DYNEGY INC.
Form 10-Q
November 05, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2015

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

For the transition period from ________ to ________

Commission file number: 001-33443

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

State of Incorporation	I.R.S. Employer Identification No.
Delaware	20-5653152

601 Travis, Suite 1400 Houston, Texas	77002
(Address of principal executive offices)	(Zip Code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

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

Large accelerated filer ý	Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

Indicate by check mark whether the registrant filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes x No ¨

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Indicate the number of shares outstanding of our class of common stock, as of the latest practicable date: Common stock, $0.01 par value per share, 120,553,913 shares outstanding as of October 19, 2015.

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DEFINITIONS

As used in this Form 10-Q, the abbreviations contained herein have the meanings set forth below.

CAISO	The California Independent System Operator
CAA	Clean Air Act
CT	Combustion Turbine
EGU	Electric Generating Units
EPA	Environmental Protection Agency
FCA	Forward Capacity Auction
FERC	Federal Energy Regulatory Commission
FTR	Financial Transmission Rights
IMA	In-market Asset Availability
IPH	IPH, LLC (formerly known as Illinois Power Holdings, LLC)
ISO	Independent System Operator
ISO-NE	Independent System Operator New England
kW	Kilowatt
LIBOR	London Interbank Offered Rate
MISO	Midcontinent Independent System Operator, Inc.
MMBtu	One Million British Thermal Units
Moody’s	Moody’s Investors Service Inc.
MW	Megawatts
MWh	Megawatt Hour
NM	Not Meaningful
NYISO	New York Independent System Operator
PJM	PJM Interconnection, LLC
PRIDE	Producing Results through Innovation by Dynegy Employees
RMR	Reliability Must Run
S&P	Standard & Poor’s Ratings Services
SEC	U.S. Securities and Exchange Commission

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PART I. FINANCIAL INFORMATION
Item 1—FINANCIAL STATEMENTS
DYNEGY INC.
CONSOLIDATED BALANCE SHEETS
(unaudited) (in millions, except share data)

	September 30, 2015	December 31, 2014
ASSETS		
Current Assets		
Cash and cash equivalents	$934	$1,870
Restricted cash	—	113
Accounts receivable, net of allowance for doubtful accounts of $2 and $2, respectively	436	270
Inventory	531	208
Assets from risk management activities	69	78
Intangible assets	120	27
Prepayments and other current assets	177	108
Total Current Assets	2,267	2,674
Property, Plant and Equipment	9,269	3,685
Accumulated depreciation	(784)	(430)
Property, Plant and Equipment, Net	8,485	3,255
Other Assets		
Investment in unconsolidated affiliate	189	—
Restricted cash	—	5,100
Assets from risk management activities	48	2
Goodwill	818	—
Intangible assets	82	38
Deferred income taxes	54	20
Other long-term assets	214	143
Total Assets	$12,157	$11,232

See the notes to consolidated financial statements.

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DYNEGY INC.
CONSOLIDATED BALANCE SHEETS
(unaudited) (in millions, except share data)

	September 30, 2015	December 31, 2014
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable	$315	$216
Accrued interest	180	80
Deferred income taxes	67	20
Intangible liabilities	98	45
Accrued liabilities and other current liabilities	185	157
Liabilities from risk management activities	94	132
Debt, current portion	71	31
Total Current Liabilities	1,010	681
Debt, long-term portion	7,208	7,075
Other Liabilities		
Liabilities from risk management activities	135	31
Asset retirement obligations	326	205
Deferred income taxes	26	—
Intangible liabilities	73	36
Other long-term liabilities	198	181
Total Liabilities	8,976	8,209
Commitments and Contingencies (Note 14)		
Stockholders’ Equity		
Preferred stock, $0.01 par value, 20,000,000 shares authorized:		
Series A 5.375% mandatory convertible preferred stock, $0.01 par value; 4,000,000 shares issued and outstanding, respectively	400	400
Common stock, $0.01 par value, 420,000,000 shares authorized; 128,179,226 shares issued and 123,182,927 shares outstanding at September 30, 2015; 124,436,941 shares issued and outstanding at December 31, 2014	1	1
Additional paid-in capital	3,309	3,338
Accumulated other comprehensive income, net of tax	24	20
Accumulated deficit	(552)	(736)
Total Dynegy Stockholders’ Equity	3,182	3,023
Noncontrolling interest	(1)	—
Total Equity	3,181	3,023
Total Liabilities and Equity	$12,157	$11,232

See the notes to consolidated financial statements.

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DYNEGY INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited) (in millions, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Revenues	$1,232	$615	$2,854	$1,898
Cost of sales, excluding depreciation expense	(621)	(387)	(1,494)	(1,304)
Gross margin	611	228	1,360	594
Operating and maintenance expense	(219)	(114)	(580)	(360)
Depreciation expense	(174)	(61)	(413)	(185)
Impairments and other charges	(74)	—	(74)	—
Gain (loss) on sale of assets, net	—	3	(1)	17
General and administrative expense	(29)	(25)	(94)	(80)
Acquisition and integration costs	(8)	(9)	(121)	(17)
Operating income (loss)	107	22	77	(31)
Earnings (losses) from unconsolidated investments	(4)	—	(1)	10
Interest expense	(145)	(32)	(413)	(104)
Other income and expense, net	46	5	45	(40)
Income (loss) before income taxes	4	(5)	(292)	(165)
Income tax benefit (expense) (Note 15)	(28)	—	473	1
Net income (loss)	(24)	(5)	181	(164)
Less: Net income (loss) attributable to noncontrolling interest	—	—	(3)	5
Net income (loss) attributable to Dynegy Inc.	(24)	(5)	184	(169)
Less: Dividends on preferred stock	5	—	16	—
Net income (loss) attributable to Dynegy Inc. common stockholders	$(29)	$(5)	$168	$(169)
Earnings (Loss) Per Share (Note 18):				
Basic earnings (loss) per share attributable to Dynegy Inc. common stockholders	$(0.23)	$(0.05)	$1.33	$(1.69)
Diluted earnings (loss) per share attributable to Dynegy Inc. common stockholders	$(0.23)	$(0.05)	$1.31	$(1.69)
Basic shares outstanding	126	100	126	100
Diluted shares outstanding	126	100	140	100

See the notes to consolidated financial statements.

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DYNEGY INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(unaudited) (in millions)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Net income (loss)	$(24)	$(5)	$181	$(164)
Other comprehensive income (loss) before reclassifications:				
Actuarial gain (loss) and plan amendments (net of tax of $2, zero, $2 and zero, respectively)	13	—	8	(3)
Amounts reclassified from accumulated other comprehensive income:				
Amortization of unrecognized prior service credit and actuarial gain (net of tax of zero, zero, zero and zero, respectively)	(1)	(1)	(3)	(3)
Other comprehensive income (loss), net of tax	12	(1)	5	(6)
Comprehensive income (loss)	(12)	(6)	186	(170)
Less: Comprehensive income (loss) attributable to noncontrolling interest	1	—	(2)	4
Total comprehensive income (loss) attributable to Dynegy Inc.	$(13)	$(6)	$188	$(174)

See the notes to consolidated financial statements.

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DYNEGY INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited) (in millions)

	Nine Months Ended September 30,	
	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$181	$(164)
Adjustments to reconcile net income (loss) to net cash flows from operating activities:		
Depreciation expense	413	185
Non-cash interest expense	25	15
Amortization of intangibles	(18)	38
Risk management activities	(117)	57
(Gain) loss on sale of assets, net	1	(17)
Loss from unconsolidated investments	1	—
Deferred income taxes	(473)	(1)
Impairment of long-lived assets	74	—
Change in value of common stock warrants	(43)	43
Other	37	27
Changes in working capital:		
Accounts receivable, net	(48)	187
Inventory	(52)	1
Prepayments and other current assets	95	32
Accounts payable and accrued liabilities	227	(124)
Distributions from unconsolidated investments	3	—
Changes in non-current assets	(23)	(9)
Changes in non-current liabilities	19	6
Net cash provided by operating activities	302	276
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(171)	(94)
Proceeds from asset sales, net	—	17
Acquisitions, net of cash acquired	(6,078)	—
Decrease in restricted cash	5,148	—
Distributions from unconsolidated affiliates	8	—
Other investing	(6)	—
Net cash used in investing activities	(1,099)	(77)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from long-term borrowings	88	12
Repayments of borrowings	(29)	(6)
Financing costs from debt issuance	(31)	(2)
Financing costs from equity issuance	(6)	—
Dividends paid	(17)	—
Interest rate swap settlement payments	(13)	(13)
Repurchase of common stock	(127)	—
Other financing	(4)	(1)
Net cash used in financing activities	(139)	(10)
Net increase (decrease) in cash and cash equivalents	(936)	189

Cash and cash equivalents, beginning of period	1,870	843
Cash and cash equivalents, end of period	$934	$1,032
Other non-cash investing and financing activity:		
Non-cash capital expenditures	$9	$36
Non-cash consideration transferred for Acquisitions	$105	$—
Non-cash capital expenditures pursuant to an equipment financing agreement	$63	$—

See the notes to consolidated financial statements.

DYNEGY INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
For the Interim Periods Ended September 30, 2015 and 2014

Note 1—Basis of Presentation and Organization

The accompanying unaudited consolidated financial statements have been prepared in accordance with the instructions to interim financial reporting as prescribed by the SEC. The year-end consolidated balance sheet data was derived from audited consolidated financial statements, but does not include all disclosures required by the Generally Accepted Accounting Principles of the United States of America ("GAAP"). The unaudited consolidated financial statements contained in this report include all material adjustments of a normal recurring nature that, in the opinion of management, are necessary for a fair presentation of the results for the interim periods. These interim financial statements should be read together with the consolidated financial statements and notes thereto included in our annual report on Form 10-K for the year ended December 31, 2014, filed with the SEC on February 25, 2015, which we refer to as our "Form 10-K." Unless the context indicates otherwise, throughout this report, the terms "Dynegy," "the Company," "we," "us," "our," and "ours" are used to refer to Dynegy Inc. and its direct and indirect subsidiaries.

Our current business operations are focused primarily on the unregulated power generation sector of the energy industry. We report the results of our power generation business as three segments in our unaudited consolidated financial statements: (i) the Coal segment ("Coal"), (ii) the IPH segment ("IPH") and (iii) the Gas segment ("Gas"). Our consolidated financial results also reflect corporate-level expenses such as general and administrative expense, interest expense and income tax benefit (expense). All significant intercompany transactions have been eliminated. Please read Note 20—Segment Information for further discussion.

IPH and its direct and indirect subsidiaries are organized into ring-fenced groups in order to maintain corporate separateness from Dynegy and its other subsidiaries. Certain of the entities in the IPH segment, including Illinois Power Generating Company ("Genco"), have an independent director whose consent is required for certain corporate actions, including material transactions with affiliates. Further, entities within the IPH segment present themselves to the public as separate entities. They maintain separate books, records and bank accounts and separately appoint officers. Furthermore, they pay liabilities from their own funds, conduct business in their own names and have restrictions on pledging their assets for the benefit of certain other persons. These provisions restrict our ability to move cash out of these entities without meeting certain requirements as set forth in the governing documents.

Note 2—Accounting Policies

Use of Estimates. The preparation of unaudited consolidated financial statements in conformity with GAAP requires management to make informed estimates and judgments that affect our reported financial position and results of operations based on currently available information. Actual results could differ materially from our estimates. The results of operations for the interim periods presented in this Form 10-Q are not necessarily indicative of the results to be expected for the full year or any other interim period due to seasonal fluctuations in demand for our energy products and services, changes in commodity prices, timing of maintenance and other expenditures and other factors.

The accounting policies followed by the Company are set forth in Note 2—Summary of Significant Accounting Policies in our Form 10-K. The accompanying unaudited consolidated financial statements include our accounts and the accounts of our majority-owned or controlled subsidiaries. Accounting policies for all of our operations are in accordance with accounting principles generally accepted in the United States of America. There have been no significant changes to our accounting policies during the nine months ended September 30, 2015. Due to our Acquisitions in April 2015 and the authorization of a share repurchase program in August 2015, we have added the following significant policies:

Undivided Interest Accounting. We account for our undivided interests in certain of our coal-fired power generation facilities whereby our proportionate share of each facility's assets, liabilities, revenues, and expenses are included in the appropriate classifications in the accompanying unaudited consolidated financial statements.

Goodwill. Goodwill represents, at the time of an acquisition, the excess of purchase price over fair value of net assets acquired. The carrying amount of our goodwill will be periodically reviewed, at least annually, for impairment and whenever events or changes in circumstances indicate that the carrying value may not be recoverable. In accordance

with Accounting Standards Codification (“ASC”) 350, Intangibles-Goodwill and Other, we can opt to perform a qualitative assessment to test goodwill for impairment or we can directly perform a two-step impairment test. Based on our qualitative assessment, if we determine that the fair value of a reporting unit is more likely than not (i.e., a likelihood of more than 50 percent) to be less than its carrying amount, the two-step impairment test will be performed.

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DYNEGY INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
For the Interim Periods Ended September 30, 2015 and 2014

In the absence of sufficient qualitative factors, goodwill impairment is determined using a two-step process:

- Step one—Identify potential impairment by comparing the fair value of a reporting unit to the book value, including goodwill. If the fair value exceeds book value, the goodwill of the reporting unit is not considered impaired. If the book value exceeds fair value, proceed to step two.
- Step two—Compare the implied fair value of the reporting unit's goodwill to the book value of the reporting unit's goodwill. If the book value of goodwill exceeds the implied fair value, an impairment charge is recognized for the excess.

Treasury Stock. Treasury stock purchases are accounted for under the cost method whereby the entire cost of the acquired stock is recorded as treasury stock, which is presented on our unaudited consolidated balance sheet as a reduction of Additional paid-in capital.

Accounting Standards Adopted During the Current Period

Business Combinations. In September 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2015-16-Business Combinations (Topic 805). The amendments in this ASU require that an acquirer recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. The amendments in this ASU require that the acquirer record, in the same period's financial statements, the effect on earnings of changes in depreciation, amortization, or other income effects, if any, as a result of the change to the provisional amounts, calculated as if the accounting had been completed at the acquisition date. The amendments in this ASU require an entity to present separately on the face of the income statement or disclose in the notes the portion of the amount recorded in current-period earnings by line item that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had been recognized as of the acquisition date. The guidance in this ASU is effective prospectively for interim and annual periods beginning after December 15, 2016, with early adoption permitted for financial statements that have not been issued. We adopted ASU 2015-16 as of September 30, 2015. Please see Note 3—Acquisitions for a summary of the impact on our unaudited consolidated financial statements.

Derivatives. In August 2015, the FASB issued ASU 2015-13-Derivatives and Hedging (Topic 815). The amendments in this ASU specify that the use of locational marginal pricing by an ISO does not constitute net settlement of a contract for the purchase or sale of electricity on a forward basis and, therefore, does not cause that contract to fail to meet the physical delivery criterion of the normal purchases and normal sales scope exception. If the physical delivery criterion is met, along with all of the other criteria of the normal purchases and normal sales scope exception, an entity may elect to designate that contract as a normal purchase or normal sale. The amendments in this ASU are effective upon issuance and should be applied prospectively. The adoption of this ASU did not have a material impact on our unaudited consolidated financial statements.

Inventory. In July 2015, the FASB issued ASU 2015-11-Inventory (Topic 330). The amendments in this ASU require that inventory is measured at the lower of cost and net realizable value ("NRV"), with the latter defined as the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. This ASU eliminates the need to determine market or replacement cost and evaluate whether it is above the ceiling at NRV or below the floor (NRV less a normal profit margin). The guidance in this ASU is effective prospectively for interim and annual periods beginning after December 15, 2016, with early adoption permitted. We adopted ASU 2015-11 as of July 1, 2015. The adoption of this ASU did not have a material impact on our unaudited consolidated financial statements.

Retirement Benefits. In April 2015, the FASB issued ASU 2015-04-Compensation-Retirement Benefits (Topic 715). For an entity that has a significant event in an interim period that calls for a remeasurement of defined benefit plan or post retirement plan assets and obligations, the amendments in this ASU provide a practical expedient that permits the entity to remeasure the plan assets and obligations using the month-end that is closest to the date of the significant event. The month-end remeasurement of defined benefit plan assets and obligations that is closest to the date of the significant event should be adjusted for any effects of the significant event that may or may not be captured in the

month-end measurement. An entity is required to disclose the accounting policy election and the date used to measure defined benefit plan assets and obligations in accordance with the amendments in this ASU. The amendments in this ASU are effective for public business entities for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years, with early adoption allowed. The amendments in this ASU should be applied prospectively. We adopted the guidance in this ASU on July 1, 2015.

Reporting Discontinued Operations and Asset Disposals. In April 2014, the FASB issued ASU 2014-08-Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosure of Disposals of Components of an Entity. The amendments in this ASU change the requirements for reporting discontinued operations in Subtopic 205-20. An entity is required to report within discontinued operations on the statement of

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operations the results of a component or group of components of an entity if the disposal represents a strategic shift that has, or will have, a major effect on an entity's operations and financial results. Additionally, the associated assets and liabilities are required to be presented separately from other assets and liabilities on the balance sheet for all comparative periods. The ASU includes updated guidance regarding what meets the definition of a component of an entity. The new financial statement presentation provisions relating to this ASU are prospective and effective for interim and annual periods beginning after December 15, 2014, with early adoption permitted. The adoption of this ASU did not have a material impact on our unaudited consolidated financial statements or disclosures.

Accounting Standards Not Yet Adopted

Debt Issuance Costs. In April 2015, the FASB issued ASU 2015-03-Interest-Imputation of Interest (Subtopic 835-30). The amendments in this ASU require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this update.

In August 2015, the FASB issued ASU 2015-15-Interest-Imputation of Interest (Subtopic 835-30). The amendments in this ASU further clarify the guidance provided in ASU 2015-03 to include the presentation of debt issuance costs in relation to line-of-credit arrangements. The amendments state these costs may be presented as an asset and subsequently amortized ratably over the term of the arrangement, regardless of whether there are any outstanding borrowings on the line-of-credit arrangement.

The guidance in these ASUs is effective for interim and annual periods beginning after December 15, 2015, with early adoption permitted. The adoption of these ASUs should be applied on a retrospective basis, affecting all balance sheet periods presented. We do not anticipate the adoption of these ASUs will have a material impact on our unaudited consolidated balance sheets.

Consolidation. In February 2015, the FASB issued ASU 2015-02-Consolidation (Topic 810). The amendments in this ASU respond to concerns about the current accounting for consolidation of certain legal entities, in particular: (i) consolidation of limited partnerships and similar legal entities, (ii) evaluating fees paid to a decision maker or a service provider as a variable interest, (iii) the effect of fee arrangements on the primary beneficiary determination, (iv) the effect of related parties on the primary beneficiary determination and (v) consolidation of certain investment funds. The guidance in this ASU is effective for interim and annual periods beginning after December 15, 2015, with early adoption permitted in an interim period. We do not anticipate the adoption of this ASU will have a material impact on our unaudited consolidated financial statements.

Extraordinary and Unusual Items. In January 2015, the FASB issued ASU 2015-01-Income Statement-Extraordinary and Unusual Items (Subtopic 225-20). The amendments in this ASU eliminate from GAAP the concept of extraordinary items and will no longer require separate classification of these items within the statement of operations. Presentation and disclosure guidance for items that are unusual in nature or occur infrequently will be retained and will be expanded to include items that are both unusual in nature and infrequently occurring. The guidance in this ASU is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. Reporting entities may elect to apply the amendments prospectively only, or retrospectively for all prior periods presented in the financial statements. Early adoption is permitted provided that the guidance is applied from the beginning of the fiscal year of adoption. We do not anticipate the adoption of this ASU will have a material impact on our unaudited consolidated financial statements.

Revenue from Contracts with Customers. In May 2014, the FASB and International Accounting Standards Board ("IASB") jointly issued ASU 2014-09-Revenue from Contracts with Customers (Topic 606). This ASU was further updated through the issuance of ASU 2015-14 in August 2015. The amendments in this ASU develop a common revenue standard for GAAP and International Financial Reporting Standards ("IFRS") by removing inconsistencies and weaknesses in revenue requirements, providing a more robust framework for addressing revenue issues, improving comparability of revenue recognition practices, providing more useful information to users of financial statements and

simplifying the preparation of financial statements. The guidance in this ASU is effective for interim and annual periods beginning after December 15, 2017, with early adoption permitted for interim and annual periods beginning after December 15, 2016. We are currently assessing this ASU; however, we do not anticipate the adoption of this ASU will have a material impact on our unaudited consolidated financial statements.

Note 3—Acquisitions

Acquisitions

ECP Purchase Agreements. On April 1, 2015 (the “EquiPower Closing Date”), pursuant to the terms of the stock purchase agreement dated August 21, 2014, as amended (the “ERC Purchase Agreement”), our wholly-owned subsidiary, Dynegy Resource

II, LLC (the "ERC Purchaser") purchased 100 percent of the equity interests in EquiPower Resources Corp. ("ERC") from certain affiliates of Energy Capital Partners (collectively, the "ERC Sellers") thereby acquiring (i) five combined cycle natural gas-fired facilities in Connecticut, Massachusetts and Pennsylvania, (ii) a partial interest in one natural gas-fired peaking facility in Illinois, (iii) two gas and oil-fired peaking facilities in Ohio and (iv) one coal-fired facility in Illinois (the "ERC Acquisition").

On the EquiPower Closing Date, in a related transaction, pursuant to a stock purchase agreement and plan of merger dated August 21, 2014, as amended (the "Brayton Purchase Agreement" and together with the ERC Purchase Agreement, the "ECP Purchase Agreements"), our wholly-owned subsidiary Dynegy Resource III, LLC (the "Brayton Purchaser" and together with the ERC Purchaser, the "ECP Purchasers") purchased 100 percent of the equity interests in Brayton Point Holdings, LLC ("Brayton") from certain affiliates of Energy Capital Partners (collectively, the "Brayton Sellers" and together with the ERC Sellers, the "ECP Sellers"), thereby acquiring a coal-fired facility in Massachusetts (the "Brayton Acquisition").

The ERC Acquisition and the Brayton Acquisition (collectively, the "EquiPower Acquisition") added approximately 6,300 MW of generation in Connecticut, Illinois, Massachusetts, Ohio and Pennsylvania for an aggregate base purchase price of approximately $3.35 billion in cash plus approximately $105 million in common stock of Dynegy, subject to certain adjustments. In aggregate, the resulting operations from the two coal-fired facilities acquired from the ECP Sellers are reported within our Coal segment, while related operations from the six natural gas-fired and two gas and oil-fired facilities are reported within our Gas segment.

Under the ECP Purchase Agreements, the ECP Purchasers and ECP Sellers have agreed to indemnify the other applicable parties for breaches of representations and warranties, breaches of covenants and certain other matters, subject to certain exceptions and limitations. Neither the ECP Purchasers nor the ECP Sellers, in the aggregate, are entitled to indemnification in excess of $276 million, and $104 million of the purchase price will be held in escrow for one year after closing to support the post-closing adjustment and the indemnification obligations of the ECP Sellers.

Duke Midwest Purchase Agreement. On April 2, 2015 (the "Duke Midwest Closing Date"), pursuant to the terms of the purchase and sale agreement dated August 21, 2014, as amended (the "Duke Midwest Purchase Agreement"), our wholly-owned subsidiary Dynegy Resource I, LLC ("DRI") purchased 100 percent of the membership interests in Duke Energy Commercial Asset Management, LLC and Duke Energy Retail Sales, LLC, from two affiliates of Duke Energy Corporation (collectively, "Duke Energy"), thereby acquiring approximately 6,200 MW of generation in (i) three combined cycle natural gas-fired facilities located in Ohio and Pennsylvania, (ii) two natural gas-fired peaking facilities located in Ohio and Illinois, (iii) one oil-fired peaking facility located in Ohio, (iv) partial interests in five coal-fired facilities located in Ohio and (v) a retail energy business for a base purchase price of approximately $2.80 billion in cash (the "Duke Midwest Acquisition"), subject to certain adjustments. We operate two of the five coal-fired facilities, the Miami Fort and Zimmer facilities, with other owners operating the three remaining facilities. The operations from the retail energy business, the five coal-fired and the one oil-fired facilities acquired from Duke Energy are reported within our Coal segment, while related operations from the five natural gas-fired facilities are reported within our Gas segment.

Under the Duke Midwest Purchase Agreement, DRI and Duke Energy have agreed to indemnify the other applicable parties for breaches of representations and warranties, breaches of covenants and certain other matters, subject to certain exceptions and limitations. Dynegy has guaranteed, up to a maximum liability of $2.80 billion, the obligations of DRI under the Duke Midwest Purchase Agreement and related Transition Services Agreement ("TSA"). DRI shall, in the aggregate, not be entitled to indemnification in excess of $280 million for most matters and $2.80 billion for certain fundamental representations, tax matters and fraud.

Business Combination Accounting. The EquiPower Acquisition and the Duke Midwest Acquisition (collectively, the "Acquisitions") have been accounted for in accordance with ASC 805, Business Combinations, with identifiable assets acquired and liabilities assumed recorded at their estimated fair values on the acquisition dates, April 1, 2015 and April 2, 2015, respectively. The valuation of these assets and liabilities are classified as Level 3 within the fair value

hierarchy levels. The initial accounting for the Acquisitions is not complete because certain information and analysis that may impact our initial valuations are still being obtained or reviewed as a result of the short time period since the closing of the Acquisitions. The significant assets and liabilities for which provisional amounts are recognized at the respective acquisition dates are property, plant and equipment, intangible assets and liabilities, goodwill, investment in unconsolidated affiliate, working capital adjustments, deferred income taxes, taxes other than deferred income taxes and asset retirement obligations. The provisional amounts recognized are subject to revision until our valuations are completed, not to exceed one year, and any material adjustments identified that existed as of the acquisition date will be recognized in the current period.

To fair value working capital, we used available market information. Asset retirement obligations were recorded in accordance with ASC 410. To fair value the acquired property, plant and equipment, we used a Discounted Cash Flow (“DCF”)

analysis, based upon a debt-free, free cash flow model. This DCF model was created for each power generation facility based on its estimated remaining useful life. The DCF model included gross margin forecasts for each power generation facility determined using forward commodity market prices obtained from third party quotations for the years 2015 through 2016. For the years 2017 through 2024, we used commodity and capacity price curves developed internally utilizing forward NYMEX natural gas prices and supply and demand factors. For periods beyond 2024, we assumed a 2.5 percent growth rate. We also used management's forecasts of operations and maintenance expense, general and administrative expense and capital expenditures for the years 2015 through 2019 and assumed a 2.5 percent growth rate, based upon management's view of future conditions, thereafter. The resulting cash flows were then discounted using plant specific discount rates of approximately 8 to 10 percent for gas-fired generation facilities and approximately 9 to 13 percent for coal-fired generation facilities, based upon the asset's age, efficiency, region and years until retirement. Contracts with terms that were not at current market prices were also valued using a DCF analysis. The cash flows generated by the contracts were compared with their cash flows based on current market prices with the resulting difference recorded as either an intangible asset or liability. The 3,460,053 shares of common stock of Dynegy issued as part of the consideration for the EquiPower Acquisition were valued at approximately $105 million based on the closing price of Dynegy's common stock on the EquiPower Closing Date.
The following table summarizes the consideration paid and the provisional fair value amounts recognized for the assets acquired and liabilities assumed related to the EquiPower Acquisition and Duke Midwest Acquisition, as of the respective acquisition dates, April 1, 2015 and April 2, 2015:

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(amounts in millions)	EquiPower Acquisition	Duke Midwest Acquisition	Total
Cash	$3,350	$2,800	$6,150
Equity instruments (3,460,053 common shares of Dynegy)	105	—	105
Net working capital adjustment	206	(9)	197
Fair value of total consideration transferred	$3,661	$2,791	$6,452
Cash	$267	$—	$267
Accounts receivable	47	124	171
Inventory	166	105	271
Assets from risk management activities (including current portion of $4 million and $30 million, respectively)	4	33	37
Prepayments and other current assets	32	69	101
Property, plant and equipment	2,769	2,740	5,509
Investment in unconsolidated affiliate	201	—	201
Intangible assets (including current portion of $67 million and $36 million, respectively)	111	84	195
Other long-term assets	28	34	62
Total assets acquired	3,625	3,189	6,814
Accounts payable	27	92	119
Accrued liabilities and other current liabilities	21	11	32
Debt, current portion	39	—	39
Liabilities from risk management activities (including current portion of $41 million and zero, respectively)	57	107	164
Asset retirement obligations	52	53	105
Intangible liabilities (including current portion of $24 million and $58 million, respectively)	73	93	166
Deferred income taxes, net	513	—	513
Other long-term liabilities	—	42	42
Total liabilities assumed	782	398	1,180
Identifiable net assets acquired	2,843	2,791	5,634
Goodwill	818	—	818
Net assets acquired	$3,661	$2,791	$6,452

As a result of recording the stepped up fair market basis for GAAP purposes, but receiving primarily carryover basis for tax purposes in the EquiPower Acquisition, we recorded a net deferred tax liability of $537 million within our provisional valuation of the EquiPower Acquisition for the period ended June 30, 2015. As we had previously recorded a valuation allowance against our historical deferred tax assets, we released approximately $480 million of our valuation allowance as a result of these increased net deferred tax liabilities in the three months ended June 30, 2015. Due to the availability of new information related to the EquiPower Acquisition, we reduced the deferred tax liability in the three months ended September 30, 2015 by $24 million, offset by a corresponding reduction to goodwill. This reduction to the deferred tax liability resulted in a partial reversal of the previously recognized release of the valuation allowance by $21 million. The initial release of the valuation allowance and the partial reversal were recorded as Income tax benefit (expense) in our unaudited consolidated statements of operations for the three and nine months ended September 30, 2015.

The goodwill of $818 million resulting from the EquiPower Acquisition reflects the excess of our purchase price over the fair value of the net assets acquired. We allocated all of the goodwill to our Gas reporting unit. None of the goodwill recognized is deductible for income tax purposes, and as such, no deferred taxes have been recorded related to goodwill. No goodwill was recognized as a result of the Duke Midwest Acquisition.

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We incurred acquisition costs of $1 million and $86 million for the three and nine months ended September 30, 2015, respectively, related to the Acquisitions, which are included in Acquisition and integration costs in our unaudited consolidated statement of operations. Acquisition costs for the nine months ended September 30, 2015 include $48 million of commitment fees associated with a temporary bridge facility, which were payable only upon the closing of the Acquisitions. No amounts were borrowed under the bridge facility, and the bridge facility was cancelled, as our permanent financing for the Acquisitions was executed. Revenues of $589 million and $1,071 million and operating income of $91 million and $133 million attributable to the Acquisitions for the three and nine months ended September 30, 2015, respectively, are included in our unaudited consolidated statement of operations.

Pro Forma Results. The unaudited pro forma financial results for the nine months ended September 30, 2015 and 2014 assume the EquiPower Acquisition and the Duke Midwest Acquisition occurred on January 1, 2014. The unaudited pro forma financial results may not be indicative of the results that would have occurred had the acquisition been completed as of January 1, 2014, nor are they indicative of future results of operations.

	Nine Months Ended September 30,	
(amounts in millions)	2015	2014
Revenues	$3,844	$4,155
Net income (loss)	$442	$(555)
Net income (loss) attributable to noncontrolling interests	$(3)	$5
Net income (loss) attributable to Dynegy Inc.	$445	$(560)

Note 4—Unconsolidated Investments

Equity Method Investments

Elwood. In connection with the EquiPower Acquisition, we acquired a 50 percent interest in Elwood Energy LLC, a limited liability company (“Elwood Energy”) and Elwood Expansion LLC, a limited liability company (“Elwood Expansion” and, together with Elwood Energy, “Elwood”). Elwood Energy owns a 1,576 MW natural gas-fired facility located in Elwood, Illinois. As of September 30, 2015, our equity method investment included in our unaudited consolidated balance sheet was $189 million. Upon the acquisition of our Elwood investment, we recognized basis differences in the net assets of approximately $90 million related to property plant and equipment, debt and intangibles. These basis differences are being amortized over their respective useful lives. Our risk of loss related to our equity method investment is limited to our investment balance. Holders of the debt of our unconsolidated investment do not have recourse to us and our other subsidiaries; therefore, the debt of our unconsolidated investment is not reflected in our unaudited consolidated balance sheet.

We recorded $4 million and $1 million in equity losses related to our investment in Elwood, which is reflected in Earnings (losses) from unconsolidated investments in our unaudited consolidated statement of operations for the three and nine months ended September 30, 2015. For the three months ended September 30, 2015, we received a distribution of $11 million, of which $8 million was considered a return of investment. As of September 30, 2015, we have approximately $4 million in accounts receivable due from Elwood, which is included in Accounts receivable in our unaudited consolidated balance sheet.

Black Mountain. On June 27, 2014, we completed the sale of our 50 percent partnership interest in Nevada Cogeneration Associates #2, a partnership that owns Black Mountain, an 85 MW (43 net MW) natural gas-fired combined cycle gas turbine facility in Nevada. We received $3 million and $14 million in cash proceeds upon the close of the transaction, which is reflected in Gain on sale of assets, net in our unaudited consolidated statements of operations for the three and nine months ended September 30, 2014. In connection with the sale, our guarantee was terminated. Additionally, we received $10 million in cash distributions from Black Mountain, which is recorded as Earnings (losses) from unconsolidated investments in our unaudited consolidated statements of operations for the nine months ended September 30, 2014.

Note 5—Risk Management Activities, Derivatives and Financial Instruments

The nature of our business necessarily involves commodity market and financial risks. Specifically, we are exposed to commodity price variability related to our power generation business. Our commercial team manages these commodity price risks with financially and physically settled contracts consistent with our commodity risk management policy. Our treasury team manages our interest rate risk.

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Our commodity risk management policy gives us the flexibility to sell energy and capacity and purchase fuel through a combination of spot market sales and near-term contractual arrangements (generally over a rolling one- to three-year time frame). Our commodity risk management goal is to protect cash flow in the near-term while keeping the ability to capture value longer-term.

Many of our contractual arrangements are derivative instruments and are accounted for at fair value as part of Revenues in our unaudited consolidated statements of operations. We have other contractual arrangements such as capacity forward sales arrangements, tolling arrangements, fixed price coal purchases and retail power sales which do not receive recurring fair value accounting treatment because these arrangements do not meet the definition of a derivative or are designated as "normal purchase, normal sale," in accordance with ASC 815. As a result, the gains and losses with respect to these arrangements are not reflected in the unaudited consolidated statements of operations until the delivery occurs.

Quantitative Disclosures Related to Financial Instruments and Derivatives

As of September 30, 2015, we had net purchases and sales of derivative contracts outstanding in the following quantities:

Contract Type (dollars and quantities in millions)	Quantity Purchases (Sales)	Unit of Measure	Fair Value (1) Asset (Liability)
Commodity contracts:			
Electricity derivatives (2)	(46)	MWh	$(25)
Electricity basis derivatives (3)	(40)	MWh	$40
Natural gas derivatives (2)	313	MMBtu	$(133)
Natural gas basis derivatives	67	MMBtu	$(12)
Diesel fuel derivatives	4	Gallon	$(5)
Coal derivatives (4)	—	Metric Ton	$(30)
Heat rate derivatives	2	MWh/MMBtu	$(2)
Emissions derivatives	6	Metric Ton	$5
Interest rate swaps	779	U.S. Dollar	$(48)
Common stock warrants (5)	16	Warrant	$(18)

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(1) Includes both asset and liability risk management positions, but excludes margin and collateral netting of $98 million.
(2) Mainly comprised of swaps, options and physical forwards.
(3) Comprised of FTRs and swaps.
(4) Our net position rounds to less than 1 million tons.
(5) Each warrant is convertible into one share of Dynegy common stock.

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Derivatives on the Balance Sheet. The following tables present the fair value and balance sheet classification of derivatives in the unaudited consolidated balance sheets as of September 30, 2015 and December 31, 2014. As of September 30, 2015 and December 31, 2014, there were no gross amounts available to be offset that were not offset in our unaudited consolidated balance sheets.

		September 30, 2015			
			Gross amounts offset in the balance sheet		
Contract Type	Balance Sheet Location	Gross Fair Value	Contract Netting	Collateral or Margin Received or Paid	Net Fair Value
(amounts in millions)					
Derivative assets:					
Commodity contracts	Assets from risk management activities	$423	$(306)	$—	$117
Total derivative assets		$423	$(306)	$—	$117
Derivative liabilities:					
Commodity contracts	Liabilities from risk management activities	$(585)	$306	$98	$(181)
Interest rate contracts	Liabilities from risk management activities	(48)	—	—	(48)
Common stock warrants	Other long-term liabilities	(18)	—	—	(18)
Total derivative liabilities		$(651)	$306	$98	$(247)
Total derivatives		$(228)	$—	$98	$(130)

		December 31, 2014			
			Gross amounts offset in the balance sheet		
Contract Type	Balance Sheet Location	Gross Fair Value	Contract Netting	Collateral or Margin Received or Paid	Net Fair Value
(amounts in millions)					
Derivative assets:					
Commodity contracts	Assets from risk management activities	$115	$(35)	$—	$80
Total derivative assets		$115	$(35)	$—	$80
Derivative liabilities:					
Commodity contracts	Liabilities from risk management activities	$(163)	$35	$9	$(119)
Interest rate contracts	Liabilities from risk management activities	(44)	—	—	(44)

Common stock warrants	Other long-term liabilities	(61)	—	—	(61)
Total derivative liabilities		$(268)	$35	$9	$(224)
Total derivatives		$(153)	$—	$9	$(144)

Certain of our derivative instruments have credit limits that require us to post collateral. The amount of collateral required to be posted is a function of the net liability position of the derivative as well as our established credit limit with the respective counterparty. If our credit rating were to change, the counterparties could require us to post additional collateral. The amount of additional collateral that would be required to be posted would vary depending on the extent of change in our credit rating as well as the requirements of the individual counterparty. The aggregate fair value of all commodity derivative instruments with credit-risk-related contingent features that are in a liability position that are not fully collateralized (excluding transactions with our clearing brokers that are fully collateralized) at September 30, 2015 was $55 million, for which we have posted $10 million collateral. Our remaining derivative instruments do not have credit-related collateral contingencies as they are included within our first-lien collateral program.

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The following table summarizes our total cash collateral posted as of September 30, 2015 and December 31, 2014, along with the location on the balance sheet and the amount applied against our short-term risk management liabilities.

Location on balance sheet	September 30, 2015	December 31, 2014
(amounts in millions)		
Gross collateral posted with counterparties	$148	$49
Less: Collateral netted against risk management liabilities	98	9
Net collateral within Prepayments and other current assets	$50	$40

Impact of Derivatives on the Unaudited Consolidated Statements of Operations

The following discussion and tables present the location and amount of gains and losses on derivative instruments in our unaudited consolidated statements of operations.

Financial Instruments Not Designated as Hedges. We elect not to designate derivatives related to our power generation business and interest rate instruments as cash flow or fair value hedges. Thus, we account for changes in the fair value of these derivatives within our unaudited consolidated statements of operations.

Our unaudited consolidated statements of operations for the three and nine months ended September 30, 2015 and 2014 include the impact of derivative financial instruments as presented below.

Derivatives Not Designated as Hedges	Location of Gain (Loss) Recognized in Income on Derivatives	Three Months Ended September 30,		Nine Months Ended September 30,	
		2015	2014	2015	2014
(amounts in millions)					
Commodity contracts	Revenues	$48	$(3)	$120	$(212)
Interest rate contracts	Interest expense	$(9)	$1	$(17)	$(6)
Common stock warrants	Other income (expense), net	$45	$6	$43	$(43)

Note 6—Fair Value Measurements

We apply the market approach for recurring fair value measurements, employing valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. We have consistently used the same valuation techniques for all periods presented. Please read Note 2—Summary of Significant Accounting Policies—Fair Value Measurements in our Form 10-K for further discussion.

The following tables set forth, by level within the fair value hierarchy, our financial assets and liabilities that were accounted for at fair value on a recurring basis as of September 30, 2015 and December 31, 2014 and are presented on a gross basis before consideration of amounts netted under master netting agreements and the application of collateral and margin paid.

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	Fair Value as of September 30, 2015			
(amounts in millions)	Level 1	Level 2	Level 3	Total
Assets:				
Assets from commodity risk management activities:				
Electricity derivatives	$—	$257	$102	$359
Natural gas derivatives	—	43	5	48
Emissions derivatives	—	5	—	5
Coal derivatives	—	7	4	11
Total assets from commodity risk management activities	$—	$312	$111	$423
Liabilities:				.
Liabilities from commodity risk management activities:				
Electricity derivatives	$—	$(193)	$(151)	$(344)
Natural gas derivatives	—	(174)	(19)	(193)
Heat rate derivatives	—	—	(2)	(2)
Diesel fuel derivatives	—	(5)	—	(5)
Coal derivatives	—	(40)	(1)	(41)
Total liabilities from commodity risk management activities	—	(412)	(173)	(585)
Liabilities from interest rate contracts	—	(48)	—	(48)
Liabilities from outstanding common stock warrants	(18)	—	—	(18)
Total liabilities	$(18)	$(460)	$(173)	$(651)

	Fair Value as of December 31, 2014			
(amounts in millions)	Level 1	Level 2	Level 3	Total
Assets:				
Assets from commodity risk management activities:				
Electricity derivatives	$—	$88	$22	$110
Natural gas derivatives	—	3	—	3
Emissions derivatives	—	2	—	2
Total assets from commodity risk management activities	$—	$93	$22	$115
Liabilities:				
Liabilities from commodity risk management activities:				
Electricity derivatives	$—	$(27)	$(26)	$(53)
Natural gas derivatives	—	(100)	—	(100)
Diesel derivatives	—	(6)	—	(6)
Crude oil derivatives	—	(3)	—	(3)
Coal derivatives	—	(1)	—	(1)
	—	(137)	(26)	(163)

Total liabilities from commodity risk management activities				
Liabilities from interest rate contracts	—	(44)	—	(44)
Liabilities from outstanding common stock warrants	(61)	—	—	(61)
Total liabilities	$(61)	$(181)	$(26)	$(268)

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Level 3 Valuation Methods. The electricity derivatives classified within Level 3 include financial swaps executed in illiquid trading locations or on long dated contracts, capacity contracts, heat rate derivatives and FTRs. The curves used to generate the fair value of the financial swaps are based on basis adjustments applied to forward curves for liquid trading points, while the curves for the capacity deals are based upon auction results in the marketplace, which are infrequently executed. The forward market price of FTRs is derived using historical congestion patterns within the marketplace and heat rate derivative valuations are derived using a Black-Scholes spread model, which uses forward natural gas and power prices, market implied volatilities and modeled correlation values. The natural gas derivatives classified within Level 3 include financial swaps, basis swaps and physical purchases executed in illiquid trading locations or on long dated contracts. The coal derivatives classified within Level 3 include financial swaps executed in illiquid trading locations.

Sensitivity to Changes in Significant Unobservable Inputs for Level 3 Valuations. The significant unobservable inputs used in the fair value measurement of our commodity instruments categorized within Level 3 of the fair value hierarchy include estimates of forward congestion, power price spreads, natural gas and coal pricing and the difference between our plant locational prices to liquid hub prices. Power price spreads, natural gas and coal pricing and the difference between our plant locational prices to liquid hub prices are generally based on observable markets where available, or derived from historical prices and forward market prices from similar observable markets when not available. Increases in the price of the spread on a buy or sell position in isolation would result in a higher/lower fair value measurement. The significant unobservable inputs used in the valuation of Dynegy's contracts classified as Level 3 as of September 30, 2015 are as follows:

Transaction Type	Quantity	Unit of Measure	Net Fair Value	Valuation Technique	Significant Unobservable Input	Significant Unobservable Inputs Range
(dollars in millions)						
Electricity derivatives:						
Forward contracts—power (1)	(5)	Million MWh	$(40)	Basis spread + liquid location	Basis spread	$7.00 - $9.00
FTRs	35	Million MWh	$(9)	Historical congestion	Forward price	$0.00 - $2.00
Heat rate derivatives:	—	Million MWh	$3	Option model	Gas/power price correlation	70% - 100%
	2	Million MMBtu	$(5)	Option model	Power price volatility	14% - 34%
Natural gas derivatives (1)	39	Million MMBtu	$(14)	Illiquid location fixed price	Forward price	$1.61 - $1.97
Coal derivatives (1)	(50)	Thousand Tons	$3	Illiquid location fixed price	Forward price	$5.80 - $7.10

(1) Represents forward financial and physical transactions at illiquid pricing locations.

The following tables set forth a reconciliation of changes in the fair value of financial instruments classified as Level 3 in the fair value hierarchy:

	Three Months Ended September 30, 2015				
(amounts in millions)	Electricity Derivatives	Natural Gas Derivatives	Heat Rate Derivatives	Coal Derivatives	Total
Balance at June 30, 2015	$(54)	$(11)	$(7)	$4	$(68)
Total gains (losses) included in earnings	2	(3)	—	—	(1)

Settlements (1)	3	—	5	(1)	7
Balance at September 30, 2015	$(49)	$(14)	$(2)	$3	$(62)
Unrealized gains (losses) relating to instruments held as of September 30, 2015	$2	$(3)	$—	$—	$(1)

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(amounts in millions)	Nine Months Ended September 30, 2015 Electricity Derivatives	Natural Gas Derivatives	Heat Rate Derivatives	Coal Derivatives	Total
Balance at December 31, 2014	$(4)	$—	$—	$—	$(4)
Acquisitions	(54)	(14)	(9)	5	(72)
Total gains included in earnings	7	—	—	—	7
Settlements (1)	2	—	7	(2)	7
Balance at September 30, 2015	$(49)	$(14)	$(2)	$3	$(62)
Unrealized gains relating to instruments held as of September 30, 2015	$7	$—	$—	$—	$7

(amounts in millions)	Three Months Ended September 30, 2014 Electricity Derivatives	Natural Gas Derivatives	Heat Rate Derivatives	Coal Derivatives	Total
Balance at June 30, 2014	$(14)	$—	$(1)	$—	$(15)
Total gains (losses) included in earnings	3	(1)	—	—	2
Settlements (1)	(2)	—	1	—	(1)
Balance at September 30, 2014	$(13)	$(1)	$—	$—	$(14)
Unrealized gains (losses) relating to instruments held as of September 30, 2014	$3	$(1)	$—	$—	$2

(amounts in millions)	Nine Months Ended September 30, 2014 Electricity Derivatives	Natural Gas Derivatives	Heat Rate Derivatives	Coal Derivatives	Total
Balance at December 31, 2013	$11	$—	$(1)	$—	$10
Total losses included in earnings	(19)	(1)	—	—	(20)
Settlements (1)	(5)	—	1	—	(4)
Balance at September 30, 2014	$(13)	$(1)	$—	$—	$(14)
Unrealized losses relating to instruments held as of September 30, 2014	$(19)	$(1)	$—	$—	$(20)

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(1) For purposes of these tables, we define settlements as the beginning of period fair value of contracts that settled during the period.

Gains and losses recognized for Level 3 recurring items are included in Revenues in our unaudited consolidated statements of operations for commodity derivatives. We believe an analysis of commodity instruments classified as Level 3 should be undertaken with the understanding that these items generally serve as economic hedges of our power generation portfolio. We did not have any transfers between Level 1, Level 2 and Level 3 for the three and nine months ended September 30, 2015 and 2014.

Nonfinancial Assets and Liabilities. Nonfinancial assets and liabilities that are measured at fair value on a nonrecurring basis are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. Our assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the valuation of fair value assets and liabilities and their placement within the fair value hierarchy levels.

We did not have any material nonfinancial assets or liabilities measured at fair value on a non-recurring basis during the three and nine months ended September 30, 2015 and 2014, other than the provisional purchase price allocation

discussed in Note 3—Acquisitions.

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Fair Value of Financial Instruments. The following table discloses the fair value of financial instruments recognized on our unaudited consolidated balance sheets. Unless otherwise noted, the fair value of debt as reflected in the table has been calculated based on the average of certain available broker quotes as of September 30, 2015 and December 31, 2014, respectively.

(amounts in millions)	September 30, 2015 Carrying Amount	September 30, 2015 Fair Value	December 31, 2014 Carrying Amount	December 31, 2014 Fair Value
Dynegy Inc.:				
6.75% Senior Notes, due 2019 (2)(6)	$(2,100)	$(2,116)	$(2,100)	$(2,132)
Tranche B-2 Term Loan, due 2020 (1)(2)	$(779)	$(780)	$(785)	$(775)
7.375% Senior Notes, due 2022 (2)(6)	$(1,750)	$(1,768)	$(1,750)	$(1,777)
5.875% Senior Notes, due 2023 (2)	$(500)	$(469)	$(500)	$(475)
7.625% Senior Notes, due 2024 (2)(6)	$(1,250)	$(1,259)	$(1,250)	$(1,272)
Inventory financing agreements (2)	$(127)	$(127)	$(23)	$(23)
Equipment financing agreements (7)	$(63)	$(63)	$—	$—
Interest rate derivatives (2)	$(48)	$(48)	$(44)	$(44)
Commodity-based derivative contracts (3)	$(162)	$(162)	$(48)	$(48)
Common stock warrants (4)	$(18)	$(18)	$(61)	$(61)
Genco:				
7.00% Senior Notes Series H, due 2018 (2)(5)	$(274)	$(275)	$(268)	$(264)
6.30% Senior Notes Series I, due 2020 (2)(5)	$(211)	$(209)	$(206)	$(208)
7.95% Senior Notes Series F, due 2032 (2)(5)	$(225)	$(235)	$(224)	$(241)

(1) Carrying amount includes an unamortized discount of $3 million as of September 30, 2015 and December 31, 2014. Please read Note 13—Debt for further discussion.
(2) The fair values of these financial instruments are classified as Level 2 within the fair value hierarchy levels.
(3) Carrying amount of commodity-based derivative contracts excludes $98 million and $9 million of cash posted as collateral, as of September 30, 2015 and December 31, 2014, respectively.
(4) The fair value of the common stock warrants is classified as Level 1 within the fair value hierarchy levels.
(5) Combined carrying amounts as of September 30, 2015 and December 31, 2014 include unamortized discounts of $115 million and $127 million, respectively. Please read Note 13—Debt for further discussion.
(6) At December 31, 2014, these debt agreements were held by Dynegy Finance I and Dynegy Finance II. Upon the closing of the Acquisitions, the Dynegy Finance I and Dynegy Finance II notes were exchanged for an equal aggregate principal amount of notes with the same terms issued by Dynegy (the "Notes").
(7) Carrying amounts for the equipment financing agreement include unamortized discounts of $11 million as of September 30, 2015. In addition, the fair value is classified as Level 3 within the fair value hierarchy levels.

DYNEGY INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
For the Interim Periods Ended September 30, 2015 and 2014

Note 7—Accumulated Other Comprehensive Income

Changes in accumulated other comprehensive income, net of tax, by component is as follows:

	Nine Months Ended September 30,	
(amounts in millions)	2015	2014
Beginning of period	$20	$58
Other comprehensive loss before reclassifications:		
Actuarial gain (loss) and plan amendments (net of tax of $2 and zero, respectively)	7	(2)
Amounts reclassified from accumulated other comprehensive income:		
Amortization of unrecognized prior service credit and actuarial gain (net of tax of zero and zero, respectively) (1)	(3)	(3)
Net current period other comprehensive income (loss), net of tax	4	(5)
End of period	$24	$53

(1) Amounts are associated with our defined benefit pension and other post-employment benefit plans and are included in the computation of net periodic pension cost (gain). Please read Note 16—Pension and Other Post-Employment Benefit Plans for further discussion.

Note 8—Inventory

A summary of our inventories is as follows:

(amounts in millions)	September 30, 2015	December 31, 2014
Materials and supplies	$177	$83
Coal (1)	270	119
Fuel oil (1)	17	3
Emissions allowances (2)	64	2
Other	3	1
Total	$531	$208

(1) At September 30, 2015, approximately $36 million and $16 million of the coal and fuel oil inventory, respectively, are part of an inventory financing agreement. At December 31, 2014, there were no amounts that were part of an inventory financing agreement. Please read Note 13—Debt—Brayton Point Inventory Financing for further discussion.

(2) At September 30, 2015, a portion of this inventory was held as collateral by one of our counterparties as part of an inventory financing agreement. At December 31, 2014, there were no amounts that were part of an inventory financing agreement. Please read Note 13—Debt—Emissions Repurchase Agreements for further discussion.

Note 9—Property, Plant and Equipment

A summary of our property, plant and equipment is as follows:

(amounts in millions)	September 30, 2015	December 31, 2014
Power generation	$8,217	$