

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 Capital
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 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 re
established by the American Institute of Certified Public Accountants and firm has not otherwise verified the information obtai

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

Dynegy

Seneca retained Ventyx (Energy Velocity) to analyze the impact of the EPA's potential

HAPS/MACT

rules

on

Dynegy'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