

DYNEGY INC.
Form DFAN14A
January 24, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

SCHEDULE 14A

(Rule 14a-101)

INFORMATION REQUIRED IN CONSENT STATEMENT

SCHEDULE 14A INFORMATION

Consent Statement Pursuant to Section 14(a) of the

Securities Exchange Act of 1934

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material under § 240.14a-12

Dynegy Inc.

(Name of Registrant as Specified in its Charter)

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Seneca Capital International Master Fund, L.P.

Seneca Capital, L.P.

Seneca Capital Investments, L.P.

Seneca Capital Investments, LLC

Seneca Capital International GP, LLC

Seneca Capital Advisors, LLC

Douglas A. Hirsch

(Name of Person(s) Filing Consent Statement, if Other Than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.

- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

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(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

.. Fee paid previously with preliminary materials.

.. Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

SAVING DYNEGY:
FOR ALL SHAREHOLDERS
Seneca Capital
JANUARY 24, 2011

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DISCLAIMER
FORWARD-LOOKING STATEMENTS; STATEMENT OF SENECA CAPITAL BELIEFS; FORECASTS
This
presentation
contains
statements,

including
Seneca
Capital s
beliefs
as
to
valuation,
which
are
forward
looking
statements
about
future
events
and
sets
forth
a
presentation
of
our
beliefs.

The
forward-looking
statements
are
not
guarantees
of
future
performance,
and
we
caution
you
not
to
rely
unduly
on
them.

You
should
be
aware
that
any
forward-

looking statements are based on certain assumptions and subject to risks and uncertainties that exist in the business

environment
that
could
render
actual
outcomes
and
results
that
are
materially
different.

We
have
based
many
of
these
forward-looking statements on our beliefs, expectations and assumptions about future events that may prove to be inaccurate. While we consider these beliefs, expectations and assumptions to be reasonable, they are inherently subject to significant business, economic, competitive, regulatory and other risks, contingencies and uncertainties, most of which are difficult to anticipate and many of which are beyond our control.

We
caution
you
that
the
forward-looking
statements
are inherently uncertain and necessarily involve risks that may affect Dynegy Inc.'s (Dynegy) business prospects and performance,
causing
actual
results
to
differ
from
those
discussed

or
presented
in
this
presentation.

Without
limiting
the

generality of the foregoing, Seneca Capital's beliefs as to future value are based on a variety of assumptions as to the future that Seneca Capital believes constitute a reasonable, potential valuation scenario that could develop within the next several years for Dynegy but which are nonetheless subject to risks and uncertainties that exist in the business environment that could render actual outcomes and results materially different than anticipated. Seneca Capital's beliefs as to current value are based on a variety of assumptions, including as to the future, that Seneca Capital believes constitute reasonable assumptions but which are nonetheless subject to risks and uncertainties that exist in the business environment that could render actual outcomes and results that are materially different.

THIRD-PARTY INFORMATION

This presentation is based on, and contains references to, third-party sources of information. Unless otherwise provided, no such third party has (a) participated in the preparation of this presentation, (b) other than as to Ventyx and the Big 4 Accounting Firm, consented to the inclusion of such information in this presentation, or (c) endorsed the views expressed herein. Neither Ventyx nor the Big 4 Accounting Firm have provided any representation or warranty as to the accuracy of information provided in their reports and you may not rely on their reports.

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DISCLAIMER (CONT D)
CERTAIN
INFORMATION
CONCERNING
THE
PARTICIPANTS

Seneca Capital International Master Fund, L.P., Seneca Capital, L.P., Seneca Capital Investments, L.P., Seneca Capital Invest
Seneca Capital International GP, LLC, Seneca Capital Advisors, LLC and Douglas A. Hirsch (together with each of the forego
jointly made a preliminary filing with the Securities and Exchange Commission (SEC) of a consent statement and a consent
replace two members of the Dynegy Board of Directors and to adopt certain other proposals set forth in the consent statement.

SENECA ADVISES ALL STOCKHOLDERS OF DYNEGY TO READ THE CONSENT STATEMENT AND OTHER CON
MATERIALS AS THEY BECOME AVAILABLE BECAUSE THEY WILL CONTAIN IMPORTANT INFORMATION. SU
AVAILABLE

AT
NO
CHARGE
ON
THE
SEC S
WEBSITE
AT
[HTTP://WWW.SEC.GOV.](http://www.sec.gov)
IN
ADDITION
THE
PARTICIPANTS
IN
THE
CONSENT
SOLICITATION
WILL
PROVIDE
COPIES
OF
THE
DEFINITIVE
CONSENT
STATEMENT,
ONCE
AVAILABLE,
WITHOUT
CHARGE
UPON
REQUEST.
REQUESTS
FOR
COPIES
SHOULD
BE
DIRECTED
TO
THE
PARTICIPANTS
CONSENT
SOLICITOR
AT

THE
TELEPHONE

NUMBER INCLUDED IN THE DEFINITIVE CONSENT STATEMENT, ONCE AVAILABLE.

Each of Seneca Capital International Master Fund, L.P., Seneca Capital, L.P., Seneca Capital Investments, L.P., Seneca Capital
LLC, Seneca Capital International GP, LLC, Seneca Capital Advisors, LLC and Douglas A. Hirsch is a participant in this solicitation.
Hirsch is the managing member of each of Seneca Capital Investments, LLC, Seneca Capital International GP, LLC and Seneca
LLC. The principal occupation of Mr. Hirsch is investment management. Seneca Capital Investments, LLC is the general partner

Investments,

L.P.

Seneca

Capital

International

GP,

LLC

is

the

general

partner

of

Seneca

Capital

International

Master

Fund,

L.P.,

and

Seneca

Capital Advisors, LLC is the general partner of Seneca Capital, L.P. The principal business address of Mr. Hirsch, Seneca Cap

LLC, Seneca Capital Investments, L.P., Seneca Capital International GP, LLC, Seneca Capital International Master Fund, L.P.

Advisors,

LLC

and

Seneca

Capital,

L.P.

is

c/o

Seneca

Capital

Investments,

LP,

590

Madison

Avenue,

28th

Floor,

New

York,

New

York

10022.

As of January 20, 2011, Seneca Capital International Master Fund, L.P. beneficially owned 7,712,100 shares of Dynegy's common stock at \$0.01 per share ("Shares"), representing beneficial ownership of approximately 6.4% of the Shares. As of January 20, 2011, Seneca Capital Advisors, LLC beneficially owned 3,514,400 Shares, representing beneficial ownership of approximately 2.9% of the Shares. Each of Seneca Capital Advisors, L.P., Seneca Capital Investments, L.P., Seneca Capital Investments, LLC, and Mr. Hirsch may be deemed to beneficially own 11,226,500 Shares, representing beneficial ownership of approximately 9.3% of the Shares, held in the aggregate by Seneca Capital International Master Fund, L.P. Seneca Capital International GP, LLC may be deemed to beneficially own 7,712,100 Shares, representing beneficial ownership of approximately 6.4% of the Shares, held by Seneca Capital International Master Fund, L.P. Seneca Capital Advisors, LLC may be deemed to beneficially own 3,514,400 Shares, representing beneficial ownership of approximately 2.9% of the Shares, held by Seneca Capital Advisors, L.P. As of January 20, 2011, Seneca Capital International Master Fund, L.P. and Seneca Capital, L.P. held European-style call options with a right to purchase 2,331,400 and 1,059,600 shares, respectively at an exercise price of \$0.01 per share by delivery of notice of exercise on or before January 15, 2011.

WE URGE YOU NOT TO TENDER
YOUR SHARES AT \$5.50 / SHARE

We
believe
Dynegy
is
worth

\$7.50

-

\$8.50

/

share

today

with significant upside

in

a

recovery

Accounting Firm studied cost cutting / Ventyx analyzed power prices

Premier vehicle to play power recovery given operational / financial gearing and

asymmetric upside to natural gas

Significant flexibility in debt structure and cost cutting provide levers to support equity value independent of commodity markets movements

Stock underperformed IPP peers by ~30% and S&P by ~40% since announcement of reverse split on 3/12/10

Special

Committee

decided

to

sell

BEFORE

even

beginning

careful

standalone

restructuring

analysis

promised

to

investors

on

November

23

rd

Significant

positive

catalysts

upcoming

with

potential

EPA

HAPS/MACT

rules

in

March,

PJM capacity auction in May and potential MISO capacity structure by June

\$36mm management change of control severance payments (~6% of equity value)

largely irrespective of deal price and a Board that has purchased only 16,000 shares

Go-Shop

conducted over Christmas unlikely to maximize participation with restrictive confidentiality arrangements

IEP \$0.50/sh increase represents less than 2% of enterprise value versus two

Blackstone deals that were overwhelmingly rejected by shareholders

4

WRONG

PRICE

WRONG

TIME

WRONG

REASONS

Disclaimer: Seneca Capital's beliefs regarding current and future value are based upon assumptions, including as to the future however, substantial risks and uncertainties exist such that actual performance may deviate materially from Seneca Capital's f

82%

10

AFTER THE TRAGIC
UNDERPERFORMANCE

5

(1)

Includes CPN, NRG and GEN.

\$2.50
\$3.00
\$3.50
\$4.00
\$4.50
\$5.00
\$5.50
\$6.00
\$6.50
\$7.00
\$7.50
\$8.00
\$8.50
\$9.00
3/12
4/11
5/11
6/10
7/10
8/9
9/8
10/8
11/7
12/7
1/6
32%
42%
52%
62%
72%
112%
Current Icahn Bid
S&P 500
IPP Index
(1)
3/12: 5 for 1
Reverse stock
split proposed
5/25: 5 for 1
Reverse stock
split effective
8/13: Blackstone
\$4.50/share proposed
merger announced close
to virtual all-time low
11/17: Blackstone
increases offer to
\$5.00/share in face
of defeat
11/23: Blackstone and Dynegy

terminate proposed merger after only
26% of shareholders voting in support
12/15: IEP announces \$5.50/share
cash tender (\$1.10 pre-split)

DYN

~

30%

Under-
performance

AND SERIAL ATTEMPTS TO SELL WITHOUT
A CAREFUL STANDALONE REVIEW

6

Blackstone Transaction #1 (Aug. 12, 2010 @ \$4.50 per share)

Cash deal at 1/3 of replacement cost at low point in the cycle after sharp and anomalous
stock price underperformance

Granted exclusive rights to 1/3 of Dynegy assets

\$50mm / \$16mm break-up fees and Blackstone right to match
Blackstone Transaction #2 (Nov. 16, 2010 @ \$5.00 per share)

Virtually
unprecedented

Recess
of
shareholder

meeting

Additional \$16mm break-up fee in the face of defeat of transaction

Only 26% voted in favor of sale at \$5.00 per share

Post-Blackstone

(Nov.

23,

2010

Dec.

15,

2010)

Poison pill to freeze top shareholders

Abandoned promise to carefully review its standalone restructuring alternatives

Icahn Enterprises Transaction (Dec. 15, 2010 @ \$5.50 per share)

Rushed to sell company for low price (deferred due diligence to post-signing)

Yet another \$16mm break-up fee

Gained pledge of largest holder (IEP) not to support pending consent solicitation for directors

Willing

to

spend

more

than

\$100mm

(15%

of

equity

value)

to

sell

the

company

(1)

(1)

Includes (a) \$16.3 mm break-up fee + \$10 mm expense reimbursement per the Proposed Blackstone Merger, plus (b) \$23 mm per the proposed IEP Merger, plus (d) \$36 mm change of control arrangements.

A DIFFERENCE IN ALIGNMENT
DRIVES A DIFFERENCE OF OPINION
VALUE

-

Seller at \$4.50/\$5.00/\$5.50 per share
(\$0.90/\$1.00/\$1.10 pre-reverse split)

-

Bought nearly 30% of stock in August
09 from LS Power at \$9.65 per share

-

12% economic interest in Dynegy
(9.3% voting stock)

-

Only motivation is increasing
shareholder
value

fully

aligned

Dynegy

Seneca

STRATEGY

FIDUCIARY DUTY

-

Board purchased only 16,000 shares
with own money

-

\$36mm change of control severance
available to management

ALIGNMENT

-

Value at \$7.50 \$8.50/sh today
increasing significantly in recovery

-

Supported by cost cutting study and
Ventyx power price analysis

-

Sell at \$4.50/\$5.00/\$5.50 per share
as quickly as possible

-

Abandoned promise of careful
standalone restructuring analysis

-

DO NOT SELL \$4.50/\$5.00/\$5.50

-

Believes in aligning directors/mgmt w/
shareholders

-

Should explore value enhancing steps
to optimize balance sheet, costs

-

Offer incremental break fees of
\$32mm to IEP/Blackstone combined

-

BOD owning stock limits objectivity

-

Poison pill to freeze top holders from

adding equity at greater than \$5.50

-

Reject IEP \$5.50 per share tender

-

Many of existing BOD should resign
given lack of alignment

-

Waive pill to enable shareholders to
buy at greater than \$5.50

7

Disclaimer: Seneca Capital's beliefs regarding current and future value are based upon assumptions, including as to the future
however, substantial risks and uncertainties exist such that actual performance may deviate materially from Seneca Capital's f

2010
Maint
Unlevered
Net
Valuation
EBITDA
(1)
Capex
(2)
FCF
MWs
\$/KW
\$MMs
Valuation Commentary and Assumptions
Midwest Coal
Scrubbed Coal
(\$45)
2,241
\$700
\$1,569
Based on DCF Analysis
(3)
, including NPV ~\$300mm of environmental capex
Unscrubbed Coal
446
\$250
\$112

DCF

(3)

assumes retirement in 2015; Zero value for Trona

Mothballed Coal

(4)

(\$9)

457

Zero site value

Total Midwest Coal

\$288

(\$54)

\$234

3,144

\$534

\$1,680

Implied Unlevered Free Cash Flow Yield

13.9%

Midwest CCGT

Kendall

(\$11)

1,200

\$500

\$600

DCF is supported by Casco Bay valuation of \$500/kw (NRG Deal)

Ontelaunee

(\$5)

580

\$800

\$464

Based on DCF Analysis

(3)

; MAAC cleared at \$226/mwd in latest RPM auction

Total Midwest CCGT

\$113

(\$16)

\$96

1,780

\$598

\$1,064

Implied Unlevered Free Cash Flow Yield

9.1%

Midwest Peaking

Midwest Peaking/Other

\$18

(\$1)

\$16

164

\$250

\$41
Seneca Capital estimate of capacity value
Implied Unlevered Free Cash Flow Yield
NM
West
Moss Landing / Morro / Oakland
(5)
(\$30)
3,344
\$336
\$1,125
NRG bid price plus ~\$40mm incremental from increased CA power prices
Other Western Gas
(\$3)
352
\$250
\$88
Seneca Capital estimate of capacity value
Total West
\$144
(\$33)
\$111
3,696
\$328
\$1,213
Implied Unlevered Free Cash Flow Yield
9.1%
Northeast
Casco Bay
(\$5)
540
\$509
\$275
NRG bid price; Implies 12% UFCF
Independence
(\$10)
1,064
\$600
\$638
Based on DCF Analysis
(3)
; Includes value of ConEd contract
Roseton / Danskammer
(\$15)
1,693
\$200
\$339
Based on DCF Analysis
(3)
; Assumes coal retires in 2015

Total Northeast

\$190

(\$30)

\$160

3,297

\$380

\$1,252

Implied Unlevered Free Cash Flow Yield

12.8%

Low End of Incremental Identified Cost Savings

\$96

6x \$16mm low end incr. potential cost savings identified by Accounting Firm

Corporate SG&A

(\$135)

(\$450)

6x \$75mm of corporate SG&A netting out all announced cost cuts

Total

\$617

(\$134)

12,081

\$4,896

Net Debt

(\$3,307)

As of 9/30/10 and adjusted to reflect 1/5/11 cash balance

NPV of Lease

(\$649)

As disclosed by Dynegy

Estimated Equity Value

\$940

All segments include regional overhead and tie to guidance when totaled

Shares

120.6

Estimated Equity Value / Share

~\$8.00

(7)

(6)

BUILDING BLOCKS IN PLACE

FOR DYNEGY'S VALUE TODAY

8

(\$ in millions)

Dynegy

trades at less

than 1/3rd of

replacement

cost

(1)

Dynegy public disclosure.

(2)

Assumes maintenance capex of \$20/kw-year for coal plants and \$9/kw-year for gas plants based on Seneca Capital estimates; t

(3)

See appendix for DCF assumptions.

(4)

Dynegy announced its intention to mothball Vermillion 1-2 on 12/29/10 and has indicated its intention to mothball Hennepin.

(5)

CA power prices increased ~\$6/mwh since 10/29/10 reflecting expected future costs of carbon credits (2012+).

(6)

EBITDA adds back \$50mm lease expense & \$50mm non-cash amortization disclosed by Dynegy.

(7)

Valuation and capacity totals exclude Plum Point (140MW).

Disclaimer: Seneca Capital's beliefs regarding current and future value are based upon assumptions, including as to the future exist such that actual performance may deviate materially from Seneca Capital's forecasts (see page 2 for full disclaimer). See

FOLLOW THE CASH FLOW
ROADMAP TO EQUITY VALUE
Using **EBITDA multiples**
understates
Dynegy value
because low maintenance capex
and lack of taxes result in higher

cash flow to equity

Using **book value of debt**

doesn't capture

significant

flexibility of Dynegy debt as

reflected in market prices

Illustrative impact of EPA-driven

capacity uplift demonstrates the

power of Dynegy's operational

leverage

to the upside

9

(1)

Net debt includes cash posted for collateral in broker margin account and excludes NPV of lease. EBITDA includes \$50mm of

(2)

Based on market prices of debt as of 1/14/11.

(3)

EV@Market

Price

equals market value of debt per Bloomberg plus market value of equity.

(4)

Amortization of intangible asset related to capacity agreement with ConEdison, as described in Note 11 of Dynegy 2006 10-K,

(5)

Assumes

the

\$85mm

per

year

Market

Recovery

Assumption

(as

noted

in

the

Dynegy

Presentation

to

Proxy

Advisory

Firms

dated

October

27,

2010

page

19)

is

reduced

by

the
change
between (a) 2013
forecasted
EBITDA
(as
noted
in
Dynege s
14D-9
filed
on
December
30,2010)
and (b)
the
2013
forecasted
EBITDA
in
original
Merger
Proxy
for
Proposed
Blackstone
Deal.

(6)

Based on 2,241 MW of scrubbed coal capacity and 1,200 MW of combined cycle gas capacity (Kendall). \$150/MW-day is for

2011

2012

2013

Stock Price

\$5.50

\$5.50

\$5.50

Shares

121

121

121

Equity Value

\$663

\$663

\$663

Net Debt as of 9/30/10

(1)

\$3,307

\$3,307

\$3,307

Enterprise Value

\$3,970
 \$3,970
 \$3,970
 Market Price vs. Book Value of Debt
 (2)
 (\$889)
 (\$889)
 (\$889)
 EV @ Market Price
 (3)
 \$3,081
 \$3,081
 \$3,081
 Adj
 EBITDA in Merger Proxy
 \$418
 \$308
 \$483
 Sithe
 Purchase Accounting Adjustment
 (4)
 \$50
 \$50
 \$50
 Removal of Market Recovery Assumption
 (5)

 (\$30)
 Adj
 Cash EBITDA Without Market Recovery
 \$468
 \$358
 \$503
 Maintenance Capex
 in proxy
 (\$119)
 (\$113)
 (\$119)
 Unlevered Free Cash Flow
 \$349
 \$245
 \$384
 Benefit of \$150/MWd Increase in MISO/RTO
 (6)
 \$188
 \$188
 \$188
 Cash EBITDA with Illustrative Capacity Uplift
 \$656

\$546

\$691

Unlevered Free Cash Flow with Illustrative Capacity Uplift

\$537

\$433

\$572

Without Capacity Uplift:

Unlevered Free Cash Flow / EV @ Mkt

Price

11.3%

8.0%

12.5%

EV @ Market Price / Cash EBITDA

6.6x

8.6x

6.1x

Unlevered Free Cash Flow / Enterprise Value

8.8%

6.2%

9.7%

Enterprise Value / Cash EBITDA

8.5x

11.1x

7.9x

With Illustrative Capacity Uplift:

Unlevered Free Cash Flow / EV @ Mkt

Price

17.4%

14.1%

18.6%

EV @ Market Price / Cash EBITDA

4.7x

5.6x

4.5x

Unlevered Free Cash Flow / Enterprise Value

13.5%

10.9%

14.4%

Enterprise Value / Cash EBITDA

6.0x

7.3x

5.7x

A BIG 4

ACCOUNTING FIRM

SEES FURTHER COST CUTTING

Seneca retained a Big Four accounting / consulting firm to analyze the potential cost cutting opportunity at Dynegy (Big 4 Report)

Utilized various benchmarking techniques and publicly available information on Dynegy and industry peers in a Top Down

analysis (see appendix for fuller description of methodology)

Big

4

Report

identified

between

\$82mm

and

\$157mm

of

incremental

cost

cutting

potential starting from 9/30/10

financials (12 months ending 9/30/10)

Big

4

Report

states

that

this

implies

an

additional

\$16mm

\$103mm

of

cost

savings

potential

on top of the cost structure

that Dynegy utilized in their proxy forecast; applying a 6x multiple yields ~\$1 -

\$5/share potential value from incremental cost

cutting

Although the

Big 4

accounting firm

consented to the inclusion of

a

plain paper

report in

this presentation (please see

appendix for further information), the

Big 4

firm would not consent to the use of its name in

this

presentation or as part of

its

plain paper

report.

Investors should

consider

this when evaluating the analysis.

10

Cost Reductions Could Provide Meaningful Value to Dynegy Equity

(\$ in millions)

~\$1-

\$5 / Share

Potential Value

From Addl.

Cost Cutting

(1)

Includes O&M Expense and SG&A Expense for the 12 months ending 9/30/10.

(2)

Base

Case

uses

average

of

2013

2015

O&M

and

SG&A

costs,

Stretch

Case

uses

average

of

2012

-

2015.

Calculated

as

the

difference

between

Gross

Margin

and

Adjusted

EBITDA

in

Dynegy's

Merger

Proxy.

Disclaimer:

Seneca
Capital s
beliefs
regarding
current
and
future
value
are
based
upon
assumptions,
including
as
to
the
future,
that
Seneca
Capital
believes
to
be
reasonable,
however,
substantial
risks
and
uncertainties
exist

such that actual performance may deviate materially from Seneca Capital s forecasts (see page 2 for full disclaimer).

Disclaimer: Big 4 Report has been provided in preliminary form, and notes further investigation, validation and diligence is required to be

established by the American Institute of Certified Public Accountants and firm has not otherwise verified the information obtained.

Potential Incremental Cost Savings

Base Case

Stretch Case

Non-Fuel O&M

\$48

\$94

SG&A

\$28

\$51

Fuel Procurement

\$6

\$11

Total Potential Savings Identified by Big 4 Accounting Firm

\$82

\$157

12

Months

Ending
9/30/10
(Baseline
for
Big
4
Report)

(1)
\$631
Pro Forma Cost Base According to Big 4 Report

\$549
\$474

Average Cost Base Assumed in Proxy
(2)

\$566
\$577

Savings Potential Incremental to the Current Business Forecasts in proxy
\$16
\$103

VENTYX ANALYSIS DEMONSTRATES
THE POWER OF PLANT RETIREMENTS

11
New
EPA
Clean
Air

Rules
Are
A
Massive
Potential
Value
Driver
for
Dynergy
Seneca retained Ventyx (Energy Velocity) to analyze the impact of the EPA's potential
HAPS/MACT
rules
on
Dynergy's
MISO/PJM
coal
and
CCGT
plants
Ventyx
used
its
Fall
2010
Reference
Case
and
dynamic
dispatch
model
(5)
Reduced natural gas prices to match market prices as of January 5, 2011
Modeled
coal
plant
retirements
based
upon
Credit
Suisse
mid-case
(4)
Ventyx
provided
plant-level
EBITDA
forecast
through
2020
(5)

Seneca
applied
long-term
DCF
analysis
to
Ventyx
plant
EBITDA

Applied company disclosed assumptions on maintenance and environmental capital expenditures to arrive at implied \$/KW valuations above

(1)

Ventyx Case refers to Seneca application of long-term DCF to Ventyx plant EBITDA calculations.

(2)

See sum of the parts valuation on page 8.

(3)

Only includes Wood River 4-5 and assumes Hennepin and Vermillion 1-2 are retired.

(4)

See

Credit

Suisse

Report

Growth

From

Subtraction

dated

September

23,

2010

and

appendix

for

more

detail.

(5)

Ventyx plant-by-plant output and assumptions included in Appendix.

Disclaimer: Seneca Capital's beliefs regarding current and future value are based upon assumptions, including as to the future. Substantial risks and uncertainties exist such that actual performance may deviate materially from Seneca Capital's forecasts.

Net

\$/KW Valuation (DCF Based)

Uplift to Base Valuation

MWs

Ventyx

Case

(1)

Base Case

(2)

Difference

\$MMs

\$/Share

Scrubbed Coal

2,241
\$1,320
\$700
\$620
\$1,390
\$11.52

Unscrubbed

Coal
(3)
446
\$877
\$250
\$627
\$278
\$2.31

Kendall

1,200
\$557
\$500
\$57
\$68
\$0.56

Ontelaunee

580
\$867
\$800
\$67
\$39
\$0.32

Additional Upside Identified Above Base Case

\$1,775
~\$15.00
Base Case
(2)
\$7.50 -
\$8.50

Total

Dynegy
Value

Implied
in

Ventyx
Case

\$22.50 -
\$23.50

(-)
(=)
(=)
(x)

12
WITH STEPS LEADING TO
DYNEGY'S VALUE IN A RECOVERY

(1)

Ventyx Case refers to Seneca application of long-term DCF to Ventyx plant EBITDA calculations.

Disclaimer: Seneca Capital's beliefs regarding current and future value are based upon assumptions, including as to the future. Substantial risks and uncertainties exist such that actual performance may deviate materially from Seneca Capital's forecasts (

disclaimer regarding Accounting Report.

Ventyx MACT Analysis Exceeds Recovery Valuation Case

(1)

\$22.50 -

\$23.50

\$20.25

\$2.50

\$17.75

\$1.25

\$3.00

\$2.00

\$3.50

\$8.00

\$ 0

\$ 5

\$ 10

\$ 15

\$ 20

\$ 25

Base Valuation

CCGT Newbuild

Increased to

\$1,000/kw &

Market

Recovery

Accelerated

Delivered Coal

Cost Reduced

\$0.25/MMBTU

Versus Base

Case

Realization of

High End of

Accounting

Firm Cost

Savings

\$500mm Asset

Sale Proceeds

Applied to Debt

Reduction at

Current Market

Prices

Recovery

Valuation

Excluding

Improvement in

Natural Gas

Price Forecast

Gas Recovery

(\$1/mmbtu)

Recovery

Valuation

Ventyx Case

Valuation

\$5.50/Share Tender Price

Dynegy's capital structure provides very significant flexibility, with limited secured debt and ample liquidity options. Unsecured debt has minimal covenant protections:

No limitation on asset sales

No limitation on restricted payments

No limitation on debt or lien incurrence

No change of control provisions

Facing this flexibility and lack of protections, Dynegy's unsecured debt trades in the market at a substantial discount to its face value:

13	
(\$ in millions)	
Amount	
Market	
Outstanding	
Value	
Discount	
Secured Debt (funded)	
\$68	
\$68	
\$0	
Sithe/Independence Bonds	
225	
225	
0	
Unsecured Debt	
3,462	
2,676	
786	
Subordinated Debt (SKIs)	
200	
97	
103	
Total	
\$3,955	
\$3,066	
\$889	
Discount per DYN Share	
\$7.37	

**A FLEXIBLE DEBT STRUCTURE
MAKES ALL THE DIFFERENCE**

Dynegy's Flexible Capital Structure is A Major Differentiator Versus its Peers

Note: Market value based on Bloomberg prices as of 1/14/2011.

NATURAL GAS EXPOSURE IS
SKEWED TO THE UPSIDE

14

Gas Price

Coal Price

Greater Profits

at Gas Plants

DYN Forward Gross Margins

Increased Despite Lower Gas Prices

90%

95%

100%

105%

110%

8/12

9/12

10/12

11/12

12/12

2012 CIN On-Peak is HIGHER

2012 NYMEX Gas

Forwards are Lower

2012 CAPP Coal is HIGHER

CIN On-Peak Driven Up By CAPP Coal Prices

Change in DYN Gross Margin due to Power/Gas Curve Shifts

\$ in millions, 12/31/10 vs. 8/12/10

(1)

2011 - 15

Coal Plants (3,514 MW)

\$14

Combined Cycle Gas Plants (4,404 MW)

109

Total

+123

vs.

Average Change in NYMEX Gas (\$ / MMBtu)

(0.26)

(1)

Based on commodity curves from BofA Merrill Lynch. See Appendix for detailed plant-by-plant assumptions.

Comparative Power Plant Economics (2012)

8/12/2010

12/31/2010

Kendall /

Coal Plant

Kendall /

Coal Plant

Ontelaunee

(CAPP)

Ontelaunee

(CAPP)

Fuel price

5.57

77.28

5.38

83.70

+/-

basis/transportation

0.08
15.00
0.08
15.00
Delivered price
\$/MMBtu
5.65
\$/ton
92.28
\$/MMBtu
5.46
\$/MMBtu
98.70
\$/ MMBtu
5.65
3.85
5.46
4.11
Heat rate
7,250
10,500
7,250
10,500
Cost of fuel (\$/MWh)
40.96
40.37
39.56
43.18
Cost
Advantage
Kendall
/
Ontelaunee
vs.
CAPP
Coal
Plant (\$ / MWh)
3.62
(0.58)

DYNEGY SHOULD BE A LEADING
BENEFICIARY OF COAL RETIREMENTS

15

% Change in Equity Value from 100 bps change in EV/Replacement Cost Valuation

% Change in Equity Value from \$25/MW-Day Change in PJM RTO / MISO Surviving Capacity

(1)

5%
10%
15%
20%
25%
DYN
GEN
NRG
CPN
(1)

Equals EBITDA uplift on unregulated capacity of CCGTs, scrubbed coal, nuclear and hydro in PJM RTO and MISO capitalization as of 1/14/2011. Dynegy market capitalization based on \$5.50 IEP offer price.

5.0%
10.0%
15.0%
20.0%
25.0%
30.0%
35.0%
40.0%
45.0%
DYN
AYE
FE
GEN
AEE
EXC
EIX

PENDING CATALYSTS TO DRIVE
MARKET SIGNALS

March 2011

HAPS/MACT RULE:

(1)

Under federal court consent decree, EPA is to issue a proposed rule as soon as March 2011 with a final rule as soon as

November 2011

May

2011

PJM

2014/15

RPM

AUCTION

:

Could

begin

to

illustrate

the

impact

of

HAPS/MACT rules as some generators will potentially signal costs

of environmental rules

Q2

2011

MISO

Capacity:

MISO

is

likely

to

file

detailed

plans

for

a

PJM-style

capacity

auction with FERC providing an important mechanism to measure EPA rule impacts

16

Given forward dark spreads, we expect that up to 10GW of older/inefficient coal capacity should be retired before the '14/'15 without accounting for EPA-driven retirements

-

Angie Storzynski, Macquarie 1/10/11

We

continue

to

predict

roughly

25,000

MWs

in

PJM

will

have

to

choose
between
investing
in
environmental
equipment
or
retiring

[Modeling
assumptions
include]

Coal
units
under
400MWs
with
no
scrubber
installed
will
be
retired.

Also,
early
vintage
scrubbers
(built
prior
to 1985)

will not comply with upcoming EPA regulation.

We assume coal plant retirements from upcoming EPA rules; CATR and HAPS MACT will be phased in over a 3-year time with a 15% effect in the May 2011 auction, a 50% effect in the May 2012 auction, and a 100% effect in the May 2013 auction.

-
Brian Chin, Citi
Investment Research 1/18/11

MISO
will
likely
file
for
a
capacity
auction
at
FERC
in
2Q,
with
an
auction

in
early

13

for
the

13/ 14

delivery
period

At
MISO,

we
primarily

discussed the likelihood and timeframe for implementation of a formal capacity auction. While vertically integrated regulated utilities are

relatively averse to the idea, MISO's

initiative to develop a capacity auction stems from recent deliverability requirements demanded by FERC. As a consequence,

MISO

has
indicated

to
FERC

that
it

intends
to

make
a

formal
tariff

filing
for

a
capacity
auction

by
2Q11.

The
first

auction
is

anticipated
to

take
place

in
early

2013,
for

delivery
in

the
2013/2014
delivery
year
(June
1st
2013

May
31st
2014).

-
Julien
Dumoulin-Smith, UBS 12/23/10 (After a December trip that included a meeting with MISO)
(1)
See Appendix for additional detail on EPA HAPS/MACT rule.

\$7.00
\$1.70
\$0.29
\$0.77
\$0.31
\$1.71
\$2.78

\$1.00
\$2.00
\$3.00
\$4.00
\$5.00
\$6.00
\$7.00
\$8.00
\$9.00

Pre-Deal Stock Price
New Cost Cut
Disclosure Presented
in Merger Proxy
Increase in Free Cash
Flow Guidance Since
Deal Announcement
Improvement in
Commodity Prices
Since Deal
Announcement
Friction Costs
Associated With
Failed Transaction
Uplift in Wall Street
View of Asset Value
from NRG Bid
Total of Quantifiable
Factors

~\$8/SH if Dynegy had traded in line with merchant peers since 3/12

DEFEAT OF TENDER SHOULD
REMOVE OVERHANG

17

Several materially positive developments since the stock was trading near its all time lows on
August

12

th

-

in

addition

to

the

three

bids

for

the

company

by

two

different

parties

After

shareholders

rejected

Blackstone

bid

Dynegy

stock

has

been

resilient

despite

management s

dire

warning

that

shareholders

could

lose

significant

value

(2)

\$50mm cost cuts

disclosed in

merger proxy x 6 -

\$25mm costs to

achieve & 25%

discount

2010 FCF

guidance improved

\$38mm from 8/6 to

11/8

NPV of change

gross margin for

the 2011-15 period

from 8/12/10

through 12/31/10

Assumes \$35mm

costs related to

deal expenses,

and severance

Based on Citi

Investment

Research

valuation

(1)

Could be Substantial Shareholder Interest Once Tender is Defeated

(1)

Citi

Investment Research valuation of Dynegy dated February 25, 2010. Total plants sold to NRG valued at \$1,157mm and corres

(2)

Source: Dynegy October 2010 Investor Presentation.

Disclaimer:

Seneca

Capital s

beliefs

regarding

current

and

future

value

are

based

upon

assumptions,

including

as

to

the

future,

that

Seneca

Capital

believes

to

be

reasonable,

however,

substantial

risks

and

uncertainties

exist

such that actual performance may deviate materially from Seneca Capital s forecasts (see page 2 for full disclaimer).

MARKET PARTICIPANTS HAVE
BEGUN TO TAKE NOTICE

If shareholders reject the BX revised offer, we believe a newly composed board and new management will likely take a rational, long-term and creative approach to breaking up the company (potentially taking several years) and realize a value closer to our \$9 per share break-apart value.

-

Charles Fishman, Pritchard Capital Partners, 11/17/10

18

Icahn's recent proposal to refinance DYN's credit facilities under amended terms should assuage concerns over the liquidity impact of asset sales/maintenance covenants. Seneca also recently proposed an additional four new board members,

all
of
whom
have
highly
relevant
backgrounds,
including

a
former
senior
rail
executive

We
have
incorporated

DYN's latest disclosures into our projections, adjusting our EBITDA outlook and increasing our cash flow burn through 15 to \$2.3 Bn. In contrast, DYN's sizeable operational and financial leverage could push equity value to \$12/sh on a power recovery and debt restructuring to mrkt value.

-

Julien Dumoulin-Smith, UBS 11/16/10

I believe that, even at \$5.00 per share, the proposed Blackstone acquisition undervalues Dynegy. Today's \$.50 per share

increase,
coming
only
one
day
after
Blackstone
stated

that
the
\$4.50
price
is

a
full
and
fair
valuation
reassures

my
belief that the Dynegy/Blackstone transaction leaves too much shareholder value on the table for Blackstone. I have also considered that in a November 15, 2010 report JP Morgan stated that it is introducing a December 2011 price target of \$7, up from our prior December price target of \$5.00.

-
Carl Icahn, 11/16/10 (In a statement filed with the SEC on a Schedule 13D/A)

REJECTING THE TENDER IS THE
ENABLING EVENT

Do not tender your shares for \$5.50 / share

WRONG PRICE at the WRONG TIME for the WRONG REASONS

We believe Dynegy is worth \$7.50 -

\$8.50 per share today and \$18-\$20 per share

in a recovery valuation -

trading at less than 1/3 of its replacement value

Board rushed to sell the company BEFORE conducting promised careful standalone review

\$36mm management change of control severance payments and a Board that

has purchased only 16,000 shares creates misalignment with shareholders

Dynegy is the premier vehicle to participate in a power market recovery with substantial value creation levers independent of commodity prices

Industry leading leverage to EPA-driven retirements (validated by Ventyx model)

Positive asymmetric exposure to natural gas

Flexible debt structure reflected in ~\$7/sh market value discount of debt

Accounting Firm validated cost cutting potential

19

Defeat of Tender Can Enable Investors to Participate in Dynegy Value Creation

Disclaimer: Seneca Capital's beliefs regarding current and future value are based upon assumptions, including as to the future risks and uncertainties exist such that actual performance may deviate materially from Seneca Capital's forecasts (see page 2 of

Accounting Report.

APPENDIX
20

EPA CLEAN AIR RULES CAN
CHANGE MARKET DYNAMICS

Upcoming EPA rules may force coal generators to either invest in expensive control technologies or shut down

Stringent Maximum Achievable Control Technology (MACT) Rules could require compliance as early as 2014

Environmental controls can be expensive and unlikely for many plants if

the current power price environment persists

(1)

Pursuant to the Midwest Consent Decree, Dynegy will have spent \$730 mm (out of a total of \$960 mm) of environmental capital expenditures for the Midwest fleet by the end of 2010 and will have substantially completed its environmental capital expenditure program by 2013.

(3)

21

(1)

Source
(including
for
the
table):
Credit
Suisse
report,
Growth
From
Subtraction
dated
September
23,
2010.

(2)

Ability of TrONA to meet compliance standards is still under discussion.

(3)

Source: Dynegy 2009 10-K and Merger Proxy for Proposed Blackstone Merger, page 55.

Install

Incremental

Fuel Type

Required Technology

Cost (\$/kw)

Cost (\$/MWh)

Eastern Coal

FGD + SCR

\$450 -

\$700

\$3 -

\$4

Western Coal

TrONA + Baghouse

(2)

\$150

\$5 -

\$6

**EPA RULES: HAZARDOUS AIR
POLLUTANT HAPS/MACT**

The Clean Air Act requires the EPA to develop an emission control program for hazardous pollutants, including mercury and acid gases

The EPA is mandated pursuant to consent decree to draft a proposed Maximum Achievable Control Technology (HAPS/MACT) rule as soon as March 16, 2011 and to finalize it as soon as November 16, 2011

HAPS/MACT rule will apply to all existing and future coal and oil fired capacity
HAPS/MACT requires achieving emissions levels as good as the average of the
top 12% of existing representative sources

Credit Suisse estimates that for mercury emissions, this could require a 90% removal
rate

Affected plants would have 3 years to comply (i.e., 2014 or 2015), assuming no
case by case waivers or an exemption granted by the President

In

a

more

moderate

scenario,

the

EPA

could

propose

different

sets

of

standards

based on sub-categories, such as:

Size

Boiler pressure / temperature

Coal mix

No trading between plants

22

**CREDIT SUISSE MID-CASE FOR
COAL PLANT RETIRMENTS**

According to Credit Suisse, 66% of the coal capacity in the US have NOT installed (or announced plans to install)

both
scrubbers

and
SCRs

and
30%

have
no

environmental
controls at all

Smaller coal plants are less likely to invest in environmental controls as the capital cost is significantly

higher
on

a
\$

/
kw

basis.
More

than
50

GW
of

small
coal

plants
have

no
environmental controls installed

Credit Suisse base case assumes that 60GW of coal capacity will be retired including all units below 300MW without any pollution control equipment

23

Coal Plant Capacity by Emission Control (Incl. Planned)

(1)

FGD &

FGD

SCR

Region

SCR

Only

Only

None

Total

CAISO

-

135

46

461

642

ERCOT

9,393

5,287

1,928

2,296

18,904

MISO

20,468

12,270

11,952

32,341

77,031

NEPOOL

1,343

214

666

652

2,875

NYISO

998

223

1,063

718

3,002

PJM

35,634

8,119

16,405

19,553

79,711

SPP

3,631

4,002

2,201

16,087

25,921

WECC

3,323

23,561

211

7,469

34,564

SERC

34,079

8,832

21,435

21,787

86,133

Other

5,940

2,331

2,318

1,448

12,037

114,809

64,974

58,225

102,812

340,820

Percent of Total

33.7%

19.1%

17.1%

30.2%

100.0%

Small (<300 MW) Coal Plant Capacity by Emission Control (Incl. Planned)

(1)

FGD &

FGD

SCR

Region

SCR

Only

Only

None

Total

CAISO

-

135

46

461

642

ERCOT

184

349

8

12

553

MISO

2,756

2,289

3,774

15,985

24,803

NEPOOL

355

214

666

252

1,486

NYISO

343

223

1,063

718

2,347

PJM

4,940

2,375

4,865

9,841

22,021

SPP

-

569

318

3,646

4,533

WECC

554

3,605

211

3,785

8,154

SERC

4,819

3,700

7,484

14,877

30,880

Other

1,090

409

251

1,008

2,757

15,040

13,867

18,685

50,584

98,176

Percent of Total

4.4%

4.1%

5.5%

14.8%

28.8%

(1)

Source: Credit Suisse report, Growth From Subtraction dated September 23, 2010.

24
AND DYNEGY'S ASSETS ARE
PRIMED TO BENEFIT
(1)
Assumptions
used
for

cost
estimates
are
per
Credit
Suisse
report Growth
from
Subtraction
dated September 23, 2010.

Dynegy is extremely well positioned to benefit from EPA Clean Air rules given its substantial investment in pollution control equipment

Its largest, most efficient plants will have been scrubbed

We estimate pollution control equipment for Dynegy's coal fleet will have a replacement value of more than \$1.7bn upon completion

A
MAJOR
COMPETITIVE
ADVANTAGE

Source:
Dynegy
Investor
Presentation,
Q2 10

ACCOUNTING FIRM COST
STUDY

An Accounting Firm study analyzed Dynegy's public data to determine a baseline level of costs, for which they utilized Dynegy's LTM financial results as of Sept. 30, 2010

O&M Costs

SG&A Costs

Cost of sales / fuel procurement

Analyzed public disclosures of selected relevant public comparable companies to determine industry benchmarks for each cost category

GenOn, NRG Energy, Calpine, Constellation, AES and Public Service Enterprise Group

Compared Dynegy results to comparable company benchmarks in order to determine where cost savings

would

be

possible

within

Dynegy

relative

to

its

baseline

cost

level

in

a

base

case

and

in

a

stretch case

Reviewed financial forecasts from Dynegy's preliminary proxy statement (January 10, 2011) to determine cost levels assumed by management, including cost savings plans already announced and being implemented by management

Used gross margin less Adjusted EBITDA as a proxy for SG&A + O&M

costs

Compared baseline level of costs and total savings potential to 2012-2015 forecast period and 2013-2015 forecast period costs to determine incremental savings potential for Dynegy for 2011+

\$16 mm of potential incremental savings in base case

\$103 mm of potential incremental savings in stretch case

25

Disclaimer: Accounting Report has been provided in preliminary form, and notes further investigation, validation and diligence constitute an audit, examination or review in accordance with standards established by the American Institute of Certified Public Accountants. The accountants have not otherwise verified the information obtained or presented in their report.

For Further information see actual report appended to this presentation

VENTYX POWER ANALYSIS

Ventyx (Energy Velocity) calculated a dynamic plant-by-plant fundamental production cost model based on their Fall Reference Case that integrates commodity price assumptions, resource additions and retirements

Load forecast based on utility filings

Build-out of all known and reasonably foreseeable transmission projects

Renewable additions to meet existing state standards

MISO and PJM capacity payments reach Cost of New Entry assumptions when reserve margins drop below 15%

Coal and transportation costs are based on Ventyx Coal Sub-Module that utilizes a least cost algorithm that includes variable cost of coal producers and different modes of transport

Natural gas prices based upon NYMEX strip as of January 5, 2011

Plant-level assumptions for heat rates, capacity factors and O&M are based on

Ventyx's Energy Velocity database (based on FERC data where available)

Applied Credit Suisse Mid-Case

(1)

(60GW of retirements) MACT retirement assumptions

Retirement of coal fired units smaller than 300MW without environmental controls

Compliance with all other existing environmental legislation (CATR, RGGI, EPA Tailoring Rule, etc.)

26

(1)

Source: Credit Suisse report, "Growth From Subtraction" dated September 23, 2010.

VENTYX PLANT MARGIN

RESULTS

27

Year

2011

2012

2013

2014
2015
2016
2017
2018
2019
2020

Assumption Summary

NYMEX Gas

\$4.57
\$5.00
\$5.24
\$5.44
\$5.64
\$5.83
\$6.00
\$6.19
\$6.37
\$6.56

CIN ATC Power

\$33.10
\$36.09
\$40.07
\$42.41
\$47.37
\$51.77
\$53.18
\$55.08
\$56.75
\$58.38

PJM ATC Power

\$33.27
\$36.11
\$40.04
\$42.49
\$47.28
\$51.41
\$52.92
\$55.18
\$56.87
\$58.63

Baldwin

MWs

1,784
1,784
1,784
1,784
1,784
1,784
1,784

1,784

1,784

1,784

GWh

11,814

11,812

11,813

11,811

11,814

11,825

11,825

11,850

11,862

11,874

Energy Revenue

\$383

\$406

\$449

\$491

\$553

\$609

\$628

\$654

\$675

\$697

Capacity Revenue

\$3

\$18

\$18

\$200

\$208

\$210

\$213

\$213

\$215

Fuel Costs

(\$164)

(\$168)

(\$174)

(\$214)

(\$219)

(\$234)

(\$245)

(\$253)

(\$266)

(\$273)

O&M Costs

(\$65)

(\$68)

(\$70)

(\$73)

(\$74)

(\$76)

(\$78)

(\$80)

(\$82)

(\$84)

EBITDA

\$153

\$173

\$223

\$222

\$460

\$507

\$515

\$533

\$541

\$554

Havana 6

MWs

441

441

441

441

441

441

441

441

441

441

GWh

2,872

2,839

2,825

2,858

2,869

2,878

2,878

2,884

2,887

2,890

Energy Revenue

\$93

\$98

\$108

\$119

\$135

\$148

\$153

\$159
\$164
\$170
Capacity Revenue

\$1
\$4
\$4
\$49
\$52
\$52
\$53
\$53
\$53
Fuel Costs

(\$46)
(\$47)
(\$51)
(\$54)
(\$56)
(\$59)
(\$62)
(\$64)
(\$67)
(\$69)

O&M Costs
(\$17)
(\$19)
(\$18)
(\$18)
(\$19)
(\$19)
(\$20)
(\$20)
(\$21)
(\$21)

EBITDA
\$30
\$32
\$43
\$51
\$110
\$121
\$123
\$127
\$129
\$132

VENTYX PLANT MARGIN
RESULTS (CONT'D)

28

Year

2011

2012

2013

2014
2015
2016
2017
2018
2019
2020

Wood River 4-5

MWs

444
444
360
360
360
360
360
360
360
360
360

GWh

2,904
2,871
2,353
2,377
2,377
2,380
2,380
2,384
2,387
2,389

Energy Revenue

\$94
\$100
\$90
\$99
\$111
\$122
\$126
\$132
\$136
\$140

Capacity Revenue

\$1
\$4
\$4
\$40
\$42
\$42
\$43

\$43
\$43
Fuel Costs
(\$50)
(\$51)
(\$41)
(\$42)
(\$43)
(\$45)
(\$47)
(\$48)
(\$51)
(\$52)
O&M Costs
(\$17)
(\$19)
(\$16)
(\$17)
(\$17)
(\$18)
(\$18)
(\$19)
(\$19)
(\$20)
EBITDA
\$28
\$30
\$36
\$44
\$91
\$102
\$104
\$107
\$109
\$112
Kendall
MWs
1,224
1,224
1,224
1,224
1,224
1,224
1,224
1,224
1,224
1,224
1,224
GWh
670
624

903
934
1,217
1,389
1,321
1,213
1,220
1,174
Energy Revenue
\$38
\$40
\$68
\$71
\$97
\$122
\$119
\$117
\$120
\$119
Capacity Revenue
\$78
\$49
\$12
\$12
\$61
\$109
\$117
\$118
\$116
\$123
Fuel Costs
(\$24)
(\$24)
(\$36)
(\$39)
(\$53)
(\$62)
(\$60)
(\$58)
(\$60)
(\$59)
O&M Costs
(\$18)
(\$18)
(\$19)
(\$20)
(\$21)
(\$22)
(\$22)
(\$22)

(\$23)

(\$24)

EBITDA

\$74

\$47

\$25

\$24

\$85

\$147

\$154

\$155

\$153

\$160

Ontelaunee

MWs

574

574

574

574

574

574

574

574

574

574

GWh

2,600

2,767

2,839

2,732

2,615

2,606

2,596

2,612

2,679

2,628

Energy Revenue

\$122

\$147

\$169

\$145

\$149

\$159

\$162

\$167

\$174

\$175

Capacity Revenue

\$37

\$23

\$47
\$47
\$51
\$54
\$55
\$58
\$61
\$64
Fuel Costs
(\$89)
(\$104)
(\$111)
(\$111)
(\$110)
(\$113)
(\$116)
(\$120)
(\$127)
(\$128)
O&M Costs
(\$13)
(\$14)
(\$15)
(\$15)
(\$15)
(\$15)
(\$15)
(\$15)
(\$16)
(\$16)
(\$17)
EBITDA
\$56
\$52
\$90
\$67
\$75
\$85
\$86
\$89
\$92
\$94

VENTYX BIOGRAPHY

Ventyx is a business solutions provider offering software, data and advisory services to energy, utility, communications, and other asset-intensive commercial industries. Ventyx was formed in 2007 by the merger of MDSI and Indus International and the acquisition of Global Energy Decisions and New Energy Associates during that same year. Each of these companies traces their roots to the 1970 s and have been providing clients in the energy sector with energy

planning, decision support, energy trading and operations solutions. In 2010 Ventyx was purchased by ABB, a global leader in power and automation technologies.

The Ventyx Advisory Services Practice, which performed part of the analysis in this presentation, traces its roots to the legacy Global Energy Decisions and New Energy Associates companies. The keystone product of the Ventyx Advisors Practice is the Ventyx Reference Case which is a semi-annual forecast of North American power and fuel markets. The Ventyx reference case is utilized by utilities, power generators, investment bankers and market regulators as an independent view of the current and expected state of power and fuel markets. Over the lifetime of this product offering the Ventyx reference case has become widely recognized with a large subscriber base.

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**KEY DCF VALUATION
ASSUMPTIONS**

All DCF-based valuation metrics used in the Sum Of the Parts valuation on page 8 and elsewhere in this presentation included the following assumptions:

Capacity factors based on historical plant-by-plant data and management guidance from public presentations

Strip gas prices through 2015 as of 10/29/10 with a flat \$6 long-term natural gas price thereafter

Long-term CAPP coal of \$70/ton and PRB of \$12.50/ton

Increased coal transportation costs upon contract expiration

Near

term

MISO

power

prices

set

by

natural

gas

approximately

15%

of

the

time

until

equilibrium at which point gas sets MISO power prices for all on-peak hours

Dynegy unscrubbed coal plants retired in 2015

Baldwin plant-to-hub basis normalized in 2014 as a result of plant shutdowns

\$850/kw

CCGT

and

\$625/kw

peaker

newbuild

economics

by

2016

-

2018

driven

by

plant

retirements from POTENTIAL EPA HAPS/MACT rules

10% WACC on unlevered cash flows

Taxes calculated on a corporate level

All relevant capital expenditures (including environmental expenditures) included in DCFs on an NPV basis

Plant by plant model is calibrated to tie to 2010 guidance and therefore incorporates all

SG&A costs (including regional overhead expenses)

Disclaimer: Seneca Capital's beliefs regarding current and future value are based upon assumptions, including as to the future however, substantial risks and uncertainties exist such that actual performance may deviate materially from Seneca Capital's f

ASSUMPTIONS FOR ESTIMATING
CHANGE IN FORWARD GROSS MARGINS

31
2011
2012
2013
2014

2015

Capacity (MW)

Midwest Coal

3,144

2,980

2,980

2,687

2,687

Danskammer

370

370

370

370

370

Ontelaunee

580

580

580

580

580

Kendall

1,200

1,200

1,200

1,200

1,200

Casco Bay

540

540

540

540

540

Independence

1,064

1,064

1,064

1,064

1,064

Moss Landing 1&2

1,020

1,020

1,020

1,020

1,020

Capacity Factor

Midwest Coal

85.0%

85.0%

85.0%

85.0%

85.0%

Danskammer

85.0%

85.0%

85.0%

85.0%

85.0%

Ontelaunee

47.6%

47.6%

47.6%

47.6%

47.6%

Kendall

47.6%

47.6%

47.6%

47.6%

47.6%

Casco Bay

47.6%

47.6%

47.6%

47.6%

47.6%

Independence

47.6%

47.6%

47.6%

47.6%

47.6%

Moss Landing 1&2

57.1%

57.1%

57.1%

57.1%

57.1%

DYN Hedge Assumption

Midwest Coal

100%

15%

Danskammer

100%

40%

Ontelaunee

100%

15%

Kendall

100%

23%

23%

23%

23%

Casco Bay

100%

40%

Independence

100%

70%

70%

64%

Moss Landing 1&2

100%

50%

ASSUMPTIONS FOR ESTIMATING
CHANGE IN FORWARD GROSS MARGINS

32
(1)
2011
2012
2013

2014

2015

Power Price / Spark Spread (\$/MWh as of 8/12/2010)

Midwest Coal

\$32.05

\$34.21

\$36.97

\$40.37

\$44.09

Danskammer

\$48.42

\$50.30

\$53.16

\$56.40

\$58.68

Ontelaunee

\$18.03

\$17.47

\$18.65

\$20.17

\$22.90

Kendall

\$1.57

\$0.39

\$0.56

\$1.65

\$3.94

Casco Bay

\$8.37

\$8.80

\$10.18

\$12.28

\$14.75

Independence

(\$0.26)

(\$2.02)

(\$1.84)

(\$3.25)

(\$1.69)

Moss Landing 1&2

\$8.03

\$10.01

\$11.68

\$15.21

\$16.20

Power Price / Spark Spread (\$/MWh as of 12/31/2010)

Midwest Coal

\$32.39

\$35.04

\$37.82

\$40.78

\$43.29

Danskammer

\$49.02

\$50.53

\$52.58

\$54.41

\$56.37

Ontelaunee

\$20.58

\$20.60

\$21.54

\$22.40

\$23.97

Kendall

\$3.48

\$2.38

\$2.91

\$4.15

\$5.28

Casco Bay

\$10.62

\$9.97

\$10.54

\$11.20

\$11.81

Independence

\$2.46

\$1.99

\$2.33

\$2.60

\$2.77

Moss Landing 1&2

\$8.69

\$16.33

\$20.68

\$21.43

\$22.18

Change in Gross Margin (\$ mm)

Midwest Coal

\$16

\$19

\$8

(\$16)

Danskammer

\$0

(\$2)

(\$5)

(\$6)
Ontelaunee

\$6
\$7
\$5
\$3

Kendall

\$8
\$9
\$10
\$5

Casco Bay

\$2
\$1
(\$2)
(\$7)

Independence

\$5
\$6
\$9
\$20

Moss Landing 1&2

\$3
\$8
\$6
\$5
(1)

Assumes that DYN captures 18% of the spark spread improvement in 2012+ due to requirement to purchase carbon credits.

ACCOUNTING COST STUDY

33

DRAFT
Project Delta
Comparator Analysis of Dynegy
January 2011
ADVISORY
DRAFT
35

DRAFT

Project Delta

Our findings suggest that further cost reduction and operational efficiency may be possible at Dynegy

Key findings

Supporting evidence

Observations

The current financial performance of Dynegy places it at the median of its peer group

For the 12 months ending September 2010, Dynegy has reported an EBITDA margin of 23% versus a peer group median of 23%. For the comparator group chosen, the range was between 18% and 32%

Given the limited amount of time and access to information, it is difficult to assess Dynegy's potential to achieve upper quartile

performance. Additional investigation and diligence is required
Additional cost savings
and operational
efficiencies
have
been
announced and are
expected to be delivered
between now and 2013
In August 2009, a multi-year cost reduction program was
announced that was expected to deliver cumulative
savings of \$400m to \$450m between 2010 and 2013
the identified savings include \$70m to \$85m of
operating costs including an annualized \$30m to \$40m
of O&M and \$40m to \$45m of G&A
an
additional
\$25m
to
\$30m
of
capex
avoidance
was
also included in the announcement
As part of the proxy filing in December 2010, an
incremental \$50m of savings was identified through
operational efficiencies and G&A reduction
To reach the cumulative \$400m to \$450m target, most of the
projected run-rate savings would have to be in-place in 2010
There appears to be a concerted effort to reduce G&A expense as
evidenced by the 10% decline, on average, per year since 2007
Updates to investors have reinforced that the program is on-track
but have not provided additional details
It is unclear if the incremental savings in the proxy filing is based on
pushing the current initiatives further or if new ideas and initiatives
have been developed
The current savings program has not been evaluated for delivery risk
It is possible that a
further \$16m to \$103m of
cost
savings
and
operational
improvements could be
possible, however further
validation is required
The current cost savings do not specifically mention
opportunities in the cost of sales line, which may include
transportation and distribution opportunities

When compared to historical cost levels and comparator organizations, further upside may be possible in the O&M and G&A lines, beyond what has already been included in the business plan forecasts

Given the limited amount of time and access to information, it is difficult to ascertain how much further operational improvement may be possible in this business and further validation and diligence is required

The largest component of the incremental savings identified is in the O&M line. The savings may not be entirely possible given the plant upgrades and new emissions equipment

No consideration has been given to timing or implementation cost at this time

The asset efficiency of the organization lags the peer group and should be investigated further to understand the drivers and assess what upside may be possible

Dynegy's asset efficiency (EBITDA / Assets) is at 5% and currently 4th quartile for the peer group. For the comparator group chosen, the range was between 5% and 14%

Given the limited amount of time and access to information, it was not possible to identify the specific causes for this performance.

Further investigation is required

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36

DRAFT

Project Delta

We have identified an incremental \$16m to \$103m of potential savings, above and beyond what may be included in the current forecasts

Methodology and Assumptions

The total potential for each of the P&L lines was determined using the 12 month period ending September 2010 as the baseline. Costs by type were compared with historic levels and against comparator organizations.

The level of planned operating expense (O&M and G&A) going forward was estimated using the difference between gross margin and adjusted EBITDA from the proxy filing dated 10 January 2011.

(1)

The total savings potential was then compared to the published forecasts (10 January 2011 proxy filing) to understand if additional opportunity exists, above and beyond what is included in the current business plans.

Notes:

(1) Adjusted EBITDA includes interest income and other adjustments related to mark-to-market changes, and therefore may not be an accurate representation of the planned O&M and G&A of the business going forward.

Source:

Preliminary

proxy statements relating to merger or acquisition, DPREM 14A, 10 January 2011 page 59 ; Analysis

(1)

The

savings

range

has been

calculated by

taking the

difference

between the LTM

baseline (\$631m)

and the estimated

operating cost

going forward

Savings potential

incremental to the

current business

forecasts

Savings potential from 12 month period ending September 2010 (\$mm)

Base

Stretch

Base

Stretch

O&M

487

487

10%

19%

48

94

G&A

144

144

20%

36%

28

51

Subtotal

631

\$

631

\$

12%

23%

76

\$

145

\$

Analysis of planned operating expense going forward (\$mm)

Base

Stretch

Assume that the average GM-

Adj

EBITDA for 2013 to 2015 is a good proxy for on-going O&M + G&A

566

65

-

Assume that the average GM-

Adj

EBITDA for 2012 to 2015 is a good proxy for on-going O&M + G&A

577

-

54

65

\$

54

\$

11

\$

92

\$

Cost of sales savings potential from 12 month period ending September 2010 (\$mm)

Base

Stretch

Base

Stretch

Cost of Sales

1,140

114

5%

10%

6

11

16

\$

103

\$

Reduce Trans. & Dist.

Incremental savings potential (O&M and G&A)

Total incremental savings potential

Estimate of planned

improvements (2011 +)

P&L line

Opportunity

Cost base

(Q4'09 -

Q3'10)

Impactable

cost base

Savings assumption

Total savings potential (Q4'10
and beyond)

Improve O&M as a % of Sales

Improve G&A as a % of Sales

Possible

scenarios

Planned level of O&M + G&A
going forward

P&L line

Opportunity

Cost base

(Q4'09 -

Q3'10)

Impactable

cost base

Savings assumption

Total savings potential (Q4'10
and beyond)

37

DRAFT

Project Delta

We have developed a set of hypotheses that could be refined and tested through our structured approach

Procurement

A more strategic approach to direct and indirect procurement, including centralizing the procurement function across Dynegy, may reduce costs across the organization

H1

Maintenance

and

Operations

Improvements to the maintenance and operations strategy and practices, including

a

shift

to

more
preventative
maintenance,
and
improved
scheduling,
planning and prioritizing of work could reduce O&M costs in the organization

H2

Equipment

Effectiveness

Targeted investments and a more effective maintenance program may
improve

the

OEE

of

the

plants,

resulting

in

improved

utilization

and

availability,

leading to reduced cost and improved profit

H3

Capital

Expenditures

A more rigorous approach to capex
approval and project governance could
reduce capex

levels

H4

Inventory /

Spare Parts

A

better

controlled

procurement

process

and

a

well

defined

spare

parts

strategy could reduce operating expense and release working capital through
spare parts reduction

H5

Support

Functions

Driving efficiency across the support functions through centralization,
outsourcing

and

the

use

of

self-service

models

could

reduce

G&A

costs

in

the business

H6

Should you wish to

proceed to Phase II, we

have identified a

preliminary list of

areas that you may

want to consider for

further analysis and

investigation

38

DRAFT

Project Delta

Our analysis was based on 6 comparator organizations that we believe to be similar to Dynegy

Company/

Comparator

Business

Description

Ticker

symbol

Market

Cap

(\$B)

Geography

(countries)

of
plants
Total
capacity
(MW)
Employ-
ees
Generation mix
Stages of involvement
Coal
Natural
gas
Oil
Nuc-
lear
Hydro
Renewable
and others
Gene-
ration
Trans-
mission
Distri-
bution
Dynergy
Produces and sells electric
energy,
and
a
range
of
capacity
and
ancillary
services.
DYN
0.70
United States
18
12,300
1,735
GenOn
Energy
Generator of wholesale
electricity through baseload,
intermediate and peaking
units.
GEN
1.49
United States

49
24,599
3,219
NRG Energy
Engaged in the ownership,
development, and operation
of power generation
facilities.
NRG
4.99
United States
42
24,744
4,607
Calpine
Corporation
Sells wholesale power,
steam, capacity, renewable
energy
credits
and
ancillary
services.
CPN
6.54
91
27,500
2,200
Constellation
Energy Group
Develops, owns, owns
interests in, and operates
electric generation facilities.
CEG
6.50
N/A
7,118
7,200
The AES
Corporation
Owns and/or operates
power plants to generate
and sell wholesale power.
AES
10.21
United
States; 28
addt 1
countries
132

40,300

27,000

Public

Service

Enterprise

Group

Holding company which
operates through Power,
Utility and Investment
divisions.

PEG

15.85

United States

N/A

13,500

6,382

Notes:

Number of plants are defined as those that the Company owns, operates, leases or has partnership interests

Source:

Publicly available information

United

States;

Canada

United

States;

Canada

39

DRAFT

Project Delta

Summary of previously announced cost saving programs

Current cost improvement
initiatives

Additional detail

Observations

In July 2009, Dynegy reported
that a cumulative \$400m to
\$450m of operating
efficiencies could be achieved
between 2010 and 2013 with
annual run-rates between
\$95m and \$110m

(1)

Dynegy announced an extensive, multi-year program to

eliminate costs throughout the company. Cumulative savings, relative to Dynegy's original plan, are expected to be \$400m to \$450m over a four-year period beginning in 2010

Annual savings are expected to be generated through the following means:

reduced capital expenditures, with a targeted range of \$25m to \$30m in savings per year;

reduced operational expenditures, with a targeted range of \$30m to \$40m in savings per year; and

reduced general and administrative expenditures, with a targeted range of \$40m to \$45m in savings per year

It does not appear that there have been additional updates with respect to the timing, areas of focus or progress towards targets aside from the comments in the quarterly investor updates indicating that the program is on-track

If the savings are based on a 2009 baseline, this represents an EBITDA improvement of approximately 3 points from 23% to 26% of sales
approximately 25% reduction in SG&A expense
approximately 7% reduction in O&M expense

Reduction in capex

is grouped in with the operating

cost improvements, however direct P&L impact is not expected

As part of the proxy

statement released on

January 10, 2011 from

Dynegy to its shareholders,

an additional \$50m of annual

cost savings may be possible,

beginning in 2011 and

incremental to the previously

announced targets

(2)

Implementation of a cost savings program focused on reducing general, administrative and operational expenses generates approximately \$50m in annual cost savings beginning in 2011.

Implementation has not yet commenced and would be incremental to the cost savings targets included in the Company's previously announced 2010-2013 cost savings program

No further detail is provided as to where these cost savings will come from or the cost and risk associated with achieving this level of savings

Source:

(1)

Dynegy Press Release, August 10, 2009, Dynegy Reaches Transformational Agreement with LS Power; Separately Initiates C

(2)
Dynergy
Proxy
Filing
on
December
23,
2010,
Schedule
14a,
Page
60,
note
3

40
DRAFT
Methodology and Assumptions
To
estimate
the
planned
level
of
operating
expense
(O&M
and
G&A)
going
forward,

the

projected gross margin of the business was compared to the projected Adjusted EBITDA using the forecasts found in the 10 January 2011 proxy filing it is important to note that there is a difference between the \$702m of estimated operating expense found using this method for 2010E and the LTM baseline (\$631m) used to calculate the potential savings of \$71m (10%). This could be due to the impacts of interest income, mark-to-market changes or changes in the operating cost base of the business and should be investigated further Once the expected level of operating expense was determined for each of the forecast periods, it was assumed that 2013 and beyond could be used to understand the planned level of operating expense once all of the current cost reduction programs were completed

this analysis will only identify the net forecast change in estimated operating expense which will include both increases due to increasing costs of goods and services and cost reduction efforts that may be planned and delivered as part of the announced programs and further efforts by management

Project Delta

Analysis of proxy filing

Notes:

(1) Adjusted EBITDA includes interest income and other adjustments related to mark-to-market changes, and therefore may not be an accurate representation of the planned O&M and G&A of the business going forward

Source:

Preliminary

proxy statements relating to merger or acquisition, DPREM 14A, 10 January 2011 page 59 ; Analysis

Recommended next steps

Validate the actual planned levels of O&M and G&A in the business plan going forward

and compare these

to the actual 2010 results to determine what level of cost reduction may be planned

Review the assumptions and operating initiatives that were used to develop the plans to understand the robustness of those plans and assumptions

Understand and model the impact of off-setting items including normalizing for changes in revenue, inflation, changes in the asset base or other known items that could impact the required level of operating expense going forward

(1)

Analysis of forward looking performance (\$mm)

2010E

2011E

2012E

2013E

2014E

2015E

Gross Margin

1,209

867

920

1,057

932

1,020

Adjusted EBITDA

507

418

308

483

380

449

Operating

Cash

Flow

317

(13)

(147)

47

(93)

(28)

Estimated operating expense (GM less adjusted EBITDA)

702

449

612

574

552

571

Assume that the average GM-

Adj

EBITDA for 2013 to 2015 is a good proxy for on-going O&M + G&A

566

Assume that the average GM-

Adj

EBITDA for 2012 to 2015 is a good proxy for on-going O&M + G&A

577

Financial year ending December

31,

Planned level of O&M +

G&A going forward

Possible scenarios

41

DRAFT

Project Delta

Comparator organizations cost reduction initiatives

Company

Commentary

GenOn

Energy

We assume US\$100m in cost savings in 2011 rising to US\$200m in 2012 (more than management's guidance of US\$150m)

the

companies

eliminate

some

overheads

and

optimize

coal
and
power
hedges.

Macquarie
Equities
Research,
Dec.
2010

We believe GEN will exceed announced annual cost savings of \$150MM. We believe this estimate is conservative and will be

achieved
early
in
2011.

We
expect
additional
annual
savings
of
\$100-\$150MM.

RBC
Capital
Markets,
Dec.
2010

Both companies also expect overhead cost savings to result from consolidations in several areas, including headquarters, IT

systems
and
corporate
functions
such
as
accounting,
human
resources
and
finance.

ISS
Proxy
Advisory,
Oct.
2010

Stockholders of both companies (Mirant & RRI Energy) will benefit from significant value creation driven by expected annual

savings
of
\$150

million.
These
costs
savings
will
come
from
reductions
in
corporate
overhead
and
will
be
realized
fully
starting
in
January 2012.

BusinessWire, Apr. 2010

NRG Energy

Longer

term

NRG

forecasts

Reliant

to

earn

around

\$300m

per

year

in

run-rate

EBITDA.

Included

in

this

estimate

are

the

transaction cost savings associated with being able to cross generation and load (around \$30m of margin from bypassing the

bid/ask

spread

and

from

collateral

savings).

Morgan
Stanley
Research,
Oct.
2010
Calpine
Corporation

Calpine's strategy of keeping its focus on natural gas-fired generation has served the company well. By doing so, Calpine has been able to avoid the need for costly environmental upgrades.

Oppenheimer,
Dec.
2010

Operating costs are expected to decline in 2012 as the major maintenance cycle is completed. Thereafter, we expect costs to be about flat as a result of the company's cost management efforts.

Wunderlich
Securities,
Dec.
2010
Constellation
Energy Group

Constellation Energy must be nimble and agile, able and willing to change based upon market dynamics or a sweeping policy pronouncement. Over the course of the next 12 to 24 months, we intend to deploy up to \$1 billion of the cash proceeds from the EDF joint venture toward asset acquisitions in

areas
where
we
supply
a
large
volume
of
power.

GlobalData,
July
2010
AES
Corporation

AES is currently transitioning from a crisis period to disciplined growth. Key future drivers are organic growth, acquisitions, deleveraging, enhanced operational synergies and cost cutting.

RBC
Capital
Markets,
Nov.
2010

Potential for positive earnings revisions in the future. We believe the combination of cost reductions and/or accretive acquisitions could cause upward revisions to our 2011-2012 estimates.

Our recent conversations with management suggest the possibility of \$75-100 million (\$0.06-\$0.08/share,

after-tax)
of
corporate
overhead
reductions
that
are
not
currently
in
our
estimates

SunTrust
Robinson Humphrey, Oct. 2010
Source:
Analyst reports and other publically available information