and
- The cost incurred to demolish and remediate the South Bay facility.

Power Generation—Northeast Segment. Our assets in GEN-NE include natural gas, fuel oil and coal-fired power generating facilities. The following specific factors impact or could impact the performance of this reportable segment:

- Our ability to maintain sufficient coal and fuel oil inventories, including continued deliveries of coal and oil in a consistent and timely manner, and continued access to uninterrupted natural gas supplies, to serve the winter and summer on-peak loads;
- The additional costs imposed by state-driven environmental compliance initiatives aimed at reducing mercury emission levels and other constituents such as CO_2, NO_x and SO_2 as well as more restrictive measures for cooling water intakes for fish protection;

Changes in NYISO/ISO-NE market rules or state-specific mandates that favor and/or subsidize renewable energy sources and demand response initiatives; and

Our ability to preserve and/or capture value around planned transmission upgrades designed to improve transfer limits around known constraints.

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Other

Other includes corporate expenses such as general and administrative and interest. Significant items impacting future earnings and cash flows include:

- Interest expense, which reflects debt with a weighted-average interest rate of approximately seven percent;

- General and administrative costs, which will be impacted by, among other things, (i) staffing levels and associated expenses; (ii) funding requirements under our pension plans; (iii) any future corporate-level litigation reserves or settlements and (iv) our ability to realize planned cost savings reflected in our financial forecasts; and

- Income taxes, which will be impacted by our ability to realize our net operating losses and alternative minimum tax credits.

Other also includes our legacy CRM operations, which primarily consists of a minimal number of legacy natural gas trading positions that will remain until 2017.

LIQUIDITY AND CAPITAL RESOURCES

Overview

In this section, we describe our liquidity and capital requirements including our sources and uses of liquidity and capital resources. Our liquidity and capital requirements are primarily a function of our debt maturities and debt service requirements, collateral requirements, fixed capacity payments and contractual obligations, capital expenditures (including required environmental expenditures) and working capital needs. Examples of working capital needs include purchases and sales of commodities and associated margin and collateral requirements, facility maintenance costs and other costs such as payroll.

Our primary sources of internal liquidity are cash flows from operations, cash on hand, short-term investments and available capacity under our Credit Facility, of which the revolver capacity of $1,080 million is scheduled to mature in April 2012 and the term letter of credit capacity of $850 million is scheduled to mature in April 2013.

Our cash on hand and short-term investments as of December 31, 2010 and our internal forecasted cash flows from operations for 2011 are not expected to be sufficient to fund our planned $265 million 2011 capital expenditure program and our $148 million 2011 debt service requirements. Furthermore, using the latest available forward commodity price curves and considering our current derivative contracts, we project that it is likely that we will not be able to comply with our EBITDA to Consolidated Interest Expense covenant contained in our Credit Facility, particularly in the third and fourth quarters of 2011. Accordingly, as described at Going Concern above, we are attempting to amend or replace our existing Credit Facility.

We may also seek additional sources of liquidity in an effort to secure sufficient cash to meet our operating needs. These additional sources of liquidity could include asset sales, public or private issuances of debt, equity or equity-linked securities, debt for equity swaps, or any combination of these. Please read Capital Structuring Transactions and Asset Dispositions below for more detail. However, we cannot provide any assurances that we will be successful in accomplishing any of these plans.

Please read the discussion above regarding Going Concern, as well as the discussion below regarding our Revolver Capacity, and Note 18 Debt—Credit Facility for a further discussion of the financial covenants contained in the Credit Facility. For additional discussion of factors that may affect our ability to continue as a going concern and the potential consequences of our failure to do so, please see Item 1A—Risk Factors.

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Current Liquidity. The following table summarizes our consolidated revolver capacity and liquidity position at March 3, 2011, December 31, 2010 and December 31, 2009:

	March 3, 2011	December 31, 2010	December 31, 2009
		(in millions)	
Revolver capacity (1) (2)	$954	$954	$1,080
Borrowings against revolver capacity	—	—	—
Term letter of credit capacity, net of required reserves	825	825	825
Plum Point and Sandy Creek letter of credit capacity (3)	—	—	102
Available contingent letter of credit facility capacity (4)	—	—	—
Outstanding letters of credit (3)	(392)	(375)	(536)
Unused capacity	1,387	1,404	1,471
Cash—DHI	319	253	419
Short-term investments—DHI (5)	74	90	—
Total available liquidity—DHI	1,780	1,747	1,890
Cash—Dynegy	46	38	52
Short-term investments—Dynegy (5)	9	16	—
Total available liquidity—Dynegy	$1,835	$1,801	$1,942

(1) We currently have a syndicate of lenders participating in the revolving portion of our Credit Facility with commitments ranging from $30 million to $165 million.

(2) As of March 3, 2011 and December 31, 2010, DHI's available liquidity under the Credit Facility was reduced by $126 million as a result of borrowing limitations under the covenant regarding the ratio of Secured Debt to EBITDA. Although our available liquidity is reduced, we have adequate liquidity to meet expected needs for the remainder of the first quarter. Further reduction in capacity may occur based on our ratio of Secured Debt to EBITDA at March 31, 2011, June 30, 2011, September 30, 2011 and December 31, 2011. Please see Revolver Capacity below for further discussion. Additionally, using the latest available forward commodity price curves and considering our current derivative contracts, we project that it is likely that we will not be able to comply with our EBITDA to Consolidated Interest Expense covenant, as defined in our Credit Facility, particularly in the third and fourth quarters of 2011.

(3) Reflects reduction of $102 million of capacity as of January 1, 2010 due to the deconsolidation of PPEA Holding and the subsequent sale of our interest in PPEA Holding. Please read Note 2—Summary of Significant Accounting Policies—Accounting Policies Adopted—Variable Interest Entities for further discussion.

(4) Under the terms of the Contingent LC Facility, up to $150 million of capacity can become available, contingent on changes in forward spark spreads and power prices for 2012.

(5) We invest our available cash balances in certain investments permitted by our internal policies and external financing agreements. Please read Note 2—Summary of Significant Accounting Policies—Short-Term Investments and Note 6—Investments for further discussion.

Cash on Hand. At March 3, 2011 and December 31, 2010, Dynegy had cash on hand of $365 million and $291 million, respectively, as compared to $471 million at the end of 2009. The increase in cash on hand at March 3, 2011 compared with December 31, 2010 is primarily related to the expiration of an agreement and the subsequent release of $50 million of restricted cash. The decrease in cash on hand at December 31, 2010 as compared to the end of 2009 is primarily attributable to cash used for purchases of short-term investments, debt service and capital expenditures partially offset by cash generated from the operating activities of our power generation business.

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At March 3, 2011 and December 31, 2010, DHI had cash on hand of $319 million and $253 million, respectively, as compared to $419 million at the end of 2009. The increase in cash on hand at March 3, 2011 compared with December 31, 2010 is primarily related to the expiration of an agreement and the subsequent release of $50 million of restricted cash. The decrease in cash on hand at December 31, 2010 as compared to the end of 2009 is primarily attributable to cash used for purchases of short-term investments, debt service and capital expenditures partially offset by cash generated from the operating activities of our power generation business.

Revolver Capacity. DHI's available liquidity under the Credit Facility was reduced by $126 million as of December 31, 2010 as a result of borrowing limitations under the covenant regarding the ratio of Secured Debt to EBITDA (as defined therein). The effect of reduced availability under the Credit Facility is less available liquidity to DHI. Further reduction in capacity is likely to occur at March 31, 2011, June 30, 2011, September 30, 2011 and December 31, 2011. Additionally, as discussed in Going Concern above, using the latest available forward commodity price curves and considering our current derivative contracts, we project that it is likely that we will not be able to comply with our EBITDA to Consolidated Interest Expense covenant, as currently set forth in our Credit Facility, particularly in the third and fourth quarters of 2011. In such event, the Credit Facility may be terminated by the lenders and outstanding amounts thereunder accelerated. Accordingly, we are attempting to amend or replace our existing Credit Facility. Please read Going Concern above, Financial Covenants below and Note 18—Debt—Credit Facility for further discussion of our Credit Facility.

Capital-Structuring Transactions. In light of our probable covenant non-compliance, we are attempting to amend or replace our existing Credit Facility. We may also seek additional sources of liquidity in order to ensure that we have sufficient cash available to meet our operating needs. These additional sources of liquidity could include asset sales, public or private issuances of debt, equity or equity-linked securities,, debt for equity swaps, or any combination of these. Matters to be considered include depressed or dilutive prices for assets, cash interest expense, covenant compliance and maturity profile, all to be balanced with an attempt to maintain adequate liquidity. The receptiveness of the traditional capital markets to an offering of debt or equity securities cannot be assured and may be negatively impacted by, among other things, the going concern emphasis paragraph in our most recent audit report, recent changes to our senior management and Dynegy's Board of Directors, our non-investment grade credit ratings, significant debt maturities, business prospects and other factors beyond our control, including current and projected market conditions. Any issuance of equity by Dynegy likely would have other effects as well, including stockholder dilution, and our ability to issue debt securities may be limited by our financing agreements, including our Credit Facility.

Operating Activities

Historical Operating Cash Flows. Dynegy's and DHI's cash flow provided by operations totaled $423 million for the twelve months ended December 31, 2010. During the period, our power generation business provided positive cash flow from operations of $938 million from the operation of our power generation facilities, primarily reflecting positive earnings for the period and approximately $290 million of cash received from our futures clearing manager. The receipt of this cash is partly due to lower commodity prices and a reduction of margin requirements; the remaining cash was returned as a result of the posting of $85 million of short-term investments in substitute of cash. Corporate and other operations included a use of cash of approximately $515 million by Dynegy and DHI, primarily due to interest payments to service debt and general and administrative expenses.

Dynegy's cash flow provided by operations totaled $135 million for the twelve months ended December 31, 2009. DHI's cash flow provided by operations totaled $152 million for the twelve months ended December 31, 2009. During the period, our power generation business provided positive cash flow from operations of $719 million. Cash provided by the operations of our power generation facilities was partly offset by a $173 million increase in cash collateral postings. Other included a use of cash of approximately $584 million and $567 million by

Dynegy and DHI, respectively, primarily due to interest payments to service debt and general and administrative expenses. Dynegy's operating cash flow also reflected the payment of $19 million to LS Power in conjunction with the dissolution of DLS Power Holdings and DLS Power Development.

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Dynegy's and DHI's cash flow provided by operations totaled $319 million for the twelve months ended December 31, 2008. During the period, our power generation business provided positive cash flow from the operations of our power generation facilities of $869 million, reflecting positive earnings for the period, partly offset by additional collateral requirements due to an increase in the volume of our hedging positions and increased payments associated with our DNE leveraged lease. Please read Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations— Liquidity and Capital Resources—Off-Balance Sheet Arrangements—DNE Leveraged Lease for further discussion of the DNE lease payments. Other included a use of approximately $550 million in cash primarily due to interest payments to service debt, general and administrative expenses and a $17 million legal settlement payment, partially offset by interest income.

Future Operating Cash Flows. Our future operating cash flows will vary based on a number of factors, many of which are beyond our control, including the price of power, the price of natural gas and its correlation to power prices, the cost of coal and fuel oil, collateral requirements, the value of capacity and ancillary services, the run time of our generating facilities, the effectiveness of our commercial strategy, legal, environmental and regulatory requirements, our ability to achieve the cost savings contemplated in our cost reduction programs and the level of our ability to capture value associated with commodity price volatility. Given current forward commodity price curves, our future operating cash flows are likely to be insufficient to fund our planned capital expenditure program and our debt service requirements.

Collateral Postings. We use a significant portion of our capital resources, in the form of cash, short-term investments and letters of credit, to satisfy counterparty collateral demands. These counterparty collateral demands reflect our non-investment grade credit ratings and counterparties' views of our financial condition and ability to satisfy our performance obligations, as well as commodity prices and other factors. At December 31, 2010, we had approximately $75 million of our cash collateral postings and $57 million of our letter of credit collateral postings related to our hedging activities. The following table summarizes our consolidated collateral postings to third parties by line of business at March 3, 2011, December 31, 2010 and December 31, 2009:

	March 3, 2011	December 31, 2010 (in millions)	December 31, 2009
By Business:			
Generation business	$ 459	$ 377	$ 638
Other (1)	85	85	189
Total	$ 544	$ 462	$ 827
By Type:			
Cash and short-term investments (2)	$ 152	$ 87	$ 291
Letters of credit	392	375	536
Total	$ 544	$ 462	$ 827

(1) March 3, 2011 and December 31, 2010 reflect the reduction of $102 million of capacity and corresponding outstanding letters of credit due to the deconsolidation and subsequent sale of our interest in PPEA Holding. Please read Note 2—Summary of Significant Accounting Policies—Accounting Policies Adopted—Variable Interest Entities for further discussion.

(2) Includes Broker margin account on our consolidated balance sheets as well as other collateral postings included in Prepayments and other current assets on our consolidated balance sheets.

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The change in letters of credit postings from December 31, 2009 to December 31, 2010 and to March 3, 2011 are primarily related to a $102 million decrease due to the removal of the PPEA letter of credit as a result of the deconsolidation and subsequent sale of our interest in PPEA Holding and lower commodity prices. Collateral postings of cash and short-term investments also decreased from December 31, 2009 to December 31, 2010 due to lower commodity prices and a reduction of margin requirements during 2010. Collateral postings increased from December 31, 2010 to March 3, 2011 due to an increase in margin requirements in 2011.

In addition to cash and letters of credit posted as collateral, we have granted additional permitted first priority liens on the assets currently subject to first priority liens under our Credit Facility as collateral under certain of our commodity derivative agreements in order to reduce the cash collateral and letters of credit that we would otherwise be required to provide to the counterparties under such agreements. The counterparties under such agreements would share the benefits of the collateral subject to such first priority liens ratably with the lenders under the Credit Facility. The fair value of our commodity derivatives collateralized by first priority liens, netted by counterparty, included liabilities of $20 million, $30 million and $31 million at March 3, 2011, December 31, 2010 and December 31, 2009, respectively.

Going forward, we expect counterparties' collateral demands to continue to reflect changes in commodity prices, including seasonal changes in weather-related demand, as well as their views of our creditworthiness. If we do not have access to our Credit Facility or another borrowing facility, it will be difficult for us to satisfy counterparties' collateral demands, including those for which no collateral is currently posted. For further discussion, see Going Concern above. Furthermore, our ability to use forward economic hedging instruments could be limited, due to the collateral requirements the use of such instruments entails. If our commercial strategy is adjusted to reduce such collateral needs, we would be exposed to future increases and decreases in commodity prices and be limited in our ability to capture the extrinsic value associated with our portfolio of assets.

Investing Activities

Capital Expenditures. We continue to tightly manage our operating costs and capital expenditures. We had approximately $333 million, $612 million and $611 million in capital expenditures during the twelve months ended December 31, 2010, 2009 and 2008, respectively. Our capital spending by reportable segment was as follows:

	December 31,		
	2010	2009	2008
		(in millions)	
GEN-MW	$300	$533	$530
GEN-WE	19	45	29
GEN-NE	8	28	36
Other	6	6	16
Total	$333	$612	$611

Capital spending in our GEN-MW segment primarily consisted of environmental and maintenance capital projects, as well as approximately $104 million and $203 million spent on development capital related to the Plum Point Project during the years ended December 31, 2009 and 2008, respectively. Capital spending in our GEN-WE and GEN-NE segments primarily consisted of maintenance projects.

We expect capital expenditures for 2011 to approximate $265 million, which is comprised of $213 million, $14 million, $35 million and $3 million in GEN-MW, GEN-WE, GEN-NE and Other, respectively. The $213 million of spending planned for GEN-MW includes approximately $145 million of environmental expenditures, of which approximately $140 million is related to the Midwest Consent Decree, approximately $53 million is related to maintenance on our coal and natural gas facilities, and approximately $15 million is related to capitalized interest. Other spending primarily includes maintenance capital projects and environmental projects. The capital budget is subject to revision as opportunities arise or circumstances change. Our ability to fund these capital expenditures is dependent on our access to sufficient liquidity; see Going Concern above.

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The Midwest Consent Decree was finalized in July 2005. It prohibits us from operating certain of our power generating facilities after certain dates unless specified emission control equipment is installed. Our long-term capital expenditures in the GEN-MW segment will be significantly impacted by the Midwest Consent Decree. We anticipate our total costs associated with the Midwest Consent Decree projects, which we expect to incur through 2013, to be approximately $960 million, which includes approximately $730 million spent to date. This estimate, which is broken down by year below, includes a number of assumptions about uncertainties that are beyond our control. For instance, we have assumed for purposes of this estimate that labor and material costs will increase at four percent per year over the remaining project term. The following are the estimated remaining capital expenditures required to comply with the Midwest Consent Decree:

2011	2012	2013
	(in millions)	
$ 140	$ 80	$ 10

If the costs of these capital expenditures become great enough to render the operation of the affected facility or facilities uneconomical, we could, at our option, cease to operate the facility or facilities and forego these capital expenditures without incurring any further obligations under the Midwest Consent Decree. Further, if we fail to meet certain performance standards under the Midwest Consent Decree our production may be affected Please read Note 22—Commitments and Contingencies—Other Commitments and Contingencies—Midwest Consent Decree for further discussion.

Please read Note 1 —Organization and Operations—Going Concern for further discussion.

The SPDES permits renewal application at our Roseton power generating facility and the NPDES permit at our Moss Landing power generating facility have been challenged by local environmental groups which contend the existing once-through water cooling systems currently in place should be replaced with closed-cycle cooling systems. A decision to install a closed-cycle cooling system at the Roseton or Moss Landing facilities would be made on a case-by-case basis considering all relevant factors at such time, including any relevant costs or applicable remediation requirements. If mandated installation of closed-cycle cooling systems at either of these facilities would result in a material capital expenditure that renders the operation of a plant uneconomical, we could, at our option, and subject to any applicable financing agreements or other obligations, reduce operations or cease to operate such facility and forego these capital expenditures.

Please read Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Disclosure of Contractual Obligations and Contingent Financial Commitments—Off-Balance Sheet Arrangements—DNE Leveraged Lease for further discussion of early lease termination payments. Please read Note 22—Commitments and Contingencies—Legal Proceedings—Roseton State Pollutant Discharge Elimination System Permit, and —Commitments and Contingencies—Legal Proceedings—Moss Landing National Pollutant Discharge Elimination System Permit for further discussion.

Asset Dispositions. Proceeds from asset sales in 2009 totaled $652 million and $1,095 million for Dynegy and DHI, respectively. Of the total $936 million and $1,476 million in cash proceeds received by Dynegy and DHI, respectively, at the closing of the LS Power Transactions, $547 million and $990 million related to the disposition of assets, including our interest in the Sandy Creek Project, for Dynegy and DHI, respectively. We also received $175 million from the release of restricted cash on our consolidated balance sheets that was used to support our funding commitment to the Sandy Creek Project. Please read Note 4—Dispositions, Contract Terminations and Discontinued Operations—Dispositions—LS Power Transactions for further information. The remaining $214 million of cash received upon closing the LS Power Transactions relates to the issuance of $235 million of notes payable, and is included in

Financing Activities. Please read "—Financing Activities" below and Note 19—Related Party Transactions for further discussion.

Additionally, during 2009, we sold the Heard County power generation facility for approximately $105 million, net of transaction costs. Please read Note 4—Dispositions, Contract Terminations and Discontinued Operations—Discontinued Operations—Heard County for further discussion.

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Proceeds from asset sales in 2008 totaled $451 million, net of transaction costs, related to the sales of the Rolling Hills power generating facility, Calcasieu power generating facility, the NYMEX shares and seats, and the beneficial interest in Oyster Creek.

Consistent with industry practice, we regularly evaluate our generation fleet based primarily on geographic location, fuel supply, market structure, market recovery expectations, regulatory or legislative risks and cash flows. We consider divestitures of assets where the balance of the above factors suggests that such assets' earnings potential is limited or that the benefits that can be captured through a divestiture outweigh the benefits of continuing to own and operate such assets. As future operating cash flows are likely to be insufficient to fund our planned capital expenditure program, lease obligations and our debt service requirements, additional asset divestures will be considered to supplement our liquidity position, potentially at terms not favorable to us.

Other Investing Activities. Cash inflows related to short-term investments during the year ended December 31, 2010 totaled $326 million and $310 million for Dynegy and DHI, respectively, reflecting maturities and early redemptions of short-term investments. Cash outflows related to purchases of short-term investments during the year ended December 31, 2010 totaled $508 million and $477 million for Dynegy and DHI, respectively.

Cash inflows related to short-term investments during the year ended December 31, 2009 totaled $17 million and $16 million for Dynegy and DHI, respectively, reflecting a distribution from our short-term investments. Cash outflows related to short-term investments during the year ended December 31, 2008 totaled $27 million and $25 million for Dynegy and DHI, respectively, as a result of a reclassification from cash equivalents to short-term investments.

Dynegy made $16 million in contributions to DLS Power Holdings during the year ended December 31, 2008. We received a distribution of approximately $7 million and repayment of approximately $3 million of an affiliate receivable upon the sale of a partial interest in Sandy Creek during the year ended December 31, 2008. Please read Note 15—Variable Interest Entities—Sandy Creek for further discussion.

There was a $15 million cash outflow related to our funding commitment obligation under the PPEA Sponsor Support Agreement and a $3 million cash outflow due to changes in restricted cash balances during the year ended December 31, 2010 for both Dynegy and DHI. There was a $190 million cash inflow during the year ended December 31, 2009 for both Dynegy and DHI, related to changes in restricted cash balances primarily due to the release of $175 million of restricted cash that was used to support our funding commitment to the Sandy Creek Project. There was an $80 million cash inflow during the year ended December 31, 2008 due to changes in restricted cash balances primarily due to a reduction of our cash collateral as a result of SCEA's sale of an 11 percent undivided interest in the Sandy Creek Project, the release of restricted cash and the use of restricted cash for the ongoing construction of the Plum Point project, partially offset by interest income.

DHI's affiliate transactions during the year ended December 31, 2010 included $2 million. DHI's affiliate transactions during the year ended December 31, 2009 included $97 million related to the LS Power Transactions. Dynegy repurchased 245 million of its Class B shares with a fair value of $443 million (based on a share price of $9.05 on November 30, 2009, as adjusted for the 1-for-5 reverse stock split of Dynegy's common stock that became effective on May 25, 2010) from LS Power by exchanging assets owned by DHI for the shares. In order to effect this exchange, Dynegy paid $540 million in cash to a subsidiary of LS Power in exchange for the shares, immediately following which a separate subsidiary of LS Power paid $540 million of cash to DHI in exchange for the assets. The $97 million represents the difference between the $540 million of cash received by DHI and the $443 million fair value of the shares received by Dynegy.

Other included $3 million and $7 million of insurance proceeds received during the years ended December 31, 2009 and 2008, respectively. Additionally, included in Other for Dynegy for the year ended December 31, 2008 is $4 million of proceeds from the liquidation of an investment.

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Financing Activities

Historical Cash Flow from Financing Activities. Dynegy's and DHI's net cash used in financing activities during the twelve months ended December 31, 2010 totaled $69 million due to the payments of $62 million in aggregate principal amount on our Sithe 9.00 percent secured bonds due 2013 and $6 million of financing fees.

Dynegy's net cash used in financing activities during the twelve months ended December 31, 2009 totaled $608 million. Repayments of borrowings were $890 million, and consisted of the following:

$421 million in aggregate principal amount on our 6.875 percent senior unsecured notes due 2011 ("2011 Notes");

$412 million in aggregate principal amount on our 8.75 percent senior unsecured notes due 2012 ("2012 Notes"); and

$57 million in aggregate principal amount on our Sithe 9.00 percent secured bonds due 2013.

We also paid debt extinguishment costs of $46 million in connection with the repayment of the 2011 Notes and 2012 Notes.

These payments were partially offset by $328 million of net proceeds from the following borrowings:

$130 million under the PPEA Credit Agreement Facility; and

$214 million of cash proceeds from the LS Power Transactions allocated to the issuance of $235 million 7.5 percent senior unsecured notes due 2015.

These borrowings were partly offset by $16 million of financing fees related to the Credit Facility Amendment No. 4.

DHI's net cash used in financing activities during the twelve months ended December 31, 2009 totaled $1,193 million. This included the net $608 million used in repayments and extinguishment costs, net of borrowings, incurred by Dynegy, as set forth above, as well as $585 million in aggregate dividend payments to Dynegy.

Dynegy's net cash provided by financing activities during the twelve months ended December 31, 2008 totaled $148 million and DHI's net cash provided by financing activities during the twelve months ended December 31, 2008 totaled $146 million. The cash provided by financing activities primarily related to $192 million of proceeds from borrowings under the PPEA Credit Agreement Facility, partly offset by a $45 million principal payment on our 9.00 percent Sithe secured bonds due 2013.

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Summarized Debt and Other Obligations. The following table depicts our consolidated third party debt obligations, including the present value of the DNE leveraged lease payments discounted at 10 percent, and the extent to which they are secured as of December 31, 2010 and 2009:

	December 31, 2010	December 31, 2009
	(in millions)	
First secured obligations	$ 918	$ 918
Unsecured obligations	3,644	3,645
Lease obligations (1)	590	626
Total corporate obligations	5,152	5,189
PPEA and Sithe secured non-recourse obligations (2)	225	1,031
Total obligations	5,377	6,220
Less: Lease obligations (1)	(590)	(626)
Other (3)	(13)	(12)
Total notes payable and long-term debt (4)	$ 4,774	$ 5,582

(1) Represents present value of future lease payments associated with the DNE lease financing discounted at 10 percent.
(2) Includes PPEA's non-recourse project financing of $644 million and tax-exempt bonds of $100 million as of December 31, 2009. Reflects reduction of $744 million as of January 1, 2010 due to the deconsolidation and subsequent sale of our interest in PPEA Holding. Please read Note 2—Summary of Significant Accounting Policies—Accounting Policies Adopted—Variable Interest Entities for further discussion.
(3) Consists of net discounts on debt of $13 million and $12 million at December 31, 2010 and 2009, respectively.
(4) Does not include letters of credit.

Please read Note 18—Debt for further discussion of these items. Our debt maturity profile as of December 31, 2010 includes $148 million in 2011, $164 million in 2012, $1,002 million in 2013, zero in 2014, $772 million in 2015 and approximately $2,688 million thereafter. Maturities for 2011 represent principal payments on our Senior Unsecured Notes due 2011 and the Sithe Senior Notes.

Financing Trigger Events. Our debt instruments and other financial obligations include provisions which, if not met, could require early payment, additional collateral support or similar actions. These trigger events include the violation of financial covenants, including the Interest Coverage Ratio discussed below (and any other indebtedness to the extent linked to it by reason of cross-default or cross-acceleration provisions), insolvency events, defaults on scheduled principal or interest payments, acceleration of other financial obligations and change of control provisions. We do not have any trigger events tied to specified Dynegy or DHI credit ratings or Dynegy's stock price in our debt instruments and are not party to any contracts that require us to issue equity based on credit ratings or other trigger events.

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Financial Covenants. Our Credit Facility contains certain financial covenants, including (i) a covenant (measured as of the last day of the relevant fiscal quarter) that requires DHI and certain of its subsidiaries to maintain a ratio of Secured Debt to EBITDA (each as defined therein) for DHI and its relevant subsidiaries of no greater than a specified amount; and (ii) a covenant that requires DHI and certain of its subsidiaries to maintain a ratio of EBITDA to Consolidated Interest Expense (each as defined therein) for DHI and its relevant subsidiaries as of the last day of the measurement periods as specified below of no less than a specified amount. The following table summarizes the required ratios:

Period Ended:	(i) Secured Debt: EBITDA No greater than:	(ii) EBITDA: Consolidated Interest Expense No less than:
December 31, 2010	3.50 : 1	1.30 : 1
March 31, 2011	3.50 : 1	1.35 : 1
June 30, 2011	3.50 : 1	1.40 : 1
September 30, 2011	3.25 : 1	1.60 : 1
December 31, 2011	3.00 : 1	1.60 : 1
Thereafter	2.50 : 1	1.75 : 1

We are in compliance with these covenants as of December 31, 2010.

As of December 31, 2010, DHI's available liquidity under the Credit Facility was reduced by $126 million as a result of borrowing limitations under the covenant regarding the ratio of Secured Debt to EBITDA. Further reduction in capacity is likely to occur based on our ratio of Secured Debt to EBITDA at March 31, 2011, June 30, 2011, September 30, 2011 and December 31, 2011 based on our current projections. Please see Going Concern and Revolver Capacity above for further discussion.

Using the latest available forward commodity price curves and considering our current hedging contracts, we project that it is likely that we will not be able to comply with the EBITDA to Consolidated Interest Expense covenant contained in our Credit Facility, particularly in the third and fourth quarters of 2011. Please see Going Concern above for further discussion.

Subject to certain exceptions, DHI and its relevant subsidiaries are subject to restrictions on asset sales, incurring additional indebtedness, limitations on investments and certain limitations on dividends and other payments with respect to capital stock. Please read Note 18—Debt—Credit Facility for further discussion of our amended Credit Facility.

For additional discussion of factors that may affect our ability to continue as a going concern and the potential consequences of our failure to do so, please see Item 1A—Risk Factors.

Dividends on Dynegy Common Stock. Dividend payments on Dynegy's common stock are at the discretion of its Board of Directors and subject to limits contained in our Credit Facility and applicable law. Dynegy did not declare or pay a cash dividend on its common stock for the year ended December 31, 2010 and it does not expect to pay a dividend on its common stock in the foreseeable future.

Credit Ratings

Our credit rating status is currently “non-investment grade”; our senior unsecured debt is rated “CCC” by Standard & Poor’s, “Caa2” by Moody’s, and “CCC” by Fitch. On March 1, 2011, Standard & Poor’s downgraded our corporate family ratings to “CCC” from “B-” based on near-term risk of covenant default under the Credit Facility and the recently announced Board of Directors and management restructuring. The agency also reduced our senior secured bank facilities rating to “B-” from “B+”, and senior unsecured debt rating to “CCC” from “B-”, while removing all ratings from credit watch with negative implications. The Standard & Poor's rating outlook is negative. On October 1, 2010, Moody’s issued a rating action to conclude their prior review. The corporate family rating was downgraded to “Caa1”; the senior secured rating downgraded to “B1”; and the senior unsecured rating was confirmed at “Caa2.” The Moody's rating outlook is negative. On November 24, 2010, Fitch removed the ratings watch and downgraded the issuer default rating for Dynegy Inc. and Dynegy Holdings Inc. to “CCC” from “B-”; reduced our senior secured bank facilities to “B+” from “BB-”; and reduced our senior unsecured debt to “CCC” from “B”. The Fitch rating outlook remains negative. The downgrades did not trigger any obligations under our financing arrangements; however, as a result of the March 1, 2011 Standard & Poor's downgrade, we have received demands to post additional collateral in support of certain of our operational agreements in 2011.

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Disclosure of Contractual Obligations and Contingent Financial Commitments

We have incurred various contractual obligations and financial commitments in the normal course of our operations and financing activities. Contractual obligations include future cash payments required under existing contractual arrangements, such as debt and lease agreements. These obligations may result from both general financing activities and from commercial arrangements that are directly supported by related revenue-producing activities. Contingent financial commitments represent obligations that become payable only if certain pre-defined events occur, such as financial guarantees. Details on these obligations are set forth below.

Contractual Obligations

The following table summarizes our contractual obligations as of December 31, 2010. Cash obligations reflected are not discounted and do not include accretion or dividends.

		Expiration by Period			
	Total	Less than 1 Year	1 – 3 Years	3 - 5 Years	More than 5 Years
			(in millions)		
Long-term debt (including current portion)	$4,774	$148	$1,166	$772	$2,688
Interest payments on debt	1,798	357	635	514	292
Operating leases	925	138	363	305	119
Coal commitments (1)	647	215	262	170	—
Capacity payments	156	35	68	47	6
Interconnection obligations	17	1	2	2	12
Construction service agreements	314	56	79	101	78
Pension funding obligations	53	12	41	—	—
Other obligations	87	26	29	21	11
Total contractual obligations	$8,771	$988	$2,645	$1,932	$3,206

(1) Included based on nature of purchase obligations under associated contracts.

Long-Term Debt (Including Current Portion). Total amounts of Long-term debt (including current portion) are included in the December 31, 2010 consolidated balance sheet. Please read Note 18—Debt for further discussion.

Interest Payments on Debt. Interest payments on debt represent periodic interest payment obligations associated with our long-term debt (including current portion). Please read Note 18—Debt for further discussion.

Operating Leases. Operating leases includes the minimum lease payment obligations associated with our DNE leveraged lease. Please read "—Liquidity and Capital Resources—Off-Balance Sheet Arrangements—DNE Leveraged Lease" for further discussion. Amounts also include minimum lease payment obligations associated with office and office equipment leases.

In addition, we are party to two charter party agreements relating to two VLGCs previously utilized in our former global liquids business. The aggregate minimum base commitments of the charter party agreements are approximately $14 million each year for the years 2011 through 2012, and approximately $17 million in aggregate for the period from 2013 through lease expiration. The charter party rates payable under the two charter party agreements vary in accordance with market-based rates for similar shipping services. The $14 million and $17 million amounts set forth above are based on the minimum obligations set forth in the two charter party agreements. The primary terms of the charter party agreements expire September 2013 and September 2014, respectively. We have sub-chartered both VLGCs to a wholly owned subsidiary of Transammonia Inc. The terms of the sub-charters are identical to the terms of the original charter agreements. We continue to rely on the sub-charters with a subsidiary of Transammonia to satisfy the obligations of our two charter party agreements. To date, the subsidiary of Transammonia has complied with the terms of the sub-charter agreements.

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Coal Commitments. At December 31, 2010, we had contracts in place to purchase coal for various of our generation facilities with minimum commitments of $647 million. Obligations related to the purchase of coal are $636 million through 2015, and obligations related to the transportation are $11 million through 2013.

Capacity Payments. Capacity payments include fixed obligations associated with transmission, transportation and storage arrangements totaling approximately $156 million.

Interconnection Obligations. Interconnection obligations represent an obligation with respect to interconnection services for our Ontelaunee facility. This agreement expires in 2027. Our obligation under this agreement is approximately $1 million per year through the term of the contract.

Construction Service Agreements. Construction service agreements represent obligations with respect to long-term plant maintenance agreements. Our obligation under these agreements is approximately $314 million.

Pension Funding Obligations. Amounts include estimated defined benefit pension funding obligations for 2011—$12 million, 2012—$23 million and 2013—$18 million. Although we expect to continue to incur funding obligations subsequent to 2013, we cannot confidently estimate the amount of such obligations at this time and, therefore, have not included them in the table above. Please read Note 24—Employee Compensation, Savings and Pension Plans—Pension and Other Post-Retirement Benefits—Obligations and Funded Status for further discussion.

Other Obligations. Other obligations primarily include the following items:

Demolition and restoration obligation associated with our South Bay facility of $40 million;

Payments associated with a capacity contract between Independence and Con Edison. The aggregate payments through the 2014 expiration are approximately $8 million as of December 31, 2010;

Reserve of $5 million for expenses payable to Icahn associated with the termination of the Icahn Merger Agreement;

Reserves of $5 million recorded in connection with uncertain tax positions. Please read Note 20—Income Taxes—Unrecognized Tax Benefits for further discussion; and

Severance reserves of $15 million accrued in connection with a reduction in workforce and the closure of certain power generation facilities. Of this amount, $12 million of expense was recorded in 2010. Please read Note 7—Impairment and Restructuring Charges—Restructuring Charges for further discussion.

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Contingent Financial Obligations

The following table provides a summary of our contingent financial obligations as of December 31, 2010 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)	$375	$375	$—	$—	$—
Breakup Fees (2)	27	27	—	—	—
Surety bonds (3)	5	5	—	—	—
Guarantees	2	1	1	—	—
Total financial commitments	$409	$408	$1	$—	$—

(1) Amounts include outstanding letters of credit.

(2) The Breakup Fees represent contractual obligations to pay $16 million to The Blackstone Group and $11 million to Icahn under certain circumstances. Please read Note 22—Commitments and Contingencies for further discussion.

(3) Surety bonds are generally on a rolling 12-month basis. The $5 million of surety bonds are primarily supported by collateral.

Off-Balance Sheet Arrangements

DNE Leveraged Lease. In May 2001, we entered into an asset-backed sale-leaseback transaction to provide us with long-term financing for our acquisition of certain power generating facilities. In this transaction, which was structured as a sale-leaseback to minimize our operating cost of the facilities on an after-tax basis and to transfer ownership to the purchaser, we sold four of the six generating units comprising the facilities to Danskammer OL LLC and Roseton OL LLC, each of which was newly formed by an unrelated third party investor, for approximately $920 million and we concurrently agreed to lease them back from these entities, which we refer to as the owner lessors. The owner lessors used $138 million in equity funding from the unrelated third party investor to fund a portion of the purchase of the respective facilities. The remaining $800 million of the purchase price and the related transaction expenses were derived from proceeds obtained in a private offering of pass-through trust certificates issued by two of our subsidiaries, Dynegy Danskammer, L.L.C. and Dynegy Roseton, L.L.C., which serve as lessees of the applicable facilities. The pass-through trust certificate structure was employed, as it has been in similar financings historically executed in the airline and energy industries, to optimize the cost of financing the assets and to facilitate a capital markets offering of sufficient size to enable the purchase of the lessor notes from the owner lessors. The pass-through trust certificates were sold to qualified institutional buyers in a private offering and the proceeds were used to purchase debt instruments, referred to as lessor notes, from the owner lessors. The pass-through trust certificates and the lessor notes are held by pass-through trusts for the benefit of the certificate holders. The lease payments on the facilities support the principal and interest payments on the pass-through trust certificates, which are ultimately secured by a mortgage on the underlying facilities.

As of December 31, 2010, future lease payments are $112 million for 2011, $179 million for 2012, $142 million for 2013, $143 million for 2014, $143 million for 2015 and $105 million in the aggregate due from 2016 through lease expiration. The Roseton lease expires on February 8, 2035 and the Danskammer lease expires on May 8, 2031. We have no option to purchase the leased facilities at the end of their respective lease terms. DHI has guaranteed the lessees' payment and performance obligations under their respective leases on a senior unsecured basis. At December 31, 2010, the present value (discounted at 10 percent) of future lease payments was $590 million.

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The following table sets forth our lease expenses and lease payments relating to these facilities for the periods presented:

	2010	2009	2008
		(in millions)	
Lease Expense	$ 50	$ 50	$ 50
Lease Payments (Cash Flows)	$ 95	$ 141	$ 144

If one or more of the leases were to be terminated because of an event of loss, because it had become illegal for the applicable lessee to comply with the lease or because a change in law had made the facility economically or technologically obsolete, DHI would be required to make a termination payment in an amount sufficient to compensate the lessor for termination of the lease, including redeeming the pass-through trust certificates related to the unit or facility for which the lease was terminated at par plus accrued and unpaid interest. As of December 31, 2010, the termination payment at par would be approximately $816 million for all of the leased facilities. If a termination of this type were to occur with respect to all of the leased facilities, it would be difficult for DHI to raise sufficient funds to make this termination payment. Alternatively, if one or more of the leases were to be terminated because we determine, for reasons other than as a result of a change in law, that it has become economically or technologically obsolete or that it is no longer useful to our business, DHI must redeem the related pass-through trust certificates at par plus a make-whole premium in an amount equal to the discounted present value of the principal and interest payments still owing on the certificates being redeemed less the unpaid principal amount of such certificates at the time of redemption. For this purpose, the discounted present value would be calculated using a discount rate equal to the yield-to-maturity on the most comparable U.S. Treasury security plus 50 basis points. At December 31, 2010, we estimate that the make-whole premium for the remaining pass through certificates would be approximately $109 million.

Commitments and Contingencies

Please read Note 22—Commitments and Contingencies, which is incorporated herein by reference, for further discussion of our material commitments and contingencies.

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RESULTS OF OPERATIONS

Overview and Discussion of Comparability of Results. In this section, we discuss our results of operations, both on a consolidated basis and, where appropriate, by segment, for the years ended December 31, 2010, 2009 and 2008. At the end of this section, we have included our business outlook for each segment.

We report results of our power generation business as three separate geographical segments as follows: (i) GEN-MW, (ii) GEN-WE and (iii) GEN-NE. Because of the diversity among their respective operations and how we allocate our resources, we report the results of each business as a separate segment in our consolidated financial statements. Our consolidated financial results also reflect corporate-level expenses such as general and administrative, interest and depreciation and amortization.

Summary Financial Information-Dynegy. The following tables provide summary financial data regarding Dynegy's consolidated and segmented results of operations for 2010, 2009 and 2008, respectively.

Dynegy's Results of Operations for the Year Ended December 31, 2010

	Power Generation				
	GEN-MW	GEN-WE	GEN-NE	Other	Total
	(in millions)				
Revenues	$1,126	$455	$742	$—	$2,323
Cost of sales	(516)	(179)	(486)	—	(1,181)
Operating and maintenance expense, exclusive of depreciation and amortization expense shown separately below	(202)	(91)	(155)	(2)	(450)
Depreciation and amortization expense	(296)	(66)	(24)	(6)	(392)
Impairment and other charges	(4)	(1)	(137)	(6)	(148)
General and administrative expense	—	—	—	(163)	(163)
Operating income (loss)	$108	$118	$(60)	$(177)	$(11)
Losses from unconsolidated investments	(62)	—	—	—	(62)
Other items, net	1	—	1	2	4
Interest expense					(363)
Loss from continuing operations before income taxes					(432)
Income tax benefit					197
Loss from continuing operations					(235)
Income from discontinued operations, net of taxes					1
Net loss and net loss attributable to Dynegy Inc.					$(234)

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Dynegy's Results of Operations for the Year Ended December 31, 2009

	Power Generation GEN-MW	GEN-WE	GEN-NE	Other	Total
	(in millions)				
Revenues	$ 1,257	$ 380	$ 834	$ (3)	$ 2,468
Cost of sales	(505)	(156)	(534)	1	(1,194)
Operating and maintenance expense, exclusive of depreciation and amortization expense shown separately below	(222)	(120)	(181)	4	(519)
Depreciation and amortization expense	(215)	(62)	(47)	(11)	(335)
Goodwill impairments	(76)	(260)	(97)	—	(433)
Impairment and other charges, exclusive of goodwill impairments shown separately above	(147)	—	(391)	—	(538)
Loss on sale of assets	(96)	—	(28)	—	(124)
General and administrative expense	—	—	—	(159)	(159)
Operating loss	$ (4)	$ (218)	$ (444)	$ (168)	$ (834)
Earnings (losses) from unconsolidated investments	—	(72)	—	1	(71)
Other items, net	2	3	1	5	11
Interest expense and debt extinguishment costs					(461)
Loss from continuing operations before income taxes					(1,355)
Income tax benefit					315
Loss from continuing operations					(1,040)
Loss from discontinued operations, net of taxes					(222)
Net loss					(1,262)
Less: Net loss attributable to the noncontrolling interests					(15)
Net loss attributable to Dynegy Inc.					$ (1,247)

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Dynegy's Results of Operations for the Year Ended December 31, 2008

	Power Generation GEN-MW	GEN-WE	GEN-NE	Other	Total
	(in millions)				
Revenues	$1,621	$702	$1,006	$(5)	$3,324
Cost of sales	(583)	(415)	(705)	10	(1,693)
Operating and maintenance expense, exclusive of depreciation and amortization expense shown separately below	(203)	(98)	(180)	15	(466)
Depreciation and amortization expense	(205)	(77)	(54)	(10)	(346)
Gain on sale of assets	56	11	—	15	82
General and administrative expense	—	—	—	(157)	(157)
Operating income (loss)	$686	$123	$67	$(132)	$744
Losses from unconsolidated investments	—	(40)	—	(83)	(123)
Other items, net	—	5	6	73	84
Interest expense					(427)
Income from continuing operations before income taxes					278
Income tax expense					(90)
Income from continuing operations					188
Loss from discontinued operations, net of taxes					(17)
Net income					171
Less: Net loss attributable to the noncontrolling interests					(3)
Net income attributable to Dynegy Inc.					$174

EBITDA and Adjusted EBITDA-Dynegy. We define EBITDA as earnings (loss) before interest expense, income tax expense (benefit), and depreciation and amortization expense. We define Adjusted EBITDA as EBITDA adjusted for certain items described below and presented in the accompanying reconciliation. Adjusted EBITDA is not a measure calculated in accordance with GAAP (a non-GAAP measure), and should be viewed as a supplement to and not a substitute for our results of operations presented in accordance with GAAP. Our Credit Facility includes a similar measure as a basis for certain financial covenants.

We believe that Adjusted EBITDA provides a meaningful representation of our operating performance. Adjusted EBITDA is meant to reflect the true operating performance of our power generation fleet; consequently, it excludes the impact of mark-to-market accounting and other items that could be considered "non-operating" or "non-core" in nature, and includes the contributions of those plants classified as discontinued operations. Because Adjusted EBITDA is a financial measure that management uses to allocate resources, determine Dynegy's ability to fund capital expenditures, assess performance against its peers and evaluate overall financial performance, we believe it provides useful information for our investors. In addition, many analysts, fund managers and other stakeholders that communicate with us typically request our financial results in an Adjusted EBITDA format.

We believe that Adjusted EBITDA is only useful as an additional tool to help management and investors make informed decisions about Dynegy's financial and operating performance. By definition, non-GAAP measures do not give a full understanding of Dynegy; therefore, to be truly valuable, they must be used in conjunction with the GAAP measures. Non-GAAP financial measures are not standardized; therefore, it may not be possible to compare Adjusted EBITDA with other companies' financial measures having the same or similar names. We strongly encourage investors to review our consolidated financial statements and publicly filed reports in their entirety and not rely on any single financial measure.

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We use these non-GAAP financial measures in addition to, and in conjunction with, results presented in accordance with GAAP. These non-GAAP financial measures reflect an additional way of viewing aspects of our business that, when viewed with our GAAP results and the accompanying reconciliations to corresponding GAAP financial measures included in our results of operations, may provide a more complete understanding of factors and trends affecting our business. These non-GAAP financial measures should not be relied upon to the exclusion of GAAP financial measures and are by definition an incomplete understanding of Dynegy, and must be considered in conjunction with GAAP measures.

In summary, our management uses Adjusted EBITDA as a measure of operating performance to assist in comparing performance from period to period on a consistent basis and to readily view operating trends, as a measure for planning and forecasting overall expectations and for evaluating actual results against such expectations, and in communications with Dynegy's Board of Directors, stockholders, creditors, analysts and investors concerning our financial performance.

When Adjusted EBITDA is discussed in reference to performance on a consolidated basis, the most directly comparable GAAP financial measure to Adjusted EBITDA is net income (loss) attributable to Dynegy. Further, because management does not allocate interest expense and income taxes on a segment level, the most directly comparable GAAP financial measure to Adjusted EBITDA when performance is discussed on a segment level or plant level is Operating income (loss).

The tables below provide a reconciliation of Adjusted EBITDA to our income (loss) from operations on a segment basis and to net income attributable to Dynegy on a consolidated basis for years ended December 31, 2010, 2009 and 2008, respectively.

Dynegy's Adjusted EBITDA for the Year Ended December 31, 2010

	Power Generation GEN-MW (in millions)	GEN-WE	GEN-NE	Other	Total
Net loss and net loss attributable to Dynegy Inc.					$(234)
Income tax benefit					(197)
Interest expense					363
Losses from unconsolidated investments					62
Income from discontinued operations, net of taxes					(1)
Other items, net					(4)
Operating income (loss)	$108	$118	$(60)	$(177)	$(11)
Depreciation and amortization expense	296	66	24	6	392
Losses from unconsolidated investments	(62)	—	—	—	(62)
Other items, net	1	—	1	2	4
EBITDA from continuing operations	343	184	(35)	(169)	323
EBITDA from discontinued operations	—	1	—	—	1
EBITDA	343	185	(35)	(169)	324
Impairments	37	—	136	—	173
Loss on sale of PPEA Holding	28	—	—	—	28
Merger Agreement transaction costs	—	—	—	26	26
Restructuring charges	4	1	1	6	12
Plum Point mark-to-market gains	(6)	—	—	—	(6)

Mark-to-market gains, net	12	(33)	3	—	(18)
Adjusted EBITDA	$418	$153	$105	$(137)	$539

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Dynegy's Adjusted EBITDA for the Year Ended December 31, 2009

	Power Generation GEN-MW	GEN-WE	GEN-NE	Other	Total
	(in millions)				
Net loss attributable to Dynegy Inc.					$(1,247)
Income tax benefit					(315)
Interest expense					461
Losses from unconsolidated investments					71
Loss from discontinued operations, net of taxes					222
Net loss attributable to noncontrolling interests					(15)
Other items, net					(11)
Operating loss	$(4)	$(218)	$(444)	$(168)	$(834)
Other items	2	3	1	5	11
Depreciation and amortization expense	215	62	47	11	335
Earnings (losses) from unconsolidated investments	—	(72)	—	1	(71)
Net loss attributable to noncontrolling interests	15	—	—	—	15
EBITDA from continuing operations	228	(225)	(396)	(151)	(544)
EBITDA from discontinued operations	(46)	(282)	—	—	(328)
EBITDA	182	(507)	(396)	(151)	(872)
Goodwill impairments	76	260	97	—	433
Impairments and other charges (1)	170	235	391	—	796
Loss on LS Power Transactions	118	82	28	—	228
Gain on sale of Heard County (2)	—	(10)	—	—	(10)
Loss on sale of Sandy Creek	—	84	—	—	84
Sandy Creek mark-to-market gains	—	(21)	—	—	(21)
Mark-to-market losses, net	112	58	10	—	180
Net loss attributable to noncontrolling interests	(15)	—	—	—	(15)
Adjusted EBITDA	$643	$181	$130	$(151)	$803

(1) Includes $235 million and $23 million of impairment charges related to our Arizona and Bluegrass power generation facilities, respectively, which are included in discontinued operations.

(2) Included in discontinued operations.

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Dynegy's Adjusted EBITDA for the Year Ended December 31, 2008

	Power Generation GEN-MW	GEN-WE	GEN-NE	Other	Total
	(in millions)				
Net income attributable to Dynegy Inc.					$174
Income tax expense					90
Interest expense					427
Losses from unconsolidated investments					123
Loss from discontinued operations, net of taxes					17
Net loss attributable to noncontrolling interests					(3)
Other items, net					(84)
Operating income (loss)	$686	$123	$67	$(132)	$744
Depreciation and amortization expense	205	77	54	10	346
Losses from unconsolidated investments	—	(40)	—	(83)	(123)
Other items	—	5	6	73	84
Net loss attributable to noncontrolling interests	3	—	—	—	3
EBITDA from continuing operations	894	165	127	(132)	1,054
EBITDA from discontinued operations	(1)	(9)	—	4	(6)
EBITDA	893	156	127	(128)	1,048
Gain on sale of Rolling Hills	(56)	—	—	—	(56)
Impairment of equity investment	—	—	—	24	24
Loss on dissolution of equity investment	—	—	—	47	47
Asset impairments	—	47	—	—	47
Sandy Creek mark-to-market losses	—	40	—	—	40
Gain on liquidation of foreign entity	—	—	—	(24)	(24)
Release of state franchise tax and sales tax liabilities	—	—	—	(16)	(16)
Gain on sale of NYMEX shares	—	—	—	(15)	(15)
Gain on sale of Sandy Creek ownership interest	—	(13)	—	—	(13)
Gain on sale of Oyster Creek ownership interest	—	(11)	—	—	(11)
Mark-to-market gains, net	(191)	(51)	(11)	—	(253)
Adjusted EBITDA	$646	$168	$116	$(112)	$818

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Summary Financial Information-DHI. The following tables provide summary financial data regarding DHI's consolidated and segmented results of operations for 2010, 2009 and 2008, respectively.

DHI's Results of Operations for the Year Ended December 31, 2010