DYNEGY ILLINOIS INC.
Form 10-K/A
April 30, 2007
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K/A

Amendment No. 1

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2006

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to

Commission file number: 1-15659

DYNEGY ILLINOIS INC.

(formerly named Dynegy Inc.)

(Exact name of registrant as specified in its charter)

Illinois	**74-2928353**
(State or other jurisdiction of	**(I.R.S. Employer**
incorporation or organization)	**Identification No.)**

1000 Louisiana, Suite 5800

Houston, Texas 77002

(Address of principal executive offices)

(713) 507-6400

(Registrant s telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Class A common stock, no par value	**New York Stock Exchange**

Securities registered pursuant to Section 12(g) of the Act:

Title of each class
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No ¨

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. Yes ¨ 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 the filing requirements for the past 90 days. Yes x No ¨

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. x

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

Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

As of June 30, 2006, the aggregate market value of the registrant s common stock held by non-affiliates of the registrant was $2,187,357,631 based on the closing sale price as reported on the New York Stock Exchange.

Number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date: Class A common stock, no par value per share, 401,210,616 shares outstanding as of February 22, 2007; Class B common stock, no par value per share, 96,891,014 shares outstanding as of February 22, 2007.

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DYNEGY ILLINOIS INC.

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INTRODUCTORY NOTE

Dynegy Illinois Inc. is filing this Amendment No. 1 on Form 10-K/A, or Amendment No. 1, to include in our Annual Report on Form 10-K for the year ended December 31, 2006 filed with the Securities and Exchange Commission, or the SEC, on February 27, 2007, or the Original Filing, the items required by Part III and the officer certifications associated with same. The following items of the Original Filing are amended by this Amendment No. 1:

Item 10. Directors, Executive Officers and Corporate Governance

Item 11. Executive Compensation

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Item 13. Certain Relationships and Related Transactions and Director Independence

Item 14. Principal Accounting Fees and Services

Item 15. Exhibits, Financial Statement Schedules

Except for the addition of the Part III information and the filing of related certifications, no other changes have been made to the Original Filing. This Amendment No. 1 does not reflect events occurring after the date of the Original Filing or modify or update those disclosures affected by subsequent events.

EXPLANATORY NOTE

In connection with the completion of the transactions described in this Amendment No. 1 under Item 13. Certain Relationships and Related Transactions and Director Independence Transactions with Related Persons, Promoters and Certain Control Persons The LS Power Merger, on April 2, 2007, Dynegy Inc., an Illinois corporation, changed its named to Dynegy Illinois Inc. and became a wholly owned subsidiary and the predecessor registrant of Dynegy Acquisition Inc., a Delaware corporation which changed its name to Dynegy Inc. As a result, Dynegy Illinois Inc. filed a Form 15 with the SEC and will no longer be subject to reporting requirements of the Securities Exchange Act of 1934, as amended, or the Exchange Act, will not hold a 2007 annual meeting of shareholders and will not file a proxy statement with the SEC from which to incorporate by reference the Part III information included in this Amendment No. 1. Dynegy Inc., as the successor registrant to Dynegy Illinois Inc., will hold a 2007 annual meeting of stockholders, will file a proxy statement with the SEC and will be subject to the reporting requirements of the Exchange Act. Unless otherwise indicated, references to Dynegy, we, our, and us refers to Dynegy Illinois Inc. and, after April 2, 2007, t Dynegy Inc.

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PART III

Item 10. ***Directors, Executive Officers and Corporate Governance***

DIRECTORS

The following table sets forth information regarding the names, ages and principal occupations of the members of our Board of Directors, or the Board, other directorships held by them in public companies and the length of their service as a director of Dynegy Illinois Inc., or Dynegy.

Director	Principal Occupation and Directorships	Age as of March 31, 2007	Director Since
Class A Common Stock Directors			
Bruce A. Williamson	Chairman and CEO of Dynegy; Director of Questar Corporation	47	2002
David W. Biegler	Chairman of Estrella Energy, L.P.; Director of Trinity Industries, Inc., Southwest Airlines Co., Austin Industries, Inc. and Animal Health International, Inc.	60	2003
Thomas D. Clark, Jr.	President of Strategy Associates; Director of Endeavour International	66	2003
Victor E. Grijalva	Former Vice Chairman of Schlumberger Ltd., Former Chairman of Hanover Compressor Company and Former Chairman of Transocean, Inc.; Director of Hanover Compressor Company and Transocean, Inc.	68	2006
Patricia A. Hammick	Former Senior Vice President, Strategy and Communications of Columbia Energy Group; Director of Consol Energy, Inc. and SNC-Lavalin Group Inc.	60	2003
George L. Mazanec	Retired Advisor to the Chief Operating Officer of Duke Energy Corporation and Former Vice Chairman of PanEnergy Corporation; Director of National Fuel Gas Company, TexasBank and AEGIS Insurance Services, Inc.	70	2004
Robert C. Oelkers	Retired Vice President and Comptroller of Texaco Inc.	62	2002
William L. Trubeck	Executive Vice President and Chief Financial Officer of H&R Block, Inc.; Director of YRC Worldwide and Ceridian Corporation	60	2003

Director	Principal Occupation and Directorships	Age as of March 31, 2007	Director Since
Class B Common Stock Directors			
Mikhail Segal	Chairman and Chief Executive Officer of the LS Power Group	56	2007
Frank E. Hardenbergh	Vice Chairman of the LS Power Group	63	2007
James T. Bartlett	President of LS Power Equity Advisors, L.P.	39	2007

Set forth below is additional biographical information with respect to our directors.

Bruce A. Williamson has served as Chief Executive Officer, or CEO, and as a director of Dynegy since October 2002 and as Chairman of the Board of Dynegy since May 2004. Prior to joining Dynegy, Mr. Williamson served in various capacities with Duke Energy and its affiliates, most recently serving as President and Chief Executive Officer of Duke Energy Global Markets. In this capacity, he was responsible for all Duke Energy business units with global commodities and international business positions. Mr. Williamson joined PanEnergy Corporation in June 1995, which then merged with Duke Power in June 1997. Prior to the Duke-PanEnergy merger, he served as PanEnergy s Vice President of Finance. Before joining PanEnergy, he held positions of increasing responsibility at Shell Oil Company, advancing over a 14-year period to Assistant Treasurer. He currently serves as a director of Questar Corporation.

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David W. Biegler was elected to the Board in April 2003. He has served as Chairman of Estrella Energy, L.P., which was formed to engage in the acquisition, construction and management of natural gas industry assets, since August 2003. Mr. Biegler retired at the end of 2001 as Vice Chairman of TXU Corporation, when it engaged in power generation and energy marketing and provided electric and natural gas utility services and other energy-related services. He also served as President and Chief Operating Officer of TXU Corporation from 1997 to December 2001. From 1993 to 1997, he served as Chairman, President and Chief Executive Officer of ENSERCH Corp. He currently serves as a director of Trinity Industries, Inc., Southwest Airlines Co., Austin Industries, Inc. and Animal Health International, Inc.

Thomas D. Clark, Jr. was elected to the Board in July 2003. Since 2006, Mr. Clark has been the President of Strategy Associates, a consulting firm specializing in strategy development, strategic planning assistance, corporate governance policy and corporate analysis. Mr. Clark previously served as Dean of the E.J. Ourso College of Business Administration and Ourso Distinguished Professor of Business from 1995 to 2003, and served as the Edward G. Schlieder Distinguished Chair of Information Science and Director of the DECIDE Board Room at Louisiana State University from 2003 to 2006. Prior to these positions, he was Chairman of Information and Management Sciences at Florida State University and Director of the Information Systems Research Center from 1984 to 1995. He was the Gage Crocker Outstanding Professor at the Air Force Institute of Technology where he served in the School of Engineering from 1977 to 1984. Mr. Clark is also a director of Endeavour International (AMEX) and serves on the boards of several community organizations and two privately-held companies.

Victor E. Grijalva was elected to the Board in May 2006. He has served as a director of Hanover Compressor Company since 2002 and formerly served as Chairman of Hanover s Board from 2002 to 2005. From August 2 to August 19, 2002, Mr. Grijalva served as interim President and Chief Executive Officer of Hanover. Mr. Grijalva is the retired Vice Chairman of Schlumberger Limited, a supplier of technology, project management and information solutions to the oil and gas industry. Before serving as Vice Chairman, he served as Executive Vice President of Schlumberger s Oilfield Services division from 1994 to January 1999 and as Executive Vice President of Schlumberger s Wireline, Testing and Anadrill division from 1992 to 1994. He retired from Schlumberger in December 2001. Mr. Grijalva is also a director of Transocean, Inc., where he served as Chairman of the Board from 1999 to 2002.

Patricia A. Hammick was elected to the Board in April 2003 and was appointed Lead Director in May 2004. She was an adjunct professor at George Washington University from 2002 to 2003. Ms. Hammick served as Senior Vice President, Strategy and Communications and a member of the management committee of Columbia Energy Group from 1998 through 2000 and was Vice President, Corporate Strategic Planning, for Columbia Energy Group from 1997 through 1998. From 1983 to 1996, she served as the Chief Operations Officer for the National Gas Supply Association in Washington, D.C., and held a management position with Gulf Oil Exploration and Production Company from 1979 through 1983. Prior to 1979, Ms. Hammick worked for the American Petroleum Institute, the Center for Naval Analysis and the Naval Weapons Center. She currently serves as a director of Consol Energy, Inc. and SNC-Lavalin Group, Inc.

George L. Mazanec was elected to the Board in May 2004. He has served as a member of the board of directors of National Fuel Gas Company, a diversified energy company, since October 1996. Mr. Mazanec was Advisor to the Chief Operating Officer of Duke Energy Corporation from August 1997 to 2000, and Vice Chairman of PanEnergy Corporation from 1989 until October 1996. Mr. Mazanec is the former Chairman of the Management Committee of Maritimes & Northeast Pipeline, L.L.C. and currently serves as a director of the TexasBank (advisory committee), National Fuel Gas Company and AEGIS Insurance Services, Inc. He has also served as a Member of the Board of Trustees of DePauw University since 1996.

Robert C. Oelkers was elected to the Board in August 2002. He served as President of Texaco International Trader Inc. from April 1999 until his retirement in October 2001. Mr. Oelkers served as Vice President and Comptroller of Texaco Inc. from April 1994 until March 1999. Mr. Oelkers was employed by Texaco Inc. from 1966 until his retirement. Mr. Oelkers also served as a member of the Financial Accounting Standards Board s Advisory Committee from 1997 through 2000.

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William L. Trubeck was elected to the Board in April 2003. He has served as Executive Vice President and Chief Financial Officer of H&R Block, Inc. since October 2004. He previously served Waste Management as Executive Vice President of its Western Group from April 2003 until July 2004, Executive Vice President, Operations Support, and Chief Administrative Officer from May 2002 until April 2003 and Executive Vice President and Chief Financial Officer from March 2001 until April 2002. He was Senior Vice President Finance and Chief Financial Officer of International Multifoods, Inc. from March 1997 until March 2000, and President, Latin American Operations of International Multifoods, Inc. from May 1998 until March 2000. He has served as a director of YRC Worldwide since 1994 and as Chairman of its audit committee since April 2002. He also currently serves as a director for Ceridian Corporation.

Mikhail Segal was appointed to the Board in April 2007 following the completion of the transactions described under Item 13. Certain Relationships and Related Transactions and Director Independence Transactions With Related Persons, Promoters and Certain Control Persons The LS Power Merger. Mr. Segal has served as Chairman and Chief Executive Officer of the LS Power Group since 1990. Mr. Segal has over 32 years of experience in the power industry. Prior to co-founding the LS Power Group, Mr. Segal served as co-head of Commercial Union Energy Corporation, where he was responsible for managing the Commercial Union Energy Limited Partnership, a partnership focused on investing in power generation projects. Mr. Segal was previously President of The Energy Systems Company, a private developer of cogeneration projects, and held various positions, including General Manager of Power Generation and Systems Planning, with LEMCO Engineers, Inc., or LEMCO, an electrical engineering and consulting firm. Prior to LEMCO, Mr. Segal worked for the Department of Energy in the former Soviet Union.

Frank E. Hardenbergh was appointed to the Board in April 2007 following the completion of the transactions described under Item 13. Certain Relationships and Related Transactions and Director Independence Transactions With Related Persons, Promoters and Certain Control Persons The LS Power Merger. Mr. Hardenbergh, Vice Chairman of the LS Power Group, joined the LS Power Group in 1993 and has over 20 years of experience in the power industry. From January 2001 to May 2005, he served as Executive Vice President and Chief Operating Officer of the LS Power Group. He has served as Vice Chairman of the LS Power Group since May 2005. Prior to joining the LS Power Group, Mr. Hardenbergh served as Senior Vice President, General Counsel and member of the Management Committee of the Commercial Union Capital Group, a private boutique merchant bank that included Commercial Union Energy Corporation and the Commercial Union Energy Limited Partnership. Mr. Hardenbergh was previously Associate General Counsel of the Commercial Union Insurance Companies, the parent company to Commercial Union Capital Group. Prior to joining the Commercial Union Insurance Companies, Mr. Hardenbergh was an Associate with Peabody & Arnold LLP.

James T. Bartlett was appointed to the Board in April 2007 following the completion of the transactions described under Item 13. Certain Relationships and Related Transactions and Director Independence Transactions With Related Persons, Promoters and Certain Control Persons The LS Power Merger. He has served as President of LS Power Equity Advisors, L.P., since 2005 and has 17 years of experience in the power industry. Prior to joining the LS Power Group in March 2005, Mr. Bartlett held various positions in the Energy Investment Banking Group at Credit Suisse, where he focused on M&A and financing transactions in the power generation sector. Mr. Bartlett joined Credit Suisse in 1992 and was named Managing Director in 2001. Previously, Mr. Bartlett was an Associate at Kendall Capital Partners and an Analyst at Drexel Burnham Lambert.

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EXECUTIVE OFFICERS

The following tables sets forth the name and positions of our executive officers as of March 31, 2007, together with their ages and years of service with us.

Executive Officer	Position	Age as of March 31, 2007	Served with Dynegy Since
Bruce A. Williamson	Chairman and CEO	47	2002
Stephen A. Furbacher	President and COO	59	1996
Holli C. Nichols	Executive Vice President and CFO	36	2000
J. Kevin Blodgett	General Counsel, Executive Vice President Administration and Secretary	35	2000
Lynn A. Lednicky	Executive Vice President Commercial and Development	46	1991
Jason Hochberg	Executive Vice President Strategic Planning and Corporate Business Development	35	2007

The executive officers named above will serve in such capacities until the next annual meeting of the Board of Directors of Dynegy Inc., our successor registrant, or until their respective successors have been duly elected and have been qualified, or until their earlier death, resignation, disqualification or removal from office.

Set forth below is additional biographical information with respect to our executive officers.

Bruce A. Williamson has served as CEO and as a director of Dynegy since October 2002 and as Chairman of Dynegy since May 2004. Prior to joining Dynegy, Mr. Williamson served in various capacities with Duke Energy and its affiliates, most recently serving as President and Chief Executive Officer of Duke Energy Global Markets. In this capacity, he was responsible for all Duke Energy business units with global commodities and international business positions. Mr. Williamson joined PanEnergy Corporation in June 1995, which then merged with Duke Power in June 1997. Prior to the Duke-PanEnergy merger, he served as PanEnergy s Vice President of Finance. Before joining PanEnergy, he held positions of increasing responsibility at Shell Oil Company, advancing over a 14-year period to Assistant Treasurer. He currently serves as a director of Questar Corporation.

Stephen A. Furbacher has served as President and Chief Operating Officer of Dynegy since August 2005 and as Executive Vice President of Dynegy s previously owned natural gas liquids business segment from September 1996 to August 2005. Mr. Furbacher is responsible for overseeing Dynegy s power generation business and, until October 31, 2005, was responsible for overseeing Dynegy s midstream operations. He joined in May 1996, just prior to Dynegy s acquisition of Chevron s midstream business. Before joining Dynegy, he served as President of Warren Petroleum Company, the natural gas liquids division of Chevron U.S.A. He began his career with Chevron in August 1973 and served in positions of increasing responsibility before being named President of Warren Petroleum Company in July 1994.

Holli C. Nichols has served as Executive Vice President and Chief Financial Officer of Dynegy since November 2005. Ms. Nichols is responsible for financial affairs, including finance and accounting, treasury, risk management, internal audit and investor and credit agency relationships. Ms. Nichols previously served as Senior Vice President and Treasurer since May 2004, as Dynegy s Senior Vice President and Controller from June 2003 to May 2004 and as Vice President, Assistant Corporate Controller and Senior Consultant from May 2000 to June 2003. Ms. Nichols joined Dynegy from PricewaterhouseCoopers LLP in May 2000.

J. Kevin Blodgett has served as General Counsel and Executive Vice President Administration of Dynegy since November 2005 and as Secretary of Dynegy since March 2006. Mr. Blodgett is responsible for legal and administrative affairs, including legal and regulatory services supporting Dynegy s operational, commercial and corporate areas, as well as ethics and compliance, human resources, information technology, building services, real estate and procurement management. Mr. Blodgett previously served as Senior Vice President, Human Resources from August 2004 to November 2005, as Group General Counsel Corporate Finance & Securities and Corporate Secretary from May 2003 to August 2004 and as Assistant General Counsel, Senior Corporate Counsel and Corporate Counsel from October 2000 to May 2003. Mr. Blodgett joined Dynegy from Baker Botts LLP in October 2000.

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Lynn A. Lednicky has served as Executive Vice President Commercial and Development since January 2007. Mr. Lednicky is responsible for commercializing Dynegy s asset base and overseeing Dynegy s development projects within the power generation business. Mr. Lednicky previously served as Executive Vice President of Strategic Planning and Corporate Business Development from November 2005 to January 2007, Senior Vice President of Strategic Planning and Corporate Business Development from July 2003 to November 2005 and Senior Vice President of Power Origination from December 2000 to July 2003. Mr. Lednicky joined Dynegy s predecessor Destec Energy, Inc. in July 1991.

Jason Hochberg has served as Executive Vice President Strategic Planning and Corporate Business Development since April 2007. Before joining Dynegy, Mr. Hochberg served as President of LS Power Development, LLC since 2005. From 2003 to 2005, Mr. Hochberg was head of the LS Power Group s asset management business, which provided management services to the LS Power Group-owned projects. Mr. Hochberg was General Counsel of the LS Power Group from 2001 to 2003, and was in-house legal counsel for the LS Power Group from 1999 until he was named General Counsel. Prior to joining the LS Power Group, Mr. Hochberg was an associate at Latham & Watkins LLP.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934, as amended, or the Exchange Act, requires our executive officers, directors and persons who own more than 10% of a registered class of our equity securities to file reports of ownership and changes in ownership with the SEC and the New York Stock Exchange, or the NYSE. Executive officers, directors and greater-than-10% stockholders are required by SEC regulations to furnish us with copies of all Section 16(a) forms they file.

Based solely upon a review of the copies of such forms furnished to us in 2006 and upon written representations that no Forms 5 were required, we believe that all persons subject to these reporting requirements filed the required reports on a timely basis.

Code of Ethics for Senior Financial Professionals

Our Code of Ethics for Senior Financial Professionals, or our Code of Ethics, applies to our CEO, chief financial officer, or CFO, Controller and other designated senior financial professionals. The key principles of this Code include acting legally and ethically, promoting honest business conduct and providing timely and meaningful financial disclosures to our stockholders.

The full text of our Code of Ethics is posted in the Corporate Governance section of our web site at www.dynegy.com and is attached as an exhibit to the Original Filing. We intend to post amendments to and waivers of our Code of Ethics (to the extent applicable to our principal executive officer, our principal financial officer and our principal accounting officer) to our website.

Audit and Compliance Committee

The Audit and Compliance Committee currently is comprised of Messrs. Trubeck (Chairman), Grijalva, Mazanec and Oelkers. Each member of the Audit and Compliance Committee is independent as defined in the NYSE Listed Company Standards. The Audit and Compliance Committee assists the Board in its oversight of the integrity of our financial statements, our compliance with legal and regulatory requirements and our Code of Business Conduct and Ethics, our independent auditors qualifications and independence, the performance of our internal audit function and the independent auditors and the performance of our risk assessment and risk management policies.

The Board has also determined that each member of the Audit and Compliance Committee meets the independence requirements applicable to those committees prescribed by the NYSE and the SEC. The Board has further determined that more than one of the members of the Audit and Compliance Committee, including its current Chairman William L. Trubeck, are audit committee financial experts as such term is defined in Item 407(d) of Regulation S-K promulgated by the SEC.

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Item 11. ***Executive Compensation***

DIRECTOR COMPENSATION

Director Compensation for 2006

The following table sets forth certain information regarding the compensation earned by or awarded to each non-employee Class A common stock director who served on our Board in 2006. Directors who are also employees of Dynegy and the Class B common stock directors are not compensated for their services.

Name	Fees Earned or Paid in Cash	Stock Awards(1)	Option Awards(2)	Non-Equity Incentive Plan Compensation (2)	Change in Pension Value and Nonqualified Deferred Compensation Earnings(3)	All Other Compensation (4)	Total
Charles E. Bayless(5)(6)	$ 33,875	$ 16,500			$ 68,293	$ 10,875	$ 129,543
David W. Biegler	$ 99,313	$ 77,082			$ 96,966	$	$ 273,361
Linda Walker Bynoe(5)(6)	$ 47,750	$ 16,500			$ 55,392	$	$ 119,642
Thomas D. Clark, Jr.	$	$ 77,082			$ 119,203	$ 101,500	$ 297,785
Barry J. Galt(5)	$ 65,750	$			$	$	$ 65,750
Victor E. Grijalva	$ 59,375	$ 44,530			$ 7,093	$	$ 110,998
Patricia A. Hammick(7)	$ 106,200	$ 77,082			$ 114,631	$ 11,800	$ 309,713
George L. Mazanec	$ 98,563	$ 77,082			$ 65,556	$	$ 241,201
Robert C. Oelkers	$ 117,000	$ 77,082			$ 107,112	$	$ 301,194
Joe J. Stewart(5)	$ 73,750	$			$	$	$ 73,750
William L. Trubeck	$ 46,781	$ 77,082			$ 104,046	$ 46,781	$ 274,690

(1) Directors receive annual phantom stock grants pursuant to the Dynegy Inc. Deferred Compensation Plan for Certain Directors. Upon termination of service as a director the shares become payable, at the director s discretion, in cash or Class A common stock. The values shown under Stock Awards reflect the marked to market dollar value of our Class A common stock as of December 31, 2006, calculated in accordance with Statement of Financial Accounting Standards, or FAS, No. 123R, and thus includes amounts from awards granted in and prior to 2006. As of December 31, 2006, each director had the following aggregate number of shares of phantom stock outstanding: Messrs. Biegler and Trubeck and Ms. Hammick 43,370; Mr. Clark 40,394; Mr. Grijalva 6,151; Mr. Mazanec 30,844; and Mr. Oelkers 48,159. The aggregate grant date fair value of all stock awards awarded to each director in 2006 is as follows: Ms. Bynoe and Mr. Bayless $15,000; Mr. Grijalva $37,500; Ms. Hammick and Messrs. Biegler, Clark, Mazanec, Oelkers and Trubeck $60,000; and Messrs. Galt and Stewart did not receive any stock awards in 2006.

(2) No annual stock option grants or non-equity incentive plan compensation payments were made as compensation for director services in 2006 or are contemplated under our current compensation structure. At the end of the 2006, the following directors had the following aggregate number of options to purchase Class A common stock: Messrs. Galt and Oelkers and Ms. Bynoe 6,000; Messrs. Bayless and Stewart 22,000.

(3) The amounts shown in Change in Pension Value and Nonqualified Deferred Compensation Earnings represent dividends/capital gains or unrealized gains/losses on deferrals of fees and stock awards in the Dynegy Inc. Deferred Compensation Plan for Certain Directors, which includes investments in Class A common stock and various investment funds.

(4) The amounts shown as All Other Compensation for Messrs. Bayless, Clark and Trubeck and Ms. Hammick represent a voluntary cash deferral at each director s election into Class A common stock or various investment funds which are payable upon termination in cash.

(5) Messrs. Bayless, Galt and Stewart and Ms. Bynoe retired from the Board after the 2006 annual meeting. The compensation information for each of them included in the table is only for the period during which they served as directors in 2006.

(6) Mr. Bayless and Ms. Bynoe elected to receive lump sum cash payments for their respective shares of phantom stock upon their retirement from the Board in May 2006. As a result of such election, Mr. Bayless received a lump sum of $264,518 for both his mandatory and voluntary deferrals and Ms. Bynoe received a lump sum of $214,566 for her mandatory deferral.

(7) Lead Director.

Non-employee Class A common stock directors receive annual phantom stock grants with an aggregate value of $60,000, increased to $70,000 per year effective April 2, 2007, awarded quarterly in arrears based on the closing price of our Class A common stock on the last trading day of the quarter. Upon termination of one s service as a director, the shares of phantom stock become payable, at the director s election, in a lump sum payment or in monthly, quarterly or annual installment payments following such termination. The shares of phantom stock are payable in cash or in shares of Class A common stock, at the election of the director.

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In addition to the phantom stock grants, the non-employee Class A common stock directors receive the following compensation, which is payable in cash and may be deferred, in whole or in part, in one or more investment options, including phantom stock units, at a particular director s election:

An annual retainer of $50,000 per year;

A fee of $2,000 for each Board meeting attended;

A fee of $1,000 for each committee meeting attended;

An additional annual retainer of $40,000 per year for the Lead Director, decreased to $30,000 per year effective April 2, 2007;

Fees for each committee chairperson per year: Audit and Compliance Committee $30,000, decreased to $20,000 per year effective April 2, 2007; Compensation and Human Resources Committee $15,000, decreased to $10,000 per year effective April 2, 2007; Corporate Governance and Nominating Committee $10,000; Risk, Environment and Operations Committee $10,000 (committee dissolved following the 2006 annual meeting);

An annual retainer of $5,000 and $2,500 per year for members of the Audit and Compliance Committee and the Compensation and Human Resources Committee, respectively; and

Reimbursement for reasonable out-of-pocket expenses incurred in connection with travel to and from, and attendance at, meetings of the Board or its committees and related activities, including director education courses and materials.

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COMPENSATION DISCUSSION AND ANALYSIS

The following discussion should be read together with the compensation tables and disclosures for our Named Executive Officers below under Executive Compensation. The following discussion contains statements regarding future company performance targets and goals. These targets and goals are disclosed in the limited context of our compensation programs and should not be considered as statements of our expectations or estimates of results or other guidance.

Overview

Dynegy s executive compensation program is primarily designed to attract, motivate and retain a highly qualified executive management team capable of efficiently managing and opportunistically growing our power generation business. This program is administered by the Compensation and Human Resources Committee, which utilized Mercer Human Resource Consulting LLC, or Mercer, an independent compensation consultant, to assist it in discharging its responsibilities for the 2006 performance year. In the following discussion and analysis, we describe in detail our executive compensation philosophy and objectives and the 2006 compensation for each individual who served as (i) our CEO during 2006, (ii) our CFO during 2006 and (iii) our three other most highly compensated executive officers at the end of 2006 based on total compensation for 2006, or, collectively, our Named Executive Officers.

Executive Compensation Philosophy

Our executive compensation program reflects a fundamental belief that rewards should be competitive, both in structure and amount, with the broad market in which we compete for executive talent, and commensurate with corporate and individual performance. In 2006, the Compensation and Human Resources Committee utilized Mercer to assist in reviewing and updating, where appropriate, Dynegy s compensation philosophy to ensure alignment with our near-term and long-term business strategy. The resulting Compensation Guiding Principles, which are listed below, serve to formalize and document our compensation philosophy. In addition, these principles provide a foundation on which compensation decisions are made, as well as a common language for communicating those decisions to executives, employees and stockholders.

- Our compensation strategy will support Dynegy s core values and business strategy.
- Our compensation programs should provide reasonable upside earning potential for exceptional performance, while maintaining competitiveness during down cycles in the market.
- Our compensation delivery practices should allow for differential pay levels based on performance.
- Our key compensation elements base pay, short-term incentives and long-term incentives should complement each other.
- Our variable pay programs should be designed as forward-looking incentives with clear line of sight.
- Our long-term incentives should encourage share ownership and a strong link to stockholder interests.
- Our compensation programs will be designed and administered to encourage sustained growth, and help support the notion that sustained growth is attainable even in a cyclical industry.
- Our overall compensation strategy should recognize that attraction and retention of key talent is critical to the attainment of Dynegy s stated goals and objectives and to the creation of stockholder value.

Executive Compensation Program Objectives

Consistent with the stated purpose and the Compensation Guiding Principles listed above, the structure of our compensation program reflects the following key objectives: (i) Pay for Performance; (ii) Market Competitiveness; and (iii) Long-Term Stockholder Value.

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Pay for Performance. It is our belief that the variable components of compensation should not be viewed as entitlements, but rather should be awarded to executives for delivering results relative to pre-determined goals and objectives and for executing on Dynegy s business strategy to create long-term value for our stockholders. To this end, each year the Board approves a comprehensive set of goals and objectives for the coming year. Dynegy s progress, and the Named Executive Officers contributions relative to these goals and objectives, is monitored and discussed on a quarterly basis by the Board and the Compensation and Human Resources Committee. At year-end, executive compensation decisions are made based on the degree to which these goals and objectives have been achieved.

The annual goals and objectives are typically segregated into two categories. The first category comprises a set of core financial metrics used by executive management and the Board in assessing Dynegy s annual performance and communicating that performance to the investment community. For 2006, there were three financial metrics included in this first category: EBITDA(1); Operating Cash Flow, or OCF, and Free Cash Flow, or FCF(2). In early 2006, the Board of Directors approved targets for each of these three measures for 2006. At each subsequent regular meeting in 2006, executive management updated the Board and the Compensation and Human Resources Committee on Dynegy s EBITDA, OCF and FCF performance compared to the original targets. Please read Named Executive Officer Compensation below for a discussion of 2006 compensation and the specific financial targets on which such compensation was based.

The second category of goals and objectives are operational in nature and are developed annually by each of Dynegy s executive officers for his or her respective areas of functional responsibility. These goals and objectives were also defined at the beginning of 2006 and approved by the Board. The Board and the Compensation and Human Resources Committee were updated as to the executive officers performance relative to the approved goals and objectives at regular meetings during 2006 and, at year end, their accomplishments were heavily considered when determining their compensation awards. Please read Named Executive Officer Compensation below for a discussion of 2006 compensation and the functional goals and objectives underlying the applicable compensation decisions.

In addition to the above-described goals and objectives, executive compensation decisions also consider the behavioral attributes of our executive officers. In particular, Dynegy has adopted a set of core values that reflect the key leadership qualities and behavioral attributes that our executive compensation program is designed to foster and reward. These qualities and attributes include, among others: honesty and integrity; individual responsibility and accountability; engagement and development of Dynegy s employees; and doing the right things with an expectation that the right things will happen. In evaluating Dynegy s CEO from this perspective, the Board conducts an annual performance review of the CEO and evaluates his performance based on interaction with him throughout the year. Similarly, the Compensation and Human Resources Committee, which approves the compensation for Dynegy s non-CEO executive officers, consults with the CEO as to his performance review of Dynegy s other executive officers and their achievements relative to Dynegy s core values.

Note:

(1) EBITDA can be reconciled to Net income (loss) in our financial statements using the following calculation: Net income (loss) less Income tax benefit (expense), plus Interest expense and Depreciation and amortization expense.

(2) FCF can be reconciled to OCF, a U.S. generally accepted accounting principles measure, using the following calculation: OCF plus investing cash flow (consisting of asset sale proceeds less business acquisition costs, capital expenditures and changes in restricted cash).

Market Competitiveness. We believe that in order to attract and retain highly qualified executives, our executive compensation program must be competitive, both in structure and amount, with the broad labor market in which we compete for talent. To support our objective of paying market competitive compensation, each year the Compensation and Human Resources Committee conducts a detailed competitive evaluation (including, among other things, a review of proprietary and proxy information) with its independent compensation consultant. For 2006, the Compensation and Human Resources Committee utilized Mercer to compile, review and interpret certain data and information comparing Dynegy s executive compensation with that of companies considered to be peers for compensation and performance purposes. Mercer reported to and acted at the discretion of the Compensation and Human Resources Committee. Our management did not direct or oversee the activities of Mercer with respect to our executive compensation program.

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In an attempt to ensure meaningful comparisons for 2006 executive compensation purposes, the Compensation and Human Resources Committee approved Mercer s recommendation of a two-prong approach to constructing Dynegy s comparative peer group. First, Mercer compiled a general industry peer group comprised of approximately 30 companies derived from a broad group of 3,000 U.S. publicly traded companies that constitute the Russell 3000 index. From the broad group of 3,000 companies, Mercer narrowed its focus to those companies with revenues and quantitative business characteristics (scale, capital structure, profitability and asset and employee intensity) similar to those of Dynegy. The resulting 30 general industry peer group companies selected share similar qualitative characteristics with Dynegy, including an engineering/process focus, a wholesale business model and market performance.

Second, Mercer compiled a power industry peer group comprised of publicly traded, independent power producers and domestic companies that possess unregulated power generation operations. This power industry peer group includes six companies (AES Corp., Allegheny Energy Inc., Edison International, Mirant Corporation, NRG Energy Inc. and Reliant Energy Inc.) that we, the Compensation and Human Resources Committee and Mercer, believe experience industry influences similar to Dynegy and represent appropriate energy comparators for executive compensation purposes. This peer group provides an industry-based context to our executive compensation decisions. However, because of the limited number of power industry peer companies, the Compensation and Human Resources Committee uses this power industry peer group merely as a reference point for consideration. Primarily, the general industry peer group described above is relied upon in determining market competitiveness, as its larger statistical sample size should reflect less variability and volatility in the comparative data.

The Compensation and Human Resources Committee considers comparative data in structuring our compensation program elements and determining the value of each element to be awarded to our executive officers. Based upon this market review, in terms of structure, we provide three types of compensation to our executive officers base salary, annual short-term incentives and long-term incentives. Proportionally, base salary comprised approximately 13% of the Named Executive Officers total compensation package for 2006, with annual short-term incentives and long-term incentives comprising approximately 12% and 75%, respectively. This compensation mix is generally consistent with those of our peer group companies and reflects what we believe is a competitive balance between current and long-term compensation and cash and non-cash compensation. It also supports Dynegy s stated strategy of pursuing growth opportunities for the benefit of its stockholders. Please read Elements of Compensation below for a detailed discussion of these compensation types and the specific reasons for using them.

Long-Term Stockholder Value. We continually seek to create a total compensation strategy that includes long-term incentive awards designed to align individual executive performance with the interests of our stockholders. In furtherance of this strategy, our long-term incentive awards are targeted at the 60th percentile of the market, or higher than the market median. Please read Elements of Executive Compensation Long-Term Incentive Awards below for further discussion. Additionally, in early 2006, the Corporate Governance and Nominating Committee adopted stock ownership guidelines for members of the executive management team and other Dynegy officers.

Potential Impact of Restatements. Our Corporate Governance Guidelines provide a mechanism to address any restatements that may impact Dynegy s key financial metrics and its financial performance generally. Pursuant to this mechanism, in the event of a material restatement of Dynegy s financial statements, the Compensation and Human Resources Committee will review all bonuses and other incentive and equity compensation awarded to executive officers that were based on the achievement of specified performance targets during the period for which such financial results are or will be restated. The Compensation and Human Resources will take action, as appropriate, with respect to any such bonuses or other incentive or equity compensation awards to the extent such specified performance targets were not achieved in light of the restatement, which action could include attempts to recoup amounts paid. We believe this mechanism effectively allows for remedial action to be taken if executive compensation is awarded for achievement of financial performance that is later determined not to have been achieved, and further aligns the interests of our executive officers with those of our stockholders.

Elements of Executive Compensation

As previously described, our executives are eligible to receive three primary forms of compensation: base salary; annual short-term cash incentive awards; and long-term incentive awards. In determining the appropriate amounts to award our executive officers, we generally target the following percentiles when analyzing the amounts paid by our peer group companies:

Base Salary	50th percentile
Short-Term Incentives	50th percentile
Long-Term Incentives	60th percentile
Total Compensation	50th-60th percentile

Base Salary. Base salaries function as the fixed, recurring portion of the executive s total compensation package that provides a baseline reward in contrast to the potential variability of short-term and long-term incentive opportunities. In determining the level of base salary for each executive, the Compensation and Human Resources Committee considers the Named Executive Officer s job responsibilities, experience and performance. The Compensation and Human Resources Committee annually reviews external benchmark data, provided by its independent compensation consultant, to ensure that base salaries remain competitive. Any adjustments are made based upon the executive s position relative to competitive market data, as well as individual performance measured against pre-established goals and objectives. For base salaries, we believe that the 50th percentile of the market is the appropriate target in that it allows us to offer cash compensation awards at a competitive level of pay. Additional upside, generally up to 20% over the 50th percentile, may be provided to recognize exceptional performance. Similarly, to reflect limited experience, lack of tenure in the position or performance below expectations, base salaries generally up to 20% below the 50th percentile may be appropriate. In our estimation, to target base salaries lower than the 50th percentile of the market would restrict our ability to attract and retain key talent; to target a higher percentile would potentially result in greater compensation than is necessary to attract and retain key talent to the detriment of our stockholders. Please read Named Executive Officer Compensation below for further discussion on the Named Executive Officers base salaries.

Short-Term Incentives. Short-term incentives serve as a variable, at-risk element of the executive s total compensation package that provides an incentive award based on the attainment of performance goals and objectives during the performance year. Short-term incentives are generally paid in the form of cash. Our short-term incentive compensation plan is structured to appropriately align executive interests with both investor interests and Dynegy s annual performance goals and objectives. The annual cash incentive bonus opportunity for each executive officer, typically a percentage of his or her annual base salary, is established at the beginning of the performance year and is targeted at the 50th percentile of the market for our peer companies and commensurate with each executive s job responsibilities. For the 2006 performance year, the short-term incentive target for each Named Executive Officer was 100% of annual base salary. The target amount is determined by multiplying the target award percentage by the executive s total base earnings for the performance period. There is upside potential for an executive s annual short-term incentive bonus to exceed the target level in the event of exceptional performance by Dynegy and/or the individual executive. Similarly, annual cash incentives are not guaranteed for our executives, and company performance or individual performance can result in either no annual incentive bonus or an annual incentive bonus award that is less than the target level. The determination of any award is dependent upon both Dynegy s performance and the individual executive s performance during the performance year. Our annual short-term incentive targets and any approved payments are reviewed annually with the Compensation and Human Resources Committee s independent compensation consultant. Please read Named Executive Officer Compensation below for further discussion of the Named Executive Officers short-term incentive awards for the 2006 performance year.

Long-Term Incentive Awards. Long-term incentive awards serve as the most significant at risk-element of the executive s total compensation package, which focuses on creating meaningful long-term value for investors and the attainment of long-term performance goals and objectives. Long-term incentives, in the form of equity-based awards that generally do not fully vest until three years after the grant date, are structured to achieve a variety of long-term objectives, including: retaining executives; aligning executives financial interests with the interests of investors; and rewarding the achievement of long-term specified strategic goals and/or superior stock price performance. While we target the 50th percentile of the market for base salaries and short-term incentive awards, we target the 60th percentile of the market for long-term incentive awards. It is our belief that by targeting the 60th

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percentile for long-term incentive awards, we drive greater alignment of the near-term and long-term interests of our executives with those of our stockholders, and further support our stated emphasis on opportunistic growth. While the Compensation and Human Resources Committee believes that the long-term incentive opportunity appropriately motivates our executive officers to implement strategies that further our ongoing efforts to position the company as a major player in the consolidating independent power producer sector, award levels above the 60th percentile may be warranted in certain instances.

The Compensation and Human Resources Committee has traditionally granted long-term incentive awards to Dynegy s executive officers in the form of stock options and restricted stock. Restricted stock and stock options tie directly to the performance of Dynegy s common stock and provide the executive an incentive to build long-term value for our investors. Restricted stock and stock options also provide an effective means of executive retention because the awards are focused over the longer term and vest over a period (or at the end) of three years. The market competitiveness of this mix is reviewed annually by the Compensation and Human Resources Committee with its independent compensation consultant. The number of stock options awarded is typically based on the Black Scholes valuation model, while the number of restricted shares awarded is typically based on the fair market value of Dynegy s common stock as of the date of grant. Long-term awards for executive officers are generally made at the same time that annual cash incentive awards are made.

In the past, Dynegy s significant self-restructuring activities made precise long-term planning difficult, particularly considering the impact that refinancings and legacy legal matter settlements had on Dynegy s financial performance. As a result, Dynegy did not believe it prudent to adopt long-term award payouts conditioned on achievement of specified long-term performance or financial objectives. However, due in large part to the success of Dynegy s self-restructuring efforts, for awards granted in 2006 and again in 2007, a portion of each executive s long-term incentive award value was made in the form of performance units. Effective January 1, 2006, the Dynegy Inc. 2002 Long Term Incentive Plan and the Dynegy Inc. 2000 Long Term Incentive Plan were amended to include operating cash flow, free cash flow, any other cash flow metric or any other performance metric selected by the Compensation and Human Resources Committee as performance measures for grants of performance awards under the Plans. In 2006 (for the 2005 performance year), performance units comprised 20% of each executive s long-term incentive award value and reflected the following terms:

Denominated in $100 units, payable in cash or stock, at the Compensation and Human Resources Committee s discretion;

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