DYNEGY INC /IL/
Form 424B5
May 25, 2006
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Filed Pursuant to Rule 424(b)(5)
Registration No. 333-66088

PROSPECTUS SUPPLEMENT

(To Prospectus dated July 27, 2001)

35,000,000 Shares

Class A Common Stock

Dynegy Inc. is hereby offering 35,000,000 shares of its Class A common stock. We will use the net proceeds from the sale of these shares, together with cash on hand and a $50 million cash dividend from our principal financing subsidiary, Dynegy Holdings Inc. (DHI), to redeem all of our outstanding Series C convertible preferred stock, having an aggregate liquidation preference of $400 million. Concurrently with this offering, DHI intends to enter into a new $150 million term loan facility. This offering is conditioned upon the consummation of DHI s proposed new term loan facility.

Our Class A common stock is listed on The New York Stock Exchange under the symbol DYN. The last reported sales price of our Class A common stock on May 23, 2006 was $4.68 per share.

Investing in our Class A common stock involves risks. See Risk Factors beginning on page S-15 of this prospectus supplement.

	Per share	Total
Public offering price	$ 4.6000	$ 161,000,000
Underwriting discounts and commissions	$ 0.1771	$ 6,198,500
Proceeds, before expenses, to us	$ 4.4229	$ 154,801,500

We have granted the underwriters a 30-day option to purchase up to an additional 5,250,000 shares of our Class A common stock at the public offering price per share, less the underwriting discounts and commissions, if the underwriters sell more than 35,000,000 shares in this offering.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus supplement or the accompanying prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

Delivery of the shares of our Class A common stock will be made on or about May 26, 2006.

Joint Book-Running Managers

JPMorgan

Lehman Brothers

ABN AMRO Rothschild LLC

Dresdner Kleinwort Wasserstein

Wedbush Morgan Securities Inc.

May 23, 2006

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ABOUT THIS PROSPECTUS SUPPLEMENT

This document is in two parts. The first part is this prospectus supplement, which describes the specific terms of this offering and the securities offered hereby. The second part is the accompanying prospectus, which gives more general information and includes disclosures that would pertain if at some time in the future we were to sell debt securities, preferred stock, Class A common stock, depositary shares, warrants, stock purchase contracts or units, trust preferred securities or trust debentures. Accordingly, the accompanying prospectus contains certain data that does not apply to this offering.

If any information varies between this prospectus supplement and the accompanying prospectus, you should rely on the information in this prospectus supplement. Generally, when we refer to the prospectus, we are referring to both documents combined.

You should rely only on the information contained or incorporated by reference in this prospectus supplement or the accompanying prospectus. Neither we nor the underwriters have authorized any other person to provide you with different or additional information. If anyone provides you with different or additional information, you should not rely on it. We are not making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted. You should assume that the information contained in this prospectus supplement, the accompanying prospectus or in any document incorporated by reference herein or therein is accurate only as of the date appearing on the front cover of the applicable document. Our business, financial condition, results of operations and prospects may have changed since that date.

This prospectus supplement and the accompanying prospectus incorporate by reference important business and financial information about us that is not included in or delivered with this document. See Where You Can Find More Information. This information is available without charge to you upon written or oral request to: Dynegy Inc., 1000 Louisiana, Suite 5800, Houston, Texas 77002, (713) 507-6400, Attention: Investor Relations.

In this prospectus supplement, we, us, our, Dynegy and the Company refer to Dynegy Inc. and its subsidiaries, unless the context requires otherwise.

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UNCERTAINTY OF FORWARD-LOOKING STATEMENTS AND INFORMATION

This prospectus supplement includes statements reflecting assumptions, expectations, projections, intentions or beliefs about future events that are intended as forward-looking statements. All statements included or incorporated by reference in this prospectus supplement, other than statements of historical fact, that address activities, events or developments that we or our management expect, believe or anticipate will or may occur in the future are forward-looking statements. These statements represent our reasonable judgment on the future based on various factors and using numerous assumptions and are subject to known and unknown risks, uncertainties and other factors that could cause our actual results and financial position to differ materially from those contemplated by the statements. You can identify these statements by the fact that they do not relate strictly to historical or current facts. They use words such as anticipate, estimate, project, forecast, plan, may, will, should, other words of similar meaning. In particular, these include, but are not limited to, statements relating to the following:

- projected operating or financial results, including anticipated cash flows from operations;
- expectations regarding capital expenditures, interest expense and other payments;
- beliefs about commodity pricing;
- strategies to capture opportunities presented by rising commodity prices and strategies to manage our risk exposure to energy price volatility while reducing our hedging;
- plans to achieve fuel-related, general and administrative, and other targeted cost savings;
- beliefs and assumptions relating to our liquidity position, including our ability to redeem the remaining outstanding Second Priority Senior Secured Floating Rate Notes due 2008 of DHI and to satisfy or refinance our significant debt maturities and other obligations before or as they come due;
- strategies to address our substantial leverage, to access the capital markets, or to obtain additional financing or more favorable financing terms;
- measures to compete effectively with industry participants;
- beliefs and assumptions about market competition, fuel supply, power demand, generation capacity and regional recovery of the wholesale power generation market;
- sufficiency of coal and fuel oil inventories and transportation;
- beliefs about the outcome of legal and administrative proceedings, including the matters involving the western power and natural gas markets, environmental and master netting agreement matters, and the investigations primarily relating to our past trading practices;

- assumptions about prospective regulatory developments;

- expectations regarding environmental matters, including costs of compliance and availability and adequacy of emission credits;

- strategies to remediate the material weakness existing in our accounting for income taxes and our risk management assets and liabilities;

- application of the remaining proceeds from the sale of our midstream natural gas business;

- positioning our power generation business for future growth and pursuing and executing acquisition or combination opportunities; and

- our ability to complete our exit from the customer risk management business and the costs associated with this exit.

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

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In addition, there may be other factors that could cause our actual results to be materially different from the results referenced in the forward-looking statements. Many of these factors will be important in determining our actual future results. Consequently, no forward-looking statement can be guaranteed. Our actual future results may vary materially from those expressed or implied in any forward-looking statements.

All forward-looking statements contained or incorporated by reference in this prospectus supplement or the accompanying prospectus are qualified in their entirety by this cautionary statement. Forward-looking statements speak only as of the date they are made.

MARKET AND INDUSTRY DATA

Certain market and industry data included or incorporated by reference in this prospectus supplement or the accompanying prospectus has been obtained from third party sources that we believe to be reliable. We have not independently verified such third party information and cannot assure you of its accuracy or completeness. While we are not aware of any misstatements regarding any market, industry or similar data presented herein, such data involves risks and uncertainties and is subject to change based on various factors, including those discussed under Uncertainty of Forward-Looking Statements and Information and Risk Factors in this prospectus supplement and the accompanying prospectus.

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SUMMARY

This summary is qualified in its entirety by the more detailed information included elsewhere or incorporated by reference in this prospectus supplement or the accompanying prospectus. Because this is a summary, it may not contain all of the information you should consider before deciding whether to purchase our Class A common stock. You should read this entire prospectus supplement and the accompanying prospectus carefully, including the section of this prospectus supplement entitled Risk Factors, as well as the documents incorporated herein and therein by reference, before making a decision. See Where You Can Find More Information.

The Company

We are a holding company and conduct substantially all of our business operations through our subsidiaries. Our current business operations are focused primarily on the power generation sector of the energy industry, and our primary business is the production and sale of electric energy, capacity and ancillary services from our 11,920 MW fleet (20 plants) of owned or leased power generation facilities (excluding our 900 MW Rockingham generation facility, which we expect to sell to Duke Power Company LLC d/b/a Duke Energy Carolinas, LLC (Duke Energy) in the fourth quarter of 2006 pursuant to an agreement entered into on May 21, 2006; see Recent Developments Pending Sale of Rockingham Facility). The majority of our assets are located in the Midwest, New York, Texas and the Southeast. Our diverse power generation facilities generate electricity by burning coal, natural gas or oil. We sell electric energy, capacity and ancillary services primarily through bilateral negotiated contracts with third parties and into regional central markets, and in lesser volumes through structured wholesale over-the-counter markets and directly to end-use customers.

We report the results of our power generation business as three separate segments in our consolidated financial statements: (1) the Midwest segment; (2) the Northeast segment; and (3) the South segment. We also have a customer risk management (CRM) business. After the termination of our Sterlington long-term wholesale power tolling contract effective March 7, 2006 as discussed below, our CRM business, which we report as a separate segment, primarily consists of Kendall, our remaining power tolling arrangement, as well as our physical gas supply contracts, gas transportation contracts and remaining gas, power and emissions trading positions. Our consolidated financial results also reflect corporate-level expenses such as general and administrative, interest and depreciation and amortization, which are included in the Other segment of our consolidated financial results.

Our Business Segments

Power Generation

Our power generation fleet is diversified by dispatch type (baseload, intermediate and peaking), fuel source and geographic location. Coal-fired facilities comprise approximately 32% of our portfolio, while natural gas-fired facilities comprise approximately 57% and dual or multiple-fired facilities comprise approximately 11%. Our generation facilities are concentrated in the Midwest, Northeast and Southern United States. We seek to operate our diversified asset portfolio so as to be well positioned to respond to a changing market environment.

We generate earnings and cash flows through sales of electric energy, capacity and ancillary services. Primary factors impacting our earnings and cash flows are the prices for power, natural gas, fuel oil and coal, which in turn are largely driven by supply and demand. Demand for power can vary regionally due to, among other things, weather and general economic conditions. Power supplies similarly vary by region and are impacted

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significantly by available generating capacity, transmission capacity and federal and state regulation. We also are impacted by the relationship between prices for power and natural gas and prices for power and fuel oil, commonly referred to as the spark spread, and its impact on our costs to generate electricity. However, we believe that our significant coal-fired generation facilities partially mitigate our sensitivity to changes in the spark spread, in that our cost of coal, particularly in the Midwest, is relatively stable, and position us for potential increases in earnings and cash flows in an environment where both power and gas prices increase. Other factors that have impacted, and are expected to continue to impact, earnings and cash flows for our business include:

- our ability to control our capital expenditures, which primarily are limited to maintenance, safety, environmental and reliability projects, and to control other costs through disciplined management; and

- our ability to optimize our assets through in-market availability, reliable run-time and safe, efficient operations.

In addition to these factors, other factors have impacted, and are expected to continue to impact, earnings and cash flows for our power generation business, many of which are beyond our control. See Risk Factors.

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Our key assets are as follows:

Facility(1)	Total net generating capacity (MW)(2)	Primary fuel type	Dispatch type	Location	NERC region (ISO)
Baldwin	1,806	Coal	Baseload	Baldwin, IL	SERC (MISO)
Havana Units 1-5					
	242	Oil	Peaking	Havana, IL	SERC (MISO)
Unit 6	448	Coal	Baseload	Havana, IL	SERC (MISO)
Hennepin	301	Coal	Baseload	Hennepin, IL	SERC (MISO)
Oglesby	63	Gas	Peaking	Oglesby, IL	SERC (MISO)
Stallings	89	Gas	Peaking	Stallings, IL	SERC (MISO)
Tilton	188	Gas	Peaking	Tilton, IL	SERC (MISO)
Vermilion	194	Coal/Gas/Oil	Baseload/Peaking	Oakwood, IL	SERC (MISO)
Wood River Units 1-3	133	Gas	Peaking	Alton, IL	SERC (MISO)
Units 4-5	461	Coal	Baseload	Alton, IL	SERC (MISO)
Rocky Road(3)	364	Gas	Peaking	East Dundee, IL	RFC (PJM)
Riverside/Foothills	940	Gas	Peaking	Louisa, KY	RFC (PJM)
Rolling Hills	970	Gas	Peaking	Wilkesville, OH	RFC (PJM)
Renaissance	776	Gas	Peaking	Carson City, MI	RFC (MISO)
Bluegrass	576	Gas	Peaking	Oldham Co., KY	RFC (MISO)
Total Midwest	**7,551**				
Independence	1,092	Gas	Intermediate	Scriba, NY	NPCC (NYISO)
Roseton	1,210	Gas/Oil	Intermediate	Newburgh, NY	NPCC (NYISO)
Danskammer Units 1-2					
	130	Gas/Oil	Peaking	Newburgh, NY	NPCC (NYISO)
Units 3-4	371	Coal/Gas/Oil	Baseload	Newburgh, NY	NPCC (NYISO)
Total Northeast	**2,803**				
Calcasieu	347	Gas	Peaking	Sulphur, LA	SERC
Heard County	566	Gas	Peaking	Heard Co., GA	SERC
Black Mountain(4)	43	Gas	Baseload	Las Vegas, NV	WECC
CoGen Lyondell	610	Gas	Baseload	Houston, TX	ERCOT (ISO)
Total South	**1,566**				
Total Fleet Capacity	**11,920**				

(1) Excludes our gas and oil-fired Rockingham generation facility located in Rockingham County, North Carolina, which has a total net generating capacity of 900 MW. Pursuant to an agreement entered into on May 21, 2006 and subject to the regulatory approvals and customary closing conditions as specified therein, we expect to sell this facility to Duke Energy in the fourth quarter of 2006. For further information, see Recent Developments Pending Sale of Rockingham Facility below.

(2) Unit capabilities are winter ratings as provided to regional reliability councils.

(3) We completed the purchase of NRG s 50% interest in this facility on March 31, 2006. Total nameplate capacity of this facility is 364 MW. For further information, see Recent Developments Recent Acquisition and Sale below.

(4) We own a 50% interest in this facility and the remaining 50% interest is held by Chevron U.S.A. Inc. (CUSA), our largest common shareholder, the holder of our Series C convertible preferred stock and a wholly-owned subsidiary of Chevron Corporation. Total output capacity of this facility is 85 MW.

Power Generation Midwest. We own 7,551 MW in the Midwest region, primarily consisting of coal-fired and gas-fired facilities (after giving effect to our recent sale to, and acquisition from, NRG; see Recent Developments Recent Acquisition and Sale below).

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Our baseload coal-fired fleet consists of 3,210 MW of low production cost generation facilities benefiting from favorable long-term coal supply and transportation contracts. These facilities also benefit from higher natural gas prices which tend to set power prices in our operating regions during on-peak periods.

Our power supply agreement with AmerenIP expires in December 2006. Under the terms of the contract, we must provide up to 2,800 MW per hour at $30.00 per MWh, with a maximum of 11.5 million MWh per year. Additionally, we receive $4.00 per kW-month in capacity payments. Currently, about one-third of our on-peak Midwest production is used to serve this contract. Current forward on-peak power prices in this region are higher than power prices realized under this contract. We are exploring a number of alternatives with respect to sales of power following the expiration of our contract with AmerenIP, but generally expect that any alternative(s) chosen will allow us to realize prevailing market prices for 2007 and beyond.

We have completed conversion of our Midwest coal fleet to Powder River Basin (PRB) coal. PRB coal is cheaper and has lower sulfur content than coal from other regions. We have secured PRB coal, along with transportation rights, under long-term contracts on terms that we consider favorable, providing a level of certainty around our coal supply for our Midwest coal facilities.

We have settled the environmental claims brought by the EPA against our Midwest coal facilities. Under the terms of the settlement, we are required to reduce emissions to specified levels, which will require the installation of emission control equipment with an expected total cost of approximately $611 million through 2013; we spent approximately $27 million in 2005 and approximately $6 million in the first quarter of 2006 on the installation of such equipment. The installation of this equipment is expected to result in substantial cost and emissions reductions for our Illinois coal-fired power plants.

Power Generation Northeast. We own 1,092 MW and lease 1,711 MW in the Northeast region serving the New York market. These assets include gas, fuel oil and coal-fired facilities.

We believe that our 371 MW Danskammer coal-fired facility is well positioned to capture high margins in a gas-dominated market. Because of its dual-fuel capability, we can dispatch our 1,210 MW dual-fuel (oil/gas) Roseton facility based on the lowest cost fuel option and therefore, we believe, capture additional market opportunities when they arise. In addition, our 1,092 MW gas-fired Independence facility has 72% of its capacity under contract through 2014.

Power Generation South. We own 1,566 MW of gas-fired assets in the South region (after giving effect to our recent sale to, and acquisition from, NRG and the pending sale of our Rockingham facility; see Recent Developments Recent Acquisition and Sale and Recent Developments Pending Sale of Rockingham Facility below). Our 610 MW CoGen Lyondell facility in Texas is a baseload facility as is our 43 MW Black Mountain facility, while our other facilities in this segment are peaking units.

Earnings and cash flow in this segment are expected to benefit from a more favorable contract at CoGen Lyondell. Under the terms of the 15-year agreement, which starts in 2007, we will improve our fuel cost recovery and receive a market-based margin. Expected incremental annual operating income of approximately $40-55 million is associated with this contract.

Our peaking facilities in this segment continue to contribute revenue from sales of capacity, mainly to the local load-serving entities or wholesale buyers.

Customer Risk Management

Our CRM segment is comprised largely of the Kendall power tolling arrangement, as well as our legacy physical gas supply and transportation contracts and gas, power and emissions trading positions. We are actively pursuing opportunities to terminate, assign or renegotiate the terms of our remaining obligations under these agreements.

We have entered into a back-to-back agreement with Constellation Energy Commodities Group, Inc. through which we have effectively offset our obligations under the Kendall tolling agreement through the end of 2008. Kendall is a 578 MW combined-cycle facility in Illinois. Following the expiration of this back-to-back agreement and through 2012 (2017, if we exercise our option under the agreement), we are obligated to make aggregate payments of approximately $457 million under the Kendall tolling agreement, the impact of which will be offset by any benefits we receive from dispatching the facility.

Regarding our legacy gas, power and emissions trading businesses, we have substantially reduced the size of our mark-to-market portfolio since October 2002, when we initiated our efforts to exit the CRM business. Our remaining transactions still require cash proceeds to purchase gas for our customers; however, those cash requirements are partially offset by the proceeds received from financial contracts hedging the supply. Therefore, the profit and loss impact of price movements are mitigated by these offsetting financial positions. Our remaining legacy power trading business, exclusive of our Kendall power tolling arrangement, is expected to be substantially exited by the end of 2006. Although these transactions are accounted for on a mark-to-market basis and will continue to impose volatility in our statement of operations as prices change during year, we currently anticipate that these transactions will be cash flow positive for 2006 on an aggregate basis. Finally, we have forward obligations to deliver SO_2 emission allowances in 2006, 2007 and 2008, and we currently own allowances that we believe to be adequate to satisfy the forward obligations. However, we experience volatility in our statement of operations, as the value of these obligations varies due to changes in underlying emissions prices, and while the allowances are included in inventory on our consolidated balance sheets, only downward changes in value on the inventory are recognized in our statement of operations.

Other

The Other segment of our consolidated financial results includes corporate-level expenses such as general and administrative, interest and depreciation and amortization. Beginning with fiscal year 2006, general and administrative expenses are no longer allocated to our segments.

Our Competitive Strengths

Scale and Diversity of Assets

We own or lease approximately 11,920 MW (20 plants) of generation capacity (excluding our 900 MW Rockingham generation facility; see Recent Developments Pending Sale of Rockingham Facility), which is diversified by fuel type, dispatch level and region. Our assets are located in the Midwest, New York, Texas and the Southeast and generate electricity by burning coal, natural gas and oil. We sell electric energy, capacity and ancillary services primarily through bilateral negotiated contracts with third parties and into regional central markets, and in lesser volumes through structured wholesale over-the-counter markets and directly to end-use customers. Our Roseton and Danskammer facilities in New York, which represent approximately 11% of our generation capacity, have dual or multiple fuel capability, which allows us to dispatch them with the lowest cost fuel option. We believe that this fuel diversity will help us capture additional market opportunities when they arise.

Our baseload facilities, which consist of approximately 4,234 MW of generation capacity, provide a source of stable volumes that provide the majority of our cash flows, while our intermediate and peaking facilities, with approximately 7,686 MW of generation capacity, provide us with the opportunity to capture the upside potential

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that arises at times of high demand. We believe that our intermediate and peaking facilities are well-situated to benefit during peak demand periods as well as to serve market capacity and reliability needs.

Strong Market Fundamentals for Baseload Generation Units

Approximately 32% of our generation capacity is fueled by coal. In the markets where these coal units operate, the market price of power is typically set by the marginal cost of gas-fired or other generation facilities that currently have higher variable costs than our coal plants. As a result of the lower marginal cost for our coal plants, we attempt to dispatch them 100% of the time they are available in order to maximize the benefit of our low cost of production. We have implemented a fuel procurement policy intended to ensure a long-term adequate supply of coal at economical prices. All of our coal plants in the Midwest are now burning low-cost, low-emission PRB coal, which should provide us with significant cost advantages and lower emissions. About 96% of our coal requirements for our Midwest fleet through 2010 is contracted. We also have long-term transportation contracts for the delivery of coal to our Midwest plants.

Regional Advantages

The bulk of our capacity (approximately 7,500 MW) is in the Midwest region. Approximately 5,200 MW of this capacity is in the MISO region while the remainder is in the PJM region. Both the MISO and PJM regions are large liquid markets, and we believe that our plants are favorably placed on the dispatch curve. We believe these regions will experience increased demand for power in the future. We further believe that our low-cost baseload facilities are well-situated to capture higher market prices, while our peaking facilities are well-situated to meet peak load and reliability needs.

We own approximately 2,800 MW of generation capacity in the Northeast region. With a portfolio of coal, gas and oil-fired generation facilities located across the state of New York, we believe we are well positioned to meet capacity, energy and ancillary services needs in the New York markets. We also have approximately 1,500 MW of gas-fired peaking and baseload generation capacity in the South region.

Operational Excellence

In the past few years, our operational performance has improved. One of our primary measures of performance is in-market availability, or the amount of time that our units are available at their rated capacity when the market indicates that they can profitably run. In-market availability, along with other metrics, enables us to monitor how our plants are performing and helps us determine operational and commercial strategies we need to implement in order to maximize our operating performance and ensure efficiency in the timing and costs of our maintenance activities. The in-market availability of our major stations surrounding our Midwest and our Northeast assets has shown a steady improvement to above 90% in 2004 and 2005, and our Baldwin facility has seen close to an 8% increase in its in-market availability since 2001. Additionally, the PRB conversion of our Midwest coal plants has further improved the performance of these facilities. Moreover, over the past year, our power generation business achieved a significant reduction in the number of safety incidents. This accomplishment can be attributed to our continued execution of a safety program that includes identifying, encouraging and tracking safety-related behaviors, which are positively correlated with improved safety performance. We believe that continuing to focus on operational excellence will allow us the opportunity to improve our financial performance.

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Our Strategy

We are a leading independent power producer operating in key regions of the United States, including the Midwest, Northeast and Southeast. We intend to build on our existing asset base as a platform for future growth and take advantage of market opportunities, including expected market recoveries, to enhance our financial performance. We believe that we have the following competitive strengths:

Positioned for Power Market Recovery

We operate a balanced portfolio of generation assets that is diversified in terms of geography, fuel type and dispatch profile. As a result, we believe our asset portfolio is well positioned to benefit from our expectations regarding improvements in electricity and capacity pricing as the U.S. power markets revert to supply-demand equilibrium and reserve margins fall. In addition, assuming gas-fired units continue to run as marginal units in our core regions, our substantial coal-fired, baseload fleet should continue to benefit from the impact of higher natural gas prices on power prices, allowing us to capture greater margins.

Focus on Operational Excellence

We are focused on maintaining and enhancing our operating track record through increased plant availability, higher dispatch and capacity factors and improved cost controls. By managing fuel costs, minimizing plant outages and reducing corporate overhead, we aim to improve our results. We are committed to operating our facilities in a safe, reliable and environmentally compliant manner.

Employ a Commodity Cyclical Business Model

Our strategy is to optimize our ability to sell electricity and capacity into the merchant and bilateral markets when pricing is most attractive. We believe this objective can be best achieved through ensuring that our facilities can sell power when it is needed in near-term markets rather than attempting to predict longer-term market prices or to otherwise limit our ability to participate in the near-term power markets.

We believe that the power industry is a commodity cyclical business with significant commodity price volatility and requiring considerable capital investment. In order to maximize economic returns in this market environment, we believe that, similar to other capital intensive commodity cyclical businesses, we must have a capital structure that can withstand power price volatility as well as have a commercial strategy that captures the value associated with both short-term and long-term price increases. We believe that we have created a suitable capital structure by actively managing our overall debt levels, liquidity position and debt maturity profile. Our commercial strategy is focused on three elements. First, we maintain a portfolio of low-cost plants that can provide cash flow throughout the market pricing cycles. Second, we include in our portfolio facilities that can provide reliability and other services to the markets both during peak-demand periods and as overall regional electric demand increases over time. Finally, we seek to ensure that all of our plants are ready to produce electricity when market demand and, therefore, market price, is highest.

The output from our facilities is sold into the markets through a variety of mechanisms ranging from spot sales in daily markets to longer-term sales under bilateral or over-the-counter markets. While we do not have a prescribed allocation of volumes between these different market options, we generally intend to rely on our low-cost coal facilities to provide a base level of cash flow, while preserving exposure to market prices. This strategy allows us to benefit from both short-term and long-term market price increases. Consequently, our financial results will be sensitive to, and generally correlated with, commodity prices (especially natural gas prices and regional power prices). While we will not typically commit significant portions of our portfolio to fixed-price sales over long terms,

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we may enter into short-term contracts to capture the value of periodic market price fluctuations that we believe are beneficial to our financial performance, or to otherwise support our liquidity position.

Transition From a Restructuring Phase to a Growth Stage

Our executive management team is focused on building a commodity-cyclical power generation business. We intend to strengthen our position as an independent power producer through fiscally responsible growth and by pursuing strategic opportunities to add scale and scope to our business. To achieve these objectives, we expect to pursue opportunities to develop and expand our existing facilities, achieve operating efficiencies and/or grow our presence within our core markets. We believe the scalability of our platform, which was built to operate a much larger portfolio, should allow us to take advantage of improving power markets as well as growth and consolidation within the sector.

Tightly Manage Costs and Expenditures

We intend to continue our efforts to manage costs and capital expenditures effectively. In December 2005, we announced a comprehensive plan to better align our corporate cost structure with our single line of business. The plan included headcount reductions and system changes and has resulted in a reduction of our general and administrative expenses. Further, our generation assets are managed to require a relatively predictable level of maintenance capital expenditures without compromising operational integrity. We believe that these ongoing efforts should allow us to maintain our focus on being a reliable, low-cost producer of power.

Recent Developments

Redemption of Series C Convertible Preferred Stock

We have entered into a preferred stock redemption agreement with CUSA, dated as of May 22, 2006, pursuant to which we have agreed to purchase all 8 million shares of our outstanding Series C convertible preferred stock for a cash purchase price of $400 million, plus accrued and unpaid dividends. The Series C convertible preferred stock has an aggregate liquidation preference of $400 million, plus accrued and unpaid dividends, is convertible into our Class A common stock at $5.78 per share (subject to adjustment for stock dividends, combinations or splits with respect to such shares) and is entitled to receive dividends at the annual rate of 5.5% of the liquidation value per share of Series C convertible preferred stock, or $2.75 per share annually. The redemption agreement is subject to customary closing conditions as well as our consummation of this common stock offering (which is conditioned upon the consummation of DHI s proposed new term loan facility described below). The redemption is expected to occur immediately following the closing of this offering. We intend to use the net proceeds of this common stock offering, together with cash on hand and a $50 million cash dividend from DHI as described below, to pay the redemption price for our Series C convertible preferred stock. See Use of Proceeds.

Second Amended and Restated Shareholder Agreement

In connection with the redemption discussed above, we and CUSA will enter into a second amended and restated shareholder agreement, amending and restating the amended and restated shareholder agreement between us and CUSA dated as of August 11, 2003. The second amended and restated shareholder agreement is substantially similar to the 2003 amended and restated shareholder agreement, except that the provisions of the agreement relating to our Series C convertible preferred stock and the Public Utility Holding Company Act of 1935 will be eliminated. The second amended and restated shareholder agreement will be effective from the closing of the Series C convertible preferred stock redemption. It will provide that if CUSA acquires more than 40% of our voting securities, it must make a written offer to purchase all of our outstanding stock. The second amended and restated shareholder agreement will also restrict the manner in which CUSA may transfer its shares of our Class B common stock.

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In addition, the second amended and restated shareholder agreement will provide that if CUSA or its board designees block certain transactions - which they are entitled to do under our bylaws - two times in any 24-month period or three times over any period of time - CUSA will be required to either (i) sell its shares of our Class B common stock or (ii) elect to retain its shares of our Class B common stock, but forfeit its right and the right of its board designees to block such transactions. Moreover, the second amended and restated shareholder agreement will prohibit us from issuing shares of our Class B common stock to any person other than CUSA and its affiliates, and will provide CUSA with certain preemptive rights to acquire shares of our common stock in proportion to its then-existing ownership of our stock whenever we issue shares of stock or securities convertible into stock.

The foregoing description of the second amended and restated shareholder agreement is not meant to be complete and is qualified in its entirety by reference to the full text of the second amended and restated shareholder agreement. See Where You Can Find More Information.

New Term Loan Facility

J.P. Morgan Securities Inc. and Lehman Brothers Inc., who are the underwriters of this offering, have agreed to provide DHI with a new, fully underwritten $150 million term loan facility (the Term Loan Facility). The Term Loan Facility, which will be structured as a new tranche under DHI s fourth amended and restated credit agreement discussed below and which is conditioned upon our consummation of this offering, will mature on the earlier of the business day that is five business days after the consummation of the sale of our Rockingham facility (see Pending Sale of Rockingham Facility below) or January 31, 2012. Borrowings under the Term Loan Facility will bear interest at the relevant Eurodollar rate plus a ratings-based margin of 175 basis points or the relevant base rate plus a ratings-based margin of 75 basis points. The margin payable for borrowings under the Term Loan Facility will decrease upon meeting specified improvements in Standard and Poor s and Moody s credit ratings for DHI s fourth amended and restated credit agreement discussed below.

DHI will use a portion of its borrowings under the Term Loan Facility to pay us a special, one-time cash dividend in the amount of $50 million (the DHI Dividend). DHI will use its remaining borrowings under the Term Loan Facility for working capital and general corporate purposes pending the sale of our Rockingham generation facility. See Pending Sale of Rockingham Facility below.

We intend to use the DHI Dividend, together with the net proceeds of this offering and cash on hand, to pay the redemption price for our Series C convertible preferred stock. See Use of Proceeds. We expect to repay DHI s borrowings under the Term Loan Facility with the net proceeds from the sale of our Rockingham generation facility. See Pending Sale of Rockingham Facility below.

Pending Sale of Rockingham Facility

On May 21, 2006, we entered into an agreement with Duke Energy pursuant to which we agreed to sell our Rockingham generation facility for a cash purchase price of $195 million. We expect the closing of this sale to occur in the fourth quarter of 2006, subject to certain regulatory approvals and satisfaction of customary closing conditions. We expect to use a portion of the sale proceeds to repay DHI s borrowings under the Term Loan Facility. For fiscal year 2005 and the first quarter of 2006, less than one percent of our revenues were derived from the Rockingham facility.

Convertible Debenture Exchange

On May 16, 2006, we converted all $225 million of our outstanding 4.75% Convertible Subordinated Debentures due 2023 into shares of our Class A common stock (the Convertible Debenture Exchange). In this transaction, we issued an aggregate of 54,598,369 shares of our Class A common stock and paid the debenture holders an aggregate of $46.3 million in premiums and accrued and unpaid interest using cash on hand.

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Credit Agreement

On April 19, 2006, we and DHI entered into a fourth amended and restated credit agreement (the Credit Agreement) with Citicorp USA, Inc. and JPMorgan Chase Bank, N.A, as co-administrative agents and lenders, and the other financial institutions parties thereto as lenders. The Credit Agreement, which provides for a $470 million revolving credit facility (the Revolving Credit Facility) and a new $200 million term letter of credit facility (the Term L/C Facility), is secured by substantially all of the assets of DHI, as borrower, and certain of its subsidiaries, as subsidiary guarantors, and certain of the assets of Dynegy, as parent guarantor. The Credit Agreement replaced DHI s third amended and restated credit agreement entered into on March 6, 2006, which in turn had replaced DHI s former cash-collateralized letter of credit facility with a $400 million revolving credit facility, thereby permitting the return to DHI of $335 million (plus accrued interest) in cash collateral securing DHI s former letter of credit facility. Letters of credit issued under DHI s former letter of credit facility were continued under the Credit Agreement.

The Revolving Credit Facility matures on April 19, 2009, and the Term L/C Facility matures on January 31, 2012. Borrowings under both the Revolving Credit Facility and Term L/C Facility bear interest at the relevant Eurodollar rate plus a ratings-based margin of 175 basis points or the relevant base rate plus a ratings-based margin of 75 basis points. Letters of credit can be issued under the Revolving Credit Facility at a ratings-based rate of 175 basis points. An unused commitment fee of 50 basis points is payable on the unused portion of the Revolving Credit Facility. The margin payable for borrowing, the rate payable for letters of credit and the unused commitment fee will decrease upon meeting specified improvements in Standard and Poor s and Moody s credit ratings for the Credit Agreement.

Dynegy Holdings Inc. Debt Refinancing

On April 12, 2006, DHI completed a tender offer and consent solicitation (the SPN Tender Offer) in which it purchased approximately $150 million of DHI s $225 million outstanding Second Priority Senior Secured Floating Rate Notes due 2008 (the 2008 Notes), substantially all $625 million of DHI s outstanding 9.875% Second Priority Senior Secured Notes due 2010 (the 2010 Notes) and all $900 million of DHI s outstanding 10.125% Second Priority Senior Secured Notes due 2013 (collectively with the 2008 Notes and the 2010 Notes, the Second Priority Notes). In the aggregate, DHI purchased approximately $1,664 million of Second Priority Notes for aggregate consideration, including consent fees and accrued interest, of $1,904 million.

In connection with the SPN Tender Offer, DHI amended the indenture under which the Second Priority Notes were issued. The amendments eliminated or modified substantially all of the restrictive covenants, certain events of default and related provisions and released certain liens securing the obligations of DHI and the guarantors of the Second Priority Notes. The remaining outstanding 2008 Notes and 2010 Notes are each redeemable at the option of DHI in accordance with the terms of the indenture governing the Second Priority Notes. DHI currently intends to call for redemption, on or after July 15, 2006, any remaining outstanding 2008 Notes at the redemption price of $1,030.00 per $1,000 principal amount thereof, plus accrued and unpaid interest to the redemption date. Any such notice of redemption will be given in accordance with the applicable provisions of the indenture. DHI may ultimately determine not to effect the 2008 Notes Redemption. Pursuant to the indenture governing the Second Priority Notes, the 2010 Notes are redeemable at the option of DHI on or after July 15, 2007 at the redemption price of $1,049.38 per $1,000 principal amount thereof, plus accrued and unpaid interest to the redemption date.

DHI Senior Notes Offering

On April 12, 2006, DHI issued $750 million aggregate principal amount of its 8.375% Senior Unsecured Notes due 2016 (New Senior Notes) in a private offering (the Senior Notes Offering). The New Senior Notes

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are not redeemable at DHI s option prior to maturity. The New Senior Notes are DHI s senior unsecured obligations and rank equal in right of payment to all of DHI s existing and future senior unsecured indebtedness, and are senior to all of DHI s existing and any of its future subordinated indebtedness. We have not guaranteed the New Senior Notes, and the assets and operations that we own through subsidiaries other than DHI (principally our Independence plant) do not support the New Senior Notes. The proceeds from the Senior Notes Offering, together with cash on hand, were used to fund the SPN Tender Offer.

Recent Acquisition and Sale

On March 31, 2006, we completed the purchase of NRG s 50% interest in the limited liability company that owns the Rocky Road facility, and NRG completed the purchase of our interest in WCP (Generation) Holdings LLC. We received net proceeds from the transactions of approximately $160 million.

Termination of Sterlington Toll Contract

On December 23, 2005, we and our wholly-owned subsidiary Dynegy Power Marketing Inc. (DYPM) entered into an agreement with Quachita Power LLC (Quachita), a joint venture of GE Energy Financial Services and Cogentrix Energy, Inc., to terminate our Sterlington long-term wholesale power tolling contract with Quachita (the Sterlington Toll Contract). The Sterlington Toll Contract, which was entered into on June 1, 2000, required DYPM to make certain fixed and variable payments to Quachita and, in return, Quachita committed to produce and deliver to DYPM electricity from its 835-megawatt Sterlington, Louisiana natural gas-fired power generating station. Under the terms of the agreement, which closed on March 7, 2006, we paid Quachita approximately $370 million to eliminate approximately $456 million in capacity payment obligations through 2012 and approximately $295 million in additional capacity payment obligations that would arise if Quachita exercised its option to extend the contract through 2017. We recorded a fourth quarter pre-tax charge of approximately $364 million (approximately $229 million after-tax) associated with this termination.

We were incorporated in Illinois in June 1999. Our principal executive office is located at 1000 Louisiana Street, Suite 5800, Houston, Texas 77002, and our telephone number at that office is (713) 507-6400. Our Internet website is located at www.dynegy.com. Except for such reports that may be specifically incorporated by reference in this prospectus supplement or the accompanying prospectus, the information on, or accessible through, our website is not a part of, or incorporated by reference in, this prospectus supplement or the accompanying prospectus.

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THE OFFERING

Class A common stock we are offering	35,000,000 shares
Class A common stock to be outstanding after this offering	395,228,488 shares(1)
Option to purchase additional shares	We have granted the underwriters a 30-day option to purchase up to an additional 5,250,000 shares of our Class A common stock at the public offering price, less underwriting discounts and commissions.
Class B common stock outstanding	96,891,014 shares(2)
Total Class A and Class B common stock to be outstanding after this offering	492,119,502 shares(1)
Conditions	This offering is conditioned upon the consummation of the Term Loan Facility.
Use of proceeds	We estimate that our net proceeds from this offering, assuming no exercise by the underwriters of their option to purchase additional shares of our Class A common stock, will be approximately $153 million. We expect to use the net proceeds from this offering, together with cash on hand and the DHI Dividend, to redeem all of our Series C convertible preferred stock for approximately $406.3 million (comprised of the aggregate liquidation preference of $400 million plus accrued and unpaid dividends through the anticipated date of redemption). See Use of Proceeds.
NYSE symbol	DYN

(1) The number of shares of our common stock outstanding after this offering is based on the number of shares of our Class A common stock outstanding as of April 30, 2006 plus the 54,598,369 shares of our Class A common stock issued in the Convertible Debenture Exchange, assumes that the underwriters option to purchase additional shares of our Class A common stock is not exercised and excludes:

- 9,021,144 shares of Class A common stock issuable upon the exercise of outstanding stock options with a weighted average exercise price of $13.60 per share; and

- 17,666,468 shares of Class A common stock that remain available for additional grants under our various long term incentive compensation plans.

(2) CUSA owns all of our outstanding Class B common stock. Class B shares are convertible into Class A shares on a one-for-one basis under the circumstances described under Description of Capital Stock Class A Common Stock and Class B Common Stock Conversion.

RISK FACTORS

You should carefully consider all information in this prospectus supplement, the accompanying prospectus and the documents incorporated by reference herein and therein. In particular, you should evaluate the specific risk factors relating to an investment in our Class A common stock set for