Dynegy Energy Services
1000 Louisiana Street, Suite 5800
Houston, Texas 77002
Phone 713.507.6400
Fax 713.767.8384
www.dynegy.com

0000047459

NEW APPLICATION

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2001 DEC 19 A 12:01

AZ CORP COMMISSION
DOCUMENT CONTROL

DYNEGY

December 17, 2001

Docket Control Center
Arizona Corporation Commission
1200 West Washington Street
Phoenix, AZ 85007

E-04072A-01-0988

Re: Application for a Certificate of Convenience and Necessity for Competitive Retail Electric Services for Dynegy Energy Services, Inc.

Dear Sir or Madam;

On November 20, 1998, Illinova Energy Partners, Inc. ("IEP") filed an application with the Arizona Corporation Commission ("ACC" or "Commission") for a Certificate of Convenience and Necessity (CC&N) to operate as a Retail Electric Service Provider in Arizona. The proceeding was assigned docket number E-03662A-98-0675. By Commission Decision # 61707, dated May 13, 1999, IEP was granted a CC&N by the Commission.

In February of 2000, Dynegy Inc. ("Dynegy") merged with the parent company of IEP and absorbed the entire company into its organization. Currently, IEP is no longer doing business and thus its CC&N to operate as a Retail Electric Service Provider in Arizona is no longer applicable to it. However, Dynegy Energy Services, Inc. ("DES"), Dynegy's retail marketing subsidiary, is requesting that the Commission reassign IEP's CC&N to DES pursuant to this acquisition.

Enclosed please find a completed Application for a Certificate of Convenience and Necessity for Competitive Retail Electric Services for DES. This Application is being tendered as a result of Dynegy's acquisition of a public service corporation as defined by Article 15, Section 2 of the Arizona Constitution, IEP, and has marked the document as filed by result of merger accordingly. If you have any question regarding the Application please feel free to call me at 713-507-6786.

Barry Huddleston

Barry Huddleston

ARIZONA CORPORATION COMMISSION

Application for Certificate of Convenience and Necessity (CC&N) to Provide Competitive Retail Electric Services

Mail original plus 10 copies of completed application to:

Docket Control Center
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007-2927

If you have current applications pending or have a CC&N in Arizona as a competitive retail electric service provider, list:

Type of Service: Please see cover letter
Docket No.:__________ Date:__________
Decision No.________ (if applicable)

Type of Service:__________
Docket No.:__________ Date:__________
Decision No.________ (if applicable)

For Docket Control Only:
(Please Stamp Here)

The Applicant is applying for approval to provide the following competitive retail services:

X Electric Generation

X Aggregation

X Brokering

Meter Service Provider

Meter Reading Service Provider

Reseller of Meter Service

Reseller of Meter Reading Service

Other__________

Answers to questions in Section A, B, C, and D are provided in the document starting on page 12.

SECTION A

Applicant Information

(A-1) The exact legal name of Applicant, current address, and telephone number (including area code). Include any other business address and telephone number of the principal place of business if different from current address and telephone number: (Include E-mail addresses and fax numbers.)

(A-2) If doing business under a name other than the Applicant name listed above, specify all names and addresses of business activity:

(A-3) The name, address, telephone number, fax number, and e-mail address of the management contact:

(A-4) The name, address, telephone number, fax number, and e-mail address of the attorney, if any, representing the Applicant:

(A-5) What type of legal entity is the Applicant?

Sole proprietorship

Partnership: ____limited, ____general, ____ Arizona, _____ foreign

Limited liability company

Corporation: ____ S, ____ C, ____ non-profit, ____ Arizona, __X__ foreign

Other, specify:

Describe any affiliate or subsidiary interest the Applicant has and include the parent company's name and address.

(A-6)	Submit as Attachment "A" the names of all owners, partners, limited liability company managers, or corporate officers and directors and indicate the percentages of ownership of each. If the Applicant is a corporation, list the names and addresses of all persons or entities which directly or indirectly own, control, or hold the power to vote 10% or more of the Applicant's outstanding voting securities. Include the most recent report required by the Securities and Exchange Commission that details such information.
(A-7)	Does the Applicant plan to sell retail electric services in Arizona? If "yes", provide the anticipated service date(s). Submit as Attachment "B" a copy of all relevant tax licenses from lawful taxing authorities within the State of Arizona. You may contact the Dept. of Revenue at 602-542-4576 to obtain information.
(A-8)	The Applicant must comply with the tariff filing requirements of A.A.C. R14-2-1611. The maximum rates specified in any tariff shall not be less than the Applicant's marginal cost of providing the service. Any changes in the maximum rates or in the terms and conditions of service are not effective until approved by the Commission. Submit as Attachment "C" the Applicant's proposed tariff that must include a description of each service to be provided, the maximum rate for each service, and any other terms and conditions that apply to each service to be provided.
(A-9)	The CC&N may permit statewide provision of each service except for areas determined by the Commission not to be open to competition. Describe the geographic areas in which the Applicant will provide each service.
(A-10)	List the states in which the Applicant currently provides retail electric services similar to those it proposes to sell in Arizona. Submit as Attachment "E" a copy of any authority given to the Applicant to provide electric services.
(A-11)	Provide a list of states in which the Applicant sought authority to provide retail electric services and in which the state denied the authority or granted authority with major changes or conditions for those services. For each state listed, submit as Attachment "F" a copy of the decision modifying the application for authority to provide retail electric services.
(A-12)	Has the Applicant been granted authority to provide retail electric services in any state where such authority was later revoked? If "yes", submit as Attachment "G" a copy of each decision revoking the authority.

(A-13) Has the Applicant been involved in any formal complaint proceedings before any state or federal regulatory body? If "yes", list the regulatory body, the nature of the complaint, and submit as Attachment "H" a copy of the order resolving the complaint.

(A-14) Has the Applicant been involved in any civil or criminal investigations related to any state or federal consumer protection laws or regulations within the last five years? If "yes", submit as Attachment "I" the state and the nature of each investigation, and when such investigation occurred.

(A-15) Has the Applicant had judgment entered against it in any civil matter or been convicted of criminal acts related to any state or federal consumer protection laws or regulations within the last five years? If "yes", list the states where judgment or conviction was entered and submit as Attachment "J" a copy of each applicable court order.

SECTION B

Applicant Technical Information

(B-1) Submit as Attachment "K":

(a) A description of the Applicant's computer capabilities to store and process large volumes of customer account data. Include a resource list, e.g., modem with dedicated telephone line and facsimile machine;
(b) A description of the Applicant's capabilities to exchange data with other market participants, i.e., Utility Distribution Company and Independent Scheduling Administrator; and
(c) Identification of Applicant's staff who will prepare the reports to the Commission required by the retail electric competition rules.

(B-2) Submit as Attachment "L" :

(a) A description of the specific services that Applicant will offer, the customer classes to be served, the expected number customers in each class, and the average number of kWhs which the Applicant will market each month; and
(b) A description of the Applicant's technical ability to provide the services described in (B-2). Identify the Applicant's key technical and operational personnel including their names, titles, and length of experience in the sale, procurement, metering, and billing of energy services or similar products. If some entity other than the Applicant will provide the metering or billing for the Applicant, identify the company and describe its experience in providing these services.

(B-3) If the Applicant is an Electric Service Provider (excluding a Meter Service Provider or Meter Reading Service Provider), it must provide a copy of its Service Acquisition Agreement with a Scheduling Coordinator as required in R14-2-1603(G)(3). Submit a copy of the Service Acquisition Agreement as Attachment "M". If the Applicant has been authorized to act as a Scheduling Coordinator, submit a copy of that authorization in Attachment "M". (Note: This requirement is contingent upon the existence of a Scheduling Coordinator at the time of application.) A copy of the service agreement will be required prior to providing service.

(B-4) The Applicant must provide its service agreement with each Utility Distribution Company in whose territory the Applicant plans to do business as required in R14-2-1603(G)(3).. Submit a copy of that service agreement as Attachment "N". A copy of the service agreement will be required prior to providing service.

(B-5) If the Applicant will provide Meter Service, but not Meter Reading Service, submit as Attachment "O":

(a) Identification of the meter class to be served;
(b) Proof of current liability insurance in the amount of $2,000,000 per incident;
(c) A detailed description of each of the Applicant's employees' electric meter testing, installation, maintenance, repair, and removal experience including their Meter Worker Class level. (Note: The Applicant must have at least one employee who is a Class 3 Meter Worker who is available at all times the function is performed by the MSP);
(d) A detailed description of the Applicant's training program and procedures and policies regarding testing, installation, maintenance, repair, or removal of electrical devices. (Note: The Applicant's policies must provide that its employees wear uniforms and carry proper identification while on site to perform any of these functions);
(e) If the Applicant also will provide incidental or backup meter servicing, include a detailed description of its training programs, procedures and policies regarding meter servicing. (Note: The Applicant's policies must provide that its employees wear uniforms and carry proper identification while on site for meter servicing); and
(f) A detailed description of the educational and training in electrical work and electrical safety required by the Applicant of its employees before they are allowed to install, maintain, repair, or remove electrical meters or metering devices.

By responding to (B-5), the Applicant agrees to comply with:

(a) The Meter Services Provider standards approved by the Commission, including *Meter Testing, Calibration and Installation* and *Meter Worker Qualifications.* An Applicant's failure to comply shall be grounds for revocation of its Certificate for Convenience and Necessity;
(b) All of the Commission's Meter Service Provider filing and reporting requirements; and
(c) The meter services safety requirements of the American Public Power Association (APPA) *Safety Manual For an Electric Utility*.

(B-6) If the Applicant will perform Meter Reading Service Provider (MRSP) functions, submit the following as Attachment "P":

(a) A description of the Applicant's training program or means to ensure that its employees are properly trained to perform MRSP functions;
(b) A description of the Applicant's processes and standard operating procedures to ensure that meter data is processed accurately and audit records are maintained;
(c) The Applicant's disaster recovery plan, covering a "minor" disaster, such as a computer failure, and a "major disaster," such as a facility fire;
(d) An Applicant's plan for obtaining back-up meter reads in the event of communications failure, if the Applicant uses remote communications to read meters;
(e) A description of the Applicant's security measures, including restricting physical and electronic access to data and data servers;
(f) A description of the Applicant's procedures for identifying potential energy theft and reporting it to the Utility Distribution Company and the Electric Service Provider; and
(g) Identification of the employee whom the Applicant is requesting take a Commission approved and administered data test. (Note: The Applicant is required to pass a test that includes retrieving raw data, performing validation, editing and estimation, posting data to a server, and exchanging data with other market participants including at least one Utility Distribution Company via a Commission approved format.)

SECTION C

Financial Information

(C-1) Submit as Attachment "Q" the applicant must submit the following audited financial information for the most recent two years that the Applicant has been in business: balance sheets, income statements, cash flow statements, and other financial information evidencing financial resources.

(C-2) If the Applicant will collect funds, including deposits or advances, from customers prior to providing services, submit as Attachment "R" one of the following:

(1) A credit evaluation from Moody's of "Baa2" or higher or an evaluation from Standard and Poor's, Fitch, or Duff and Phelps of "BBB" or higher; or

(2) A security deposit sufficient to cover one half of the expected sales price of the kWhs that the Applicant forecasts it will sell to small customers over a 12 month period (# of kWhs per month * # of customers * 12 months * price per kWhs / 2); or

(3) A financial guarantee bond in an amount sufficient to provide adequate recourse for customers in the event of fraud or nonperformance by Applicant. The bond amount could be based upon sales value and any amounts that the Applicant collects by way of deposits or advance payments.

Attachment "R" must indicate which method will be used and include the appropriate documentation, if currently available.

(C-3) Prior to certification the Commission will require the Applicant to procure a bond or insurance coverage in an amount sufficient to protect customers in the event of the Applicant's default or non-performance. Check which of the following methods the Applicant intends to use:

_____ The Applicant will obtain a bond. The amount of the bond will be based on the number of customers expected to be served and number of kWhs of electricity that the Applicant expects to provide.

_____ The Applicant will obtain insurance. The amount of the insurance policy will be based on the number of customers the Applicant expects to be served and number of kWhs of electricity that the Applicant expects to provide.

__X__ The Applicant will provide proof that it has been found creditworthy by the Utility Distribution Company (UDC) under the credit terms imposed by the UDC. Is this a method to procure a bond or insurance coverage?

SECTION D

Customer Protection

(D-1) Submit as Attachment "S":

(1) The name, address, and telephone number of the Applicant's customer complaint contact person; and

(2) An explanation of the Applicant's plan to ensure that the electric service provided to its customers will not be interrupted in the event that the Applicant fails to provide the competitive services set forth in its application.

I certify that if the Applicant is an Arizona corporation, a current copy of the Articles of Incorporation is on file with the Arizona Corporation Commission and the Applicant holds a Certificate of Good Standing from the Commission. If the company is a foreign corporation or partnership, I certify that the company has authority to transact business in Arizona. I certify that all appropriate city, county and/or State agency approvals have been obtained. Upon signing of this application, I attest that I have read the Commission's rules and regulations relating to the regulations of electric energy services and that the company will abide by Arizona State Law including the Arizona Corporation Commission Rules and Regulations. I agree that the Commission's rules apply in the event there is a conflict between those rules and the company's tariff, unless otherwise ordered by the Commission. I certify that to the best of my knowledge the information provided in this Application and Petition is true and correct.

(Signature of Authorized Representative)

12/17/01
(Date)

John J. Stauffacher
(Print Name of Authorized Representative)

Vice President, Regulatory Affairs
(Title)

SUBSCRIBED AND SWORN to before me this 17 day of December, 20 01

Gloria H. Chenault
NOTARY PUBLIC

My Commission Expires March 8, 2002

Section A Applicant Information

A-1 **Legal name:** Dynegy Energy Services, Inc.
Address: 1000 Louisiana Street, Suite 5800, Houston, TX 77002
Phone: 713-767-8600
Fax: 713-767-5958
Website: http://www.dynegy.com

A-2 None

A-3 **Management contact:**

Name	Telephone	Fax	e-mail address
Louis Dorey/President	713-767-8650	713-767-5958	**Louis.j.Dorey@dynegy.com**
Jose Rocha/Vice President	713-507-6727	713-767-5958	**Jose.rocha@dynegy.com**
Brenda Crockett/Sr. Director	713-507-6516	713-767-5958	**Brenda.p.crockett@dynegy.com**
Peter Armstrong/Sr. Director	713-767-8479	713-767-5958	**Peter.armstrong@dynegy.com**

The address for all of the above is: 1000 Louisiana Street, Suite 5800, Houston, TX 77002

A-4 N/A

A-5 **Type of legal entity:** Dynegy Energy Services, Inc. is a foreign corporation.

Affiliates or subsidiaries:
Dynegy Energy Services, Inc. (DES) is a wholly owned indirect subsidiary of Dynegy Holdings Inc., located at 1000 Louisiana Street, Suite 5800, Houston, Texas. Dynegy is a provider of energy and communications solutions to customers in North America, the United Kingdom and Continental Europe.

DES is affiliated with Dynegy Marketing and Trade, Dynegy Power Marketing, Inc., Nicor Energy, LLC., Illinois Power Company, SouthStar Energy Services LLC, and its own subsidiaries, Illinois Power Energy, Inc. and Dynegy Energy Marketing, L.P.

Dynegy Marketing and Trade and Dynegy Power Marketing, Inc. are providers of wholesale power and gas in the nation. Nicor Energy, LLC. provides electricity and gas in Illinois, Ohio, and Michigan. Illinois Power Company is a local distribution utility in Illinois. SouthStar Energy Services LLC is a retail natural gas provider in Georgia, North Carolina, South Carolina, Tennessee, and Virginia. Illinois Power Energy, Inc. is a certified Alternative Retail Electric Provider in Illinois. Dynegy Energy Marketing, L.P. is a certified Retail Electric Provider in Texas.

A-6 Please see **Attachment A.**

A-7 Yes. DES plans to sell retail electric services in the State of Arizona starting from January 1, 2002. DES has also obtained a Tax ID in Arizona with a number of 07-638200-R. A copy of DES' Tax License is provided in **Attachment B**.

A-8 A copy of DES' tariff is provided in **Attachment C**.

A-9 DES plans to sell to all geographic areas in the state of Arizona where market is open to competition by the Arizona Corporation Commission. Copies of notification letter sent to the Affected Utilities, Utility Distribution Companies, or an electric utility are provided in **Attachment T.**

A-10 As of September 2001, DES is eligible to provide retail electric services in Illinois, California, Texas, Ohio, New York, and Michigan. **Attachment E** contains copies of authority given to DES to provide electric services in these states.

A-11 None.

A-12 None.

A-13 None.

A-14 None.

A-15 None.

Section B Applicant Technical Information

B-1 Please see **Attachment K**.

B-2 Please see **Attachment L**.

B-3 Dynegy Power Marketing, Inc. (DYPM), affiliate of DES will act as a Scheduling Coordinator for DES. **Attachment M** contains a copy of the Agency Agreement between DES and DYPM.

B-4 DES will enter service agreement with each Utility Distribution Company in whose territory DES identifies customer opportunities. When DES has entered service agreements with the Utility Distribution Companies and it will provide copies of the service agreements to the ACC.

B-5 DES is not planning to provide Meter Service to potential customers in Arizona at this point.

B-6 DES is not planning to perform Meter Reading Service Provider (MRSP) functions at this point.

Section C Financial Information

C-1 Please see **Attachment Q**.

C-2 **Attachment R** provides copies of credit evaluation of Dynegy Holdings Inc., DES' parent company by Moody's and Standard and Poor's.

C-3 DES will provide proof that it has been found creditworthy by a Utility Distribution Company under the credit terms imposed by the company.

Section D Customer Protection

D-1 Please see **Attachment S.**

Attachment A

DES is owned 100% indirectly by Dynegy Holdings Inc. Chevron U.S.A. owns approximately 27% of Dynegy Holdings Inc.

The corporate address of Chevron is: 575 Market Street,
San Francisco, CA 94105
Telephone: 415-894-7700

Attachment B

Attached is a copy of Transaction Privilege Tax License issued to Dynegy Energy Services, Inc. by Arizona Department of Revenue.

ARIZONA DEPARTMENT OF REVENUE
LICENSE & REGISTRATION SECTION
1600 WEST MONROE
PHOENIX, ARIZONA 85007-2650

MUST BE DISPLAYED IN A CONSPICUOUS PLACE

TRANSACTION PRIVILEGE TAX LICENSE

-NOT TRANSFERABLE-

THIS LICENSE IS ISSUED TO THE BUSINESS NAMED BELOW FOR THE ADDRESS SHOWN. LICENSES, BY LAW, MAY NOT BE TRANSFERRED FROM ONE PERSON TO ANOTHER NOR CAN THEY BE TRANSFERRED FROM ONE LOCATION TO ANOTHER. ARIZONA LAW REQUIRES LICENSEES TO NOTIFY THE DEPARTMENT OF REVENUE IF THERE IS A CHANGE IN BUSINESS NAME, TRADE NAME, LOCATION, MAILING ADDRESS OR OWNERSHIP. IN ADDITION, WHEN BUSINESS IS DISCONTINUED OR BUSINESS LOCATION CHANGES AND A NEW LICENSE IS ISSUED, THIS LICENSE MUST BE RETURNED TO THE ARIZONA DEPARTMENT OF REVENUE.

THE LICENSEE LISTED BELOW IS LICENSED TO CONDUCT BUSINESS UPON THE CONDITION THAT TAXES ARE PAID TO THE ARIZONA DEPARTMENT OF REVENUE AS ACCRUED UNDER PROVISIONS OF ARS TITLE 42, CHAPTER 8, ARTICLE 1.

ISSUED TO

07-638200-R

ALL communications and Reports MUST REFER to this LICENSE NO.

DYNEGY ENERGY SERVICES INC
1000 LOUISIANA ST #5800
HOUSTON, TX 77002

04 BUSINESS CODE

09/01/01 EFFECTIVE DATE

(DBA) DYNEGY ENERGY SERVICES INC
1000 LOUISIANA ST #5800
HOUSTON, TX 77002

08/01/01 PRINT DATE

DOR 87026 (1/88)

Attachment C

Attached is a copy of DES'tariff for commercial and industrial customers.

Dynegy Energy Services, Inc. (DES)
Commercial and Industrial Customer Tariff
Schedule of Rates for Electric Service

Rate ECS
Electric Contract Service

1. **Applicability**: The provisions of this tariff will apply to non-residential, commercial and industrial customers in portions of the state of Arizona regulated by the Arizona Corporations Commission, or otherwise available for competitive electric service. This tariff applies only to service for electric energy and aggregation. DES will offer, through certified companies metering and other service as circumstances require.

   This tariff is not available to residential customers. DES does not accept any obligation to serve any customer unless there is a signed service agreement or contract between that customer and DES.

2. **Pricing**: Prices quoted in this tariff are the maximum charges for the services offered. Negotiated prices, terms and conditions for service which differ from these published figures may be negotiated with individual customers. In the event that a contract does not comply with the provisions of DES' approved tariff, the contract will not become effective without a Commission order. The negotiated contract will be filed with the ACC as required in Article 16 R14-2-1611.

   Final pricing may include the following components:
   Electric energy, transition costs, transmission and distribution costs, billing and collection, metering and meter reading, solar energy costs, all other costs allowed, authorized or required by the Commission.

3. **Services and Rates:**

Service	Maximum Rate
Electric Supply	$25.00 Per kilowtt hour
Aggregation Service	Included in basic service

4. **Service Conditions:**
   Prices given for information services, metering, billing and collection service are for basic level service only. Enhanced service levels and prices will be negotiated on a customer by customer basis.

   All customers must have a signed contract with DES in order to obtain services under this tariff.

   All services will be provided at the sole discretion of Dynegy Energy Services. Dynegy Energy Services accepts no obligation to serve customers against its will.

   Dynegy Energy Services reserves the right to change published tariff prices and services upon written notice to the ACC.

Attachment E

Attached please find proof of authorization for DES to sell electricity at retail in Illinois, New York, Ohio, Michigan, and Texas.

STATE OF NEW YORK DEPARTMENT OF PUBLIC SERVICE

THREE EMPIRE STATE PLAZA, ALBANY, NY 12223-1350
Internet Address: http://www.dps.state.ny.us

July 27, 2001

Mr. Matthew J. Picardi
DYNEGY ENERGY SERVICES, INC
1000 Louisiana Street, Suite 5800
Houston, TX 77002

Dear Mr. Picardi:

This is to inform you that your application for retail electric sales to **Commercial and Industrial** consumers submitted to the Office of Consumer Education and Advocacy of the New York State Department of Public Service was found to be **in compliance** with the Public Service Commission's **Order in Cases 93-G-0932 et al, 94-E-0952 et al** and **Opinion 97-5.**

It is important for our records, that you send copies of any customer solicitation materials or other promotional media to Ms. Honor Kennedy, Office of Consumer Education and Advocacy, at the above address.

Also, you are required to keep the Department of Public Service informed of changes in corporate names, mergers and affiliations that may affect the information provided in your application; telephone contact numbers and persons, e-mail and website address changes; and any modification or addenda affecting the application and/or disclosure statement forms herein found in compliance.

Sincerely,

Richard C. Roman
Richard C. Roman
MARKET OVERSIGHT UNIT

RCR/
cc: Files, Office of the Secretary

NEWS RELEASE

COMMISSIONERS
Laura Chappelle, Chairman
David A. Svanda
Robert B. Nelson

CONTACTS
Dorothy Wideman
Mary Jo Kunkle
517.241.6160

LANSING, September 7. The Michigan Public Service Commission today granted Dynegy Energy Services, Inc. a license as an alternative electric supplier to sell electric generation to Michigan retail customers. The Commission approved Dynegy's license under the Customer Choice and Electricity Reliability Act of 2000. Ten previous licenses have been approved by the Commission under this act. The Act allows the vast majority of retail customers of electric utilities to choose an alternative supplier by January 1, 2002.

The Commission found that Dynegy's application was in the public interest and that competition for electric service can be advantageous for Michigan citizens. The Commission concluded that approval of the alternative electric supplier license will expand the opportunities for competition. The Commission approved the license conditioned on compliance with all applicable provisions of the act, and failure to comply fully may result in revocation of the license or other penalties. The Commission also granted the license conditioned upon Dynegy providing electric service within a reasonable time, indicating that failure to do so may result in revocation of the license.

Interested parties may obtain more information on Michigan's alternative electric suppliers by assessing the MPSC Web site at:

http://cis.state.mi.us/mpsc/lic-enf/aesprog/

The MPSC is an agency within the Department of Consumer and Industry Services.

Case No. U-13078
September 7, 2001
(MPSC grants Dynegy a license as an alternative electric supplier)

1

PUBLIC UTILITIES COMMISSION OF OHIO FILE

Certified as a Competitive Retail Electric Service Provider

Certificate Number:
01-075 (1)

Issued Pursuant to Case Number(s):

01-1298-EL-CRS

A certificate as a Competitive Retail Electric Service Provider is hereby granted to, **Dynegy Energy Services, Inc.** whose office or principal place of business is located at **1000 Louisiana Street, Suite 5800, Houston TX 77002** to provide **retail generation, aggregation, power marketer, and power broker** services within the State of Ohio **effective July 01, 2001.**

The certification of competitive retail electric suppliers is governed by Section 4901:1-24-(01-13) of the Ohio Administrative Code, Section 4901:1-21-(01–15) of the Ohio Administrative Code, and Section 4928.08 of the Ohio Revised Code.

This Certificate is revocable if all of the conditions set forth in the aforementioned case(s) are not met.

Subject to all rules and regulations of the Commission, now existing or hereafter promulgated.

Witness the seal of the Commission affixed at Columbus, Ohio.

Dated: July 16 2001

By Order of

PUBLIC UTILITIES COMMISSION OF OHIO

Gary E. Vigorito, Secretary
Daisy L. Crockron, Acting Secretary
Ronald D. Rose, Acting Secretary

Certificate Expires: July 01, 2003

Pat Wood, III
Chairman

Judy Walsh
Commissioner

Brett A. Perlman
Commissioner

W. Lane Lanford
Executive Director

THE STATE OF TEXAS

RECEIVED

01 APR 19 AM 10:59

Public Utility Commission of Texas

FILING CLERK

TO: John Woodward
Dynegy Energy Marketing LP
1000 Louisiana St., Ste. 5800
Houston, TX. 77002

Electric Division
Legal Division

RE: **Docket No. 23742 – *Application of Dynegy Energy Marketing LP for Retail Electric Provider (REP) Certification***

NOTICE OF APPROVAL

This Order grants Dynegy Energy Marketing, L.P. certification as a Retail Electric Provider (REP) for the geographic area of the entire state of Texas. The docket was processed in accordance with applicable statutes and Commission rules. The Commission provided notice of the application to interested parties. More than 15 days have passed since the completion of notice. No protests, motions to intervene, or requests for hearing were filed. The Applicant and the Commission Staff are the only parties to the proceeding. Commission Staff recommends approval of the application, as amended. The application, as amended, is hereby approved.

Statutory Findings

1. The application complies with PURA[1] § 39.352.

2. The Applicant has met the business name, office, and threshold residential service level requirements specified in subsection (e) of P.U.C. SUBST. R. 25.107.

[1] The Public Utility Regulatory Act, TEX. UTIL. CODE ANN. §§ 11.001 – 64.158 (Vernon 1998 & Supp. 2001) (PURA).

3. The Applicant is entitled to approval of this application, having demonstrated that it possesses the financial and technical resources to provide continuous and reliable electric service to its customers in the area for which certification is sought, and the managerial and technical ability to supply electricity at retail in accordance with customer contracts.

4. The Applicant has demonstrated that configuration of the proposed geographic area, if any, does not discriminate in the provision of electric service to any customer because of race, creed, color, national origin, or any other basis prohibited by law or P.U.C. SUBST. R. 25.107(h)(1).

5. The Applicant has demonstrated that it possesses the resources needed to meet the customer protection requirements, disclosure requirements, and marketing guidelines as specified in P.U.C. SUBST. R. 25.107(h).

6. The Applicant has demonstrated that it has ownership or lease of an office located within this state for the purpose of providing customer service, accepting service of process, and making available in that office books and records sufficient to establish the retail electric provider's compliance with the requirements of § 39.352(b)(4) of PURA.

7. The name(s) under which the Applicant has requested that the REP certificate be issued are not deceptive, misleading, vague, or otherwise contrary to P.U.C. SUBST. R. 25.272, or duplicative of a name previously approved for use by an existing REP certificate holder.

8. The Applicant has agreed to comply with P.U.C. SUBST. R. 25.107(f)(3), and P.U.C. SUBST. R. 25.108 related to the billing and collection of transition charges.

9. The Applicant is financially qualified to be certified as a REP in Texas.

10. The Applicant has sworn and affirmed that it will register with or be certified by the ERCOT ISO or another independent organization, and will comply with the technical and managerial requirements of P.U.C. SUBST. R. 25.107 or that all entities with whom the Applicant has a contractual relationship to purchase power are registered with or certified by the independent organization and comply with all system rules and standards established by the independent organization, providing such proof of registration or certification after REP certification but at least 21 days before providing electric retail service to customers in Texas.

11. Commission Staff stated that the Applicant has met the requirements in P.U.C. SUBST. R. 25.107 to be certified as a REP in Texas, recommending that the application be approved.

Complaint History

12. The Commission's Customer Protection Division (CPD) reported no complaints registered against the Applicant.

Ordering Paragraphs

1. The application of Dynegy Energy Marketing, L.P. for retail electric provider (REP) certification is approved.[2] Dynegy Energy Marketing, L.P. is granted REP Certificate No. 10018 for the geographic area of the entire state of Texas.

2. The Applicant shall continuously maintain an office located within Texas for the purpose of providing customer service, accepting service of process, and making available in that office books and records sufficient to establish the REPs compliance with the requirements of PURA, and applicable commission rules.

3. The Applicant shall notify the commission within 30 days of any change in its office address, business address, telephone number(s) or contact information.

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2 Administrative approval of this uncontested application has no precedential value in a future proceeding.

4. The Applicant must provide additional information concerning its capability to comply with all procedures established by the ERCOT ISO at least 21 days prior to providing retail service.

5. This certificate is not transferable without prior approval by the Commission and shall continue in force until further order of the commission, pursuant to P.U.C. SUBST. R. 25.107.

6. This certificate shall not be construed to vest exclusive service or property rights in and to the area for which the certificate is granted pursuant to P.U.C. SUBST. R. 25.107.

7. The Applicant shall comply with all renewable energy portfolio standards in accordance with P.U.C. SUBST. R. 25.173.

8. The Applicant shall comply with any customer protection requirements, disclosure requirements, marketing guidelines and anti-discrimination rules adopted by the commission pursuant to §§ 17.001 – 17.004 of PURA and Chapter 39.

9. The Applicant shall comply with the threshold residential service requirements set forth in P.U.C. SUBST. R. 25.107(e)(3).

10. Pursuant to P.U.C. SUBST. R. 25.107(f)(2), the Applicant shall maintain records on an on-going basis for any deposits or advance payments received from customers. Financial obligations to customers shall be payable to them within 30 calendar days from the date the REP notifies the commission that it intends to withdraw its certification or is deemed by the commission not able to meet its current customer obligations. Customer obligations shall be settled before the REP withdraws its certification or ceases doing business in Texas.

11. All other motions, requests for entry of specific findings of fact and conclusions of law, and any other requests for general or specific relief, if not expressly granted herein, are hereby denied for want of merit.

SIGNED AT AUSTIN, TEXAS the 19th day of April 2001.

PUBLIC UTILITY COMMISSION OF TEXAS

MELENE R. DODSON
ADMINISTRATIVE LAW JUDGE
POLICY DEVELOPMENT DIVISION

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DOCKET NO. 23742

APPLICATION OF DYNEGY ENERGY MARKETING, L.P. FOR RETAIL ELECTRIC PROVIDER (REP) CERTIFICATION	§ § §	**PUBLIC UTILITY COMMISSION OF TEXAS**

01 APR 19 AM 10:58

FILING CLERK

ORDER NO. 3
ADMITTING EVIDENCE

The evidentiary record in this proceeding consists of the following items:

1. Application of Dynegy Energy Marketing, L.P., filed February 26, 2001;
2. Submission Form, filed February 28, 2001;
3. Notice, filed February 28, 2001;
4. Amendment to application, filed March 9, 2001;
5. Commission Staff's recommendation on deficiencies/sufficiency, filed March 19, 2001;
6. Commission Staff's recommendation on final disposition, filed April 5, 2001.

SIGNED AT AUSTIN, TEXAS the 19th **day of April 2001.**

PUBLIC UTILITY COMMISSION OF TEXAS

MELENE R. DODSON
ADMINISTRATIVE LAW JUDGE
POLICY DEVELOPMENT DIVISION

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List Of Certified Suppliers

This page was last updated 07/16/2001

Visit these areas to learn more about new options for Illinois electric service customers:

- A Consumer's Guide to Electric Services Restructuring
  - Restructuring the Illinois Electric Service Industry
  - Making Choices
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  - Purchasing Power
  - Energy Sources
  - Billing
  - Safeguarding Your Service
  - Customer Rights
  - Key Terms
  - How Do I Determine The Right Choice For My Business?
- Know Your Options
- The Choice Timeline
- Eligibility & Lottery
- List of Suppliers
  - Certified
  - Pending
- Frequently Asked Questions
- For More Information
- Documents Available For Download
  - Know Your Options
  - Bill Insert
  - Brochure
  - Chairman's Comments (RealVideo Format)
- Illinois Commerce Commission Home Page
- Back to Plug In Illinois Main Page

LIST OF SUPPLIERS

- AES NewEnergy, Inc.
- Ameren Energy Marketing Company
- AmerenCIPS
- Blackhawk Energy Services, L.L.C.
- CMS Marketing, Services and Trading Company
- Central Illinois Light Company (CILCO)
- Dynegy Energy Services, Inc.
- EnerStar Power Corp.
- Enron Energy Services, Inc.
- Illinois Power Energy, Inc.
- Illinois Power Company
- MidAmerican Energy
- Nicor Energy, LLC.
- Peoples Energy Services Corporation
- Sempra Energy Trading Corp.
- South Beloit Water Gas & Electric Co.
- Unicom Energy, Inc.
- WPS Energy Services, Inc.

SUPPLIER INFORMATION

AES NewEnergy, Inc. Midwest, LLC.

Docket #99-0447 - Approved 03/21/01

Service Area; Customer Mix
Commonwealth Edison Co. and Illinois Power Co. service territory.
Type of Services:

Power and energy.
Customer Contact Information Provided By Supplier:
Jim Belden, Director of Business Development
309 West Washington Street, Suite 1100
Chicago, IL 60606
Phone: (312) 704-8527
Fax: (312) 704-8530
www.newenergy.com
jbelden@newenergy.com

Ameren Energy Marketing

Docket #00-0486 - Approved 8/15/00

Service Area; Customer Mix
All of Illinois, all non-residential customers with maximum demand of 1MW or more.
Type of Services:
Power and energy.
Customer Contact Information Provided By Supplier:
Andrew M. Serri
Ameren Energy Marketing Company
400 South Fourth Street
St. Louis, Missouri 63102-1826
Phone: (314) 613-9125 Fax: (314) 613-9073
www.amerenenergy.com

AmerenCIPS

Docket #99-0121

Service Area; Customer Mix
All of Illinois, all non-residential customers.
Type of Services:
Power and energy.
Customer Contact Information Provided By Supplier:
Customer Service - Deregulation Team
AmerenCIPS
2105 E. State Route 104
Pawnee, Illinois
Phone: (888) 589-5896
www.ameren.com
hwebb@ameren.com

Blackhawk Energy Services, L.L.C.

Docket #01-0174 - Approved 04/06/01

Service Area; Customer Mix
All non-residential retail customers with annual electrical usage in excess of 15,000kWh.
Type of Services:
Power and energy.

Customer Contact Information Provided By Supplier:
John Oroni, Vice President, Sales and Marketing
100 North Lincolnway, Suite B
North Aurora, Illinois 60542
Phone: (630) 264-6600 Fax: (630) 264-6611

joroni@blackhawkenergy.com

CMS Marketing, Services and Trading Company

Docket #00-0370 - Approved 6/27/00

Service Area; Customer Mix
All of Illinois, all non-residential customers with maximum demand of 1MW or more.
Type of Services:
Power and energy.
Customer Contact Information Provided By Supplier:
Thomas Ihrig, Energy Manager
CMS Marketing, Services and Trading Company
One Jackson Square, Suite 1060
Jackson, Michigan 49201
Phone: (517) 839-0232 Fax: (517) 839-0487
www.cmsenergy.com
tihrig@cmsenergy.com

Central Illinois Light Company (CILCO)

This entity is an Illinois electric utility. Under Section 16-116 of the Public Utilities Act, each Illinois electric utility is permitted to provide power and energy on a competitive basis to retail customers located outside its service area.

Docket #99-0131

Service Area; Customer Mix
All of Illinois.
Type of Services:
Power and energy.
Customer Contact Information Provided By Supplier:
Cheryl A. Miller
300 Liberty Sreet
Peoria, IL 61602
(888)451-3911
www.cilco.com
camiller@cilco.com

Central Illinois Light Company (CILCO)

This entity is an Illinois electric utility. Under Section 16-116 of the Public Utilities Act, each Illinois electric utility is permitted to provide power and energy on a competitive basis to retail customers located outside its service area.

Docket #99-0131

Service Area; Customer Mix
All of Illinois.
Type of Services:
Power and energy.
Customer Contact Information Provided By Supplier:
Cheryl A. Miller
300 Liberty Sreet
Peoria, IL 61602
(888)451-3911
www.cilco.com
camiller@cilco.com

DynegyEnergy Services, Inc.

Docket 00-0008 - Approved 2/9/00

Service Area; Customer Mix
All of Illinois; All non-residential customers with maximum demand of 1MW or more.
Type of Services:
Power and energy.
Customer Contact Information Provided By Supplier:
James Nordloh
Senior Sales Representative
1211 West 22nd, Suite 804
Oak Brook, Illinois 60521
Phone: (630) 472-9239
Fax: (630) 472-9279
www.Dynegy.com
jcno@dynegy.com

EnerStar Power Corp.

Docket #99-0551 - Approved 11/03/99

Service Area Requested; Customer Mix
AmerenCIPS, Commonwealth Edison, Illinois Power and Central Illinois Light Company service territories; All non-residential customers.
Type of Services:
All services that may be provided by an ARES.
Customer Contact Information Provided By Supplier:
Angela Bruce Griffin, Customer Account Executive
EnerStar Power Corporation
P.O. Box 190
Paris, IL 61944
(217) 463-4145 ext. 603 Fax: (217) 466-7669

www.EnerStar.com
agriffin@enerstar.com

Enron Energy Services, Inc.

Certification #99-0390 - Approved 08/31/99

Service Area; Customer Mix
State of Illinois: customers with maximum demand of 1 MW or more.
Type of Services:
Power and Energy.
Customer Contact Information Provided By Supplier:
Eric Letke - General Manager
Enron Energy Services, Inc.
12 Salt Creek Lane, STE. 450
Hinsdale, IL 60521
(630) 654-6475
Alternate: Kim Phipps (same office)
www.ees.enron.com

Illinois Power Energy, Inc

Docket #00-0675 - Approved 11/21/00

Service Area; Customer Mix
All of Illinois; All non-residential customer with maximum demand of 1MW or more.
Type of Services:
Power and energy.
Customer Contact Information Provided By Supplier:
James Nordloh
Senior Sales Representative
Illinois Power Energy, Inc
2828 N. Monroe Street
Decatur, IL 62521-2200
v. (217) 872-2360
f. (217) 424-6418

Illinois Power Company

This entity is an Illinois electric utility. Under Section 16-116 of the Public Utilities Act, each Illinois electric utility is permitted to provide power and energy on a competitive basis to retail customers located outside its service area.

Docket #99-0134

Service Area; Customer Mix
All of Illinois.
Type of Services:
All services that may be provided by an ARES.
Customer Contact Information Provided By Supplier:
Dale Holtzscher
Illinois Power Company
500 S. 27th Street
Decatur, IL 62521-2200
v. (217) 362-7646

f. (217) 424-6964
dale_holtzscher@illinova.com
www.illinoispower.com

MidAmerican Energy

This entity is an Illinois electric utility. Under Section 16-116 of the Public Utilities Act, each Illinois electric utility is permitted to provide power and energy on a competitive basis to retail customers located outside its service area.

Docket #99-0130

Service Area; Customer Mix
All of Illinois; All non-residential customers.
Type of Services:
Power and Energy
Customer Contact Information Provided By Supplier:
MidAmerican Energy Company
2811 - 5th Avenue
Rock Island, IL 61201
(877) 227-5632
www.midamericanchoice.com

Nicor Energy, LLC.

Docket #99-0425 - Approved 09/17/99

Service Area; Customer Mix
All of Illinois: All non-residential customers.
Type of Services:
Power and energy.
Customer Contact Information Provided By Supplier:
Nicor Energy, L.L.C.
1001 Warrenville Road, #550
Lisle, IL 60532
Phone:(888) 642-6797
Fax: 1-(630)-435-1583
www.nicorenergy.com
info@nicorenergy.com

Peoples Energy Services Corporation

Docket #99-0432 - Approved 09/14/99

Service Area; Customer Mix
All of Illinois; All non-residential Customers.
Type of Services:
Power and energy.
Customer Contact Information Provided By Supplier:
Bobbi Welch, Director of Retail Power Marketing
205 North Michigan Avenue, Suite 4206
Chicago, IL 60601

(888) 698-1728
(888) 698-1730

Sempra Energy Trading Corp.

Docket # 01-0402 - Approved 06/27/01

Service Area; customer mix:
Commonwealth Edison, Illinois Power, Central Illinois Public Service Company and Central Illinois Light Company service territories; all non-residential customers with annual electrical usage in excess of 15,000 kWh.
Type of Services:
Power and energy.
Customer Contact Information Provided By Supplier:
Peter Doering, Vice President
Sempra Energy Trading Corp.
58 Commerce Road
Stamford, CT. 06902
Phone: (203) 355-5076 Fax: (203) 355-6070
pdoering@sempratrading.com

South Beloit Water Gas & Electric Company c/o Alliant Energy Industrial Services

This entity is an Illinois electric utility. Under Section 16-116 of the Public Utilities Act, each Illinois electric utility is permitted to provide power and energy on a competitive basis to retail customers located outside its service area.

Docket #99-0132

Service Area; Customer Mix
All of Illinois; All non-residential Customers.
Type of Services:
All services that may be provided by an ARES.
Customer Contact Information Provided By Supplier:
Gregory A. Genin
Director of Energy Management Services
222 West Washington Avenue
P.O. Box 192
Madison, WI 53701-0192
voice: (800) 521-1725 ext. 3994
e-mail: greggenin@alliant-energy.com

Unicom Energy, Inc.

Docket #99-0400 - Approved 09/14/99

Service Area; Customer Mix
All of Illinois; All non-residential Customers.
Type of Services:
Power and energy.

Customer Contact Information Provided By Supplier:
For Potential Customers:
Unicom Energy, Inc. - Electric Savings Program
2315 Enterprise Drive
Westchester, IL 60154
voice: (800) 473-0657, fax: (877) 212-2630
e-mail: unicomenergy@ucm.com

For Existing Customers:
Unicom Energy, Inc. - Customer Service
2315 Enterprise Drive
Westchester, IL 60154
voice: (800) 261-4301, fax: (708) 236-8302

WPS Energy Services, Inc.

Docket 00-0199 - Approved 4/18/00

Service Area Requested: Customer Mix
ComEd, Illinois Power, AmerenCIPS and CILCO; All non-residential customers with maximum demand of 1MW or more.
Type of Services:
Power and energy.
Customer Contact Information Provided By Supplier:
Kirsten Young - Regional Marketing Director
WPS Energy Services, Inc.
3 Westbrook Corporate Center, Suite 550
Westchester, IL 60154
Phone: (708) 449-4101-direct, (708) 449-4100 - house line, (877) 449-4100 - toll free, Fax: 1-708-449-4122
kyoung@wpsenergy.com

www.wpsenergy.com

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View List of PENDING SUPPLIERS.

NEXT>>

Attachment K

1. The parent of DES, Dynegy Holdings, Inc. has a computer center residing in its headquarters located at: 1000 Louisiana Street, Suite 5800, Houston, Texas 77002. As part of the computer center, a fully equipped data center uses Hewlett Packard and Compaq servers running Unix and Windows NT systems. The data center has tera bytes of data most on EMC disk drive. Data is all backed up on fast speed tapes and stored offsite.

2. Dynegy has an extensive communication network across the nation, which equips it for effective communication and data exchange in the market place. It has established communication with NYISO, California ISO and ERCOT. It also owns EDI translator using GE software and has third party agreement with EDI vendors such as Energy Services Group.

3. The person that will prepare the reports to the Commission is:
   Xin Li
   Dynegy Energy Services, Inc.
   Tel: 713-507-6708
   Fax: 713-767-5958
   Email: xin.li@dynegy.com

Attachment L

(a) DES intends to provide electric and gas service to non-residential customers in the State of Arizona. At present time, DES is not able to speculate the number of customers it will serve and therefore not possible to predict the average number of kWhs it will market.

(b) DES or its affiliates possesses the experience and expertise to provide reliable electricity and services to retail industrial and commercial customers. The company or its affiliates have been operating a 24-hour, 7 days a week power scheduling center since 1995. The scheduling facility is located at the company's headquarters in Houston, Texas. From this center real-time transactions are coordinated. This facility allows DES to manage scheduling changes, reserve implementation, curtailment orders and interruption plan implementation for current customers in deregulated electric markets such as Illinois, California, and Texas.

Key Technical Personnel

- Jose Rocha, Vice President, C&I Sales. Jose has over 10 years experience in natural gas and electric marketing and sales
- Brenda Crockett, Senior Director, Retail Operations. Brenda has 10 years experience in accounting, scheduling, trading, and retail operations.
- Julie Durham, Director, Retail Operations. Julie has six years experience in scheduling, trading, and retail operations.
- Scott Cotner, Manager, Retail Operations. Scott has 12 years experience in electric utility operation, customer management, and retail operations.
- Jennifer Chapman, Representative, Retail Operations. Jennifer has over seven years experience in utility and retail operations.

Attachment M

Attached please find a copy of the Agency Agreement for Scheduling and Dispatching Power between DES and DYPM.

ECO-00-126

AGENCY AGREEMENT FOR SCHEDULING AND DISPATCHING POWER

Agency Agreement for Scheduling and Dispatching Power ("Agreement") is made and entered into as of the 1 day of MARCH, 2000 by and between Dynegy Energy Services, Inc. ("DES") and Dynegy Power Marketing, Inc. ("DYPM"), both DES and DYPM sometimes referred to collectively as "Parties" or singularly as "Party."

I. DYPM Agency.

1.1 DES hereby appoints and authorizes DYPM to act as its exclusive agent for the purposes set forth in this Agreement, and DYPM hereby agrees to such appointment and authorization.

II. Scope of Agency.

2.1 Commencing on March 1, 2000 DYPM shall have the authority to:

(a) Prepare a wholesale and end-user power preschedule every recognized prescheduling day, for the next day or days, for any firm resources, power contracts and transmission contracts. The schedules will be prepared from the information supplied by DES which is the load forecast for each load, the associated resources and transmission arrangements to serve the load.

(b) Respond to any schedule cut in real time. DYPM's response will be to replace the lost resource in the most economic manner at that time. It is recognized that the most economic manner may be the imbalance account.

(c) Prepare and submit to DES a monthly energy accounting and report that show hour-by-hour transactions arranged by DYPM with price and quantity as well as the schedules for power sales as appropriate. The report may be transmitted to DES either in electronic or paper form.

(d) Take such other action on behalf of DES as the Parties may agree upon from time to time.

2.2 DES, as principal, shall have the responsibility to undertake the following actions:

(a) Notify all the affected parties that DYPM is DES' scheduling agent.

(b) Furnish DYPM with a list of DES' approved counterparties with whom DYPM may transact business on behalf of DES.

(c) Prior to 1:00 pm Pacific Time, two business days prior to month-beginning, the loads and resources that DES has purchased to meet its load obligations. This information includes, quantity amounts, points of integration, points of delivery, transmission arrangements and all other applicable information.

(d) Forward to DYPM the DES 800 number, which will permit DES' customers to communicate directly with DYPM regarding issues such as the timing and effect of any schedule maintenance.

(e) The performance and payment of all power, transmission, ancillary, and other services needed to supply the requirements of DES' customers, regardless whether arranged by DES or DYPM.

(f) The payment of any imbalance, overrun or any other similar or punitive charges associated with supplying the requirements of DES' customers.

2.3 There is no requirement under this Agreement that every aspect of the day-to-day operation of the agency relationship between the Parties, or all transactions between the Parties under this Agreement, reduced to a written agreement and incorporated into this written Agreement.

III. Indemnification.

3.1 DYPM and DES agree to indemnify, hold harmless and defend the other from any and all liabilities, claims, penalties, forfeitures and suits, and all costs and expenses incident thereto (including, but not limited to, costs of defense, settlements and reasonable attorney's fees), which the other Party may hereinafter incur, become responsible for, or pay out as a result of the death or bodily injuries to any person, destruction or damage to any property caused in whole or in party by any negligent or wrongful act or omission of the responsible Party, its employees, officers, directors, agents (excluding DYPM when working as DES' agent) or subcontractors, in the performance of this Agreement.

IV. Term.

4.1 This Agreement shall be effective as of March 1, 2000 and shall continue in effect until February 28, 2002, or such other date that the Parties establish by consent.

V. Agency Fee.

5.1 In consideration of the services performed by DYPM under this Agreement, DES shall pay DYPM an agency fee of $500.00 per month, payable on or before the tenth day of the month following the month in which services are rendered. In the event that this Agreement terminates in midmonth, the agency fee for that month shall be $500.00.

VI. Notices.

6.1 Any notice, request, demand or statement which either Party may desire to give to the other, shall be in writing and may be sent by Federal Express or other overnight delivery service to the address of the Parties shown below, or by facsimile transmission followed by written confirmation by regular mail, unless otherwise provided in this Agreement:

VII. Miscellaneous.

7.1 In no event shall either Party be liable to the other Party for punitive, exemplary, consequential, or incidental damages arising from any breach or default under this Agreement or from any act or omission under or in connection with this Agreement.

7.2 This Agreement shall be binding upon and inure to the benefit of the Parties, their successors, and their assigns. Neither Party shall assign this Agreement without the prior written consent of the other Party, which consent may be withheld at a Party's sole discretion; provided, however, that either Party may assign this Agreement to an affiliate without the consent of the other Party.

7.3 This Agreement shall be governed by and construed in accordance with the laws of the State of Texas.

7.4 This Agreement may be executed by the Parties in one or more counterparts, each of which, when executed and delivered shall be an original, but all of which shall constitute one and the same instrument.

7.5 If any provision of this Agreement shall be deemed invalid or unenforceable in any respect for any reason, the validity of any such provision in any other respect and of the remaining provisions of this Agreement shall not be in any way impaired.

IN WITNESS WHEREOF, this Agreement is executed as of the date first above written.

DYNEGY ENERGY SERVICES, INC.

By: ____________________

Date: 5/1/00

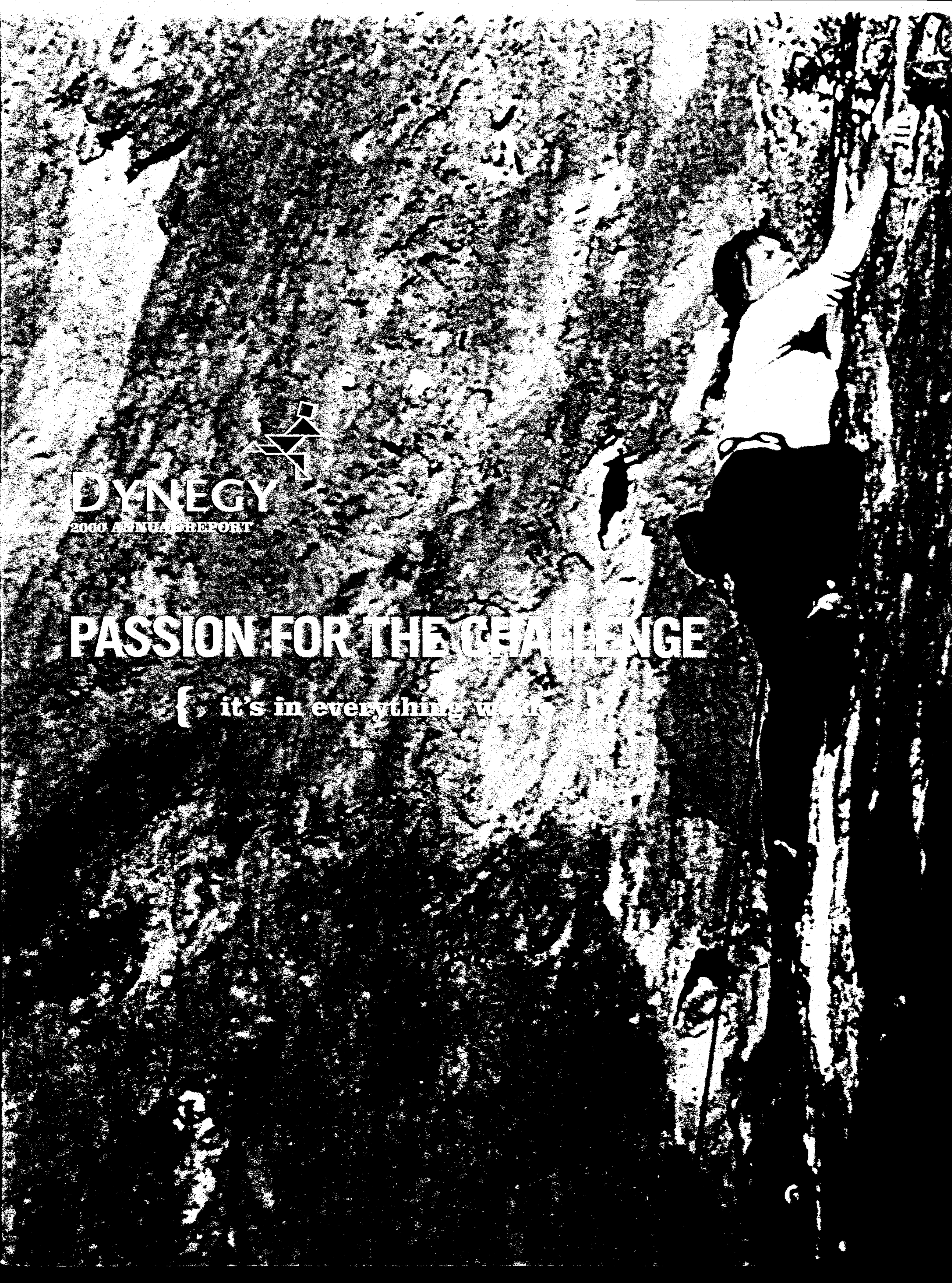
DYNEGY POWER MARKETING, INC.

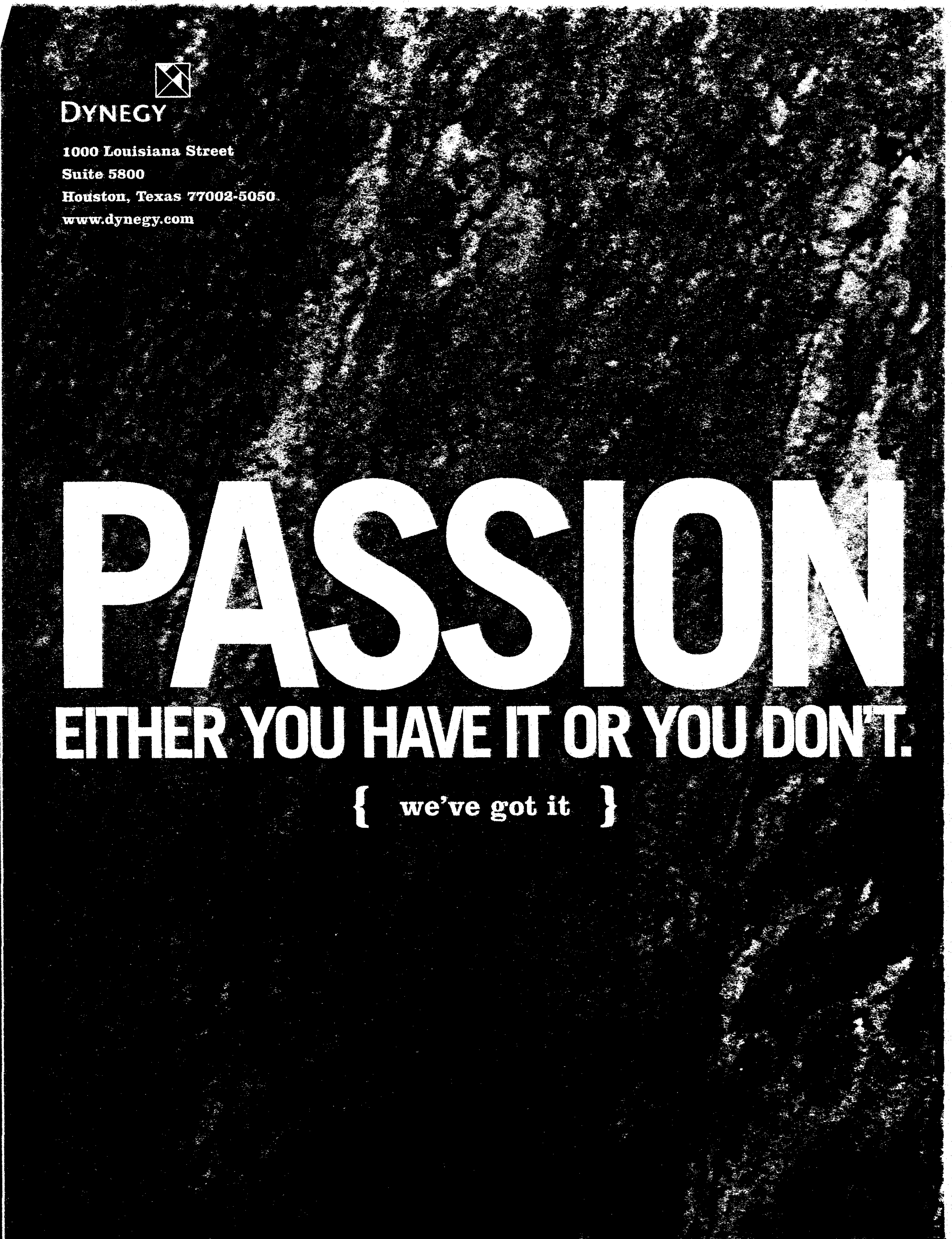
By: ____________________

Date: 4/26/00

Attachment Q

Attached please find the two most recent annual reports of Dynegy, Inc., DES's parent company.


DYNEGY
2000 ANNUAL REPORT
PASSION FOR THE CHALLENGE
{ it's in everything we do }


DYNEGY
1000 Louisiana Street
Suite 5800
Houston, Texas 77002-5050
www.dynegy.com
PASSION
EITHER YOU HAVE IT OR YOU DON'T.
{ we've got it }

Challenge
Innovation
Performance

DYNEGY

1999 Annual Report

DYNEGY

1000 Louisiana
Suite 5800
Houston, Texas 77002-5050
www.dynegy.com

Attachment R

Attached please find the credit ratings of Dynegy, Inc. from Standard and Poor's and Moody's.

Ratings Actions

RATINGS ACTIONS LINKS

NEWLY RELEASED RATINGS >>

RATINGS NEWS

Corporate Finance
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CORPORATE FINANCE

Bank Loan Ratings List

A-C D-G H-M N-R S-Z

Ratings are as of September 4 , 2001

Credit	Rating Date	Bank Loan	Corp. Credit	Outlook	Sr. Uns.	Sub.	Facility ($M)	Analyst	Telephone
Daily Mail & General Trust PLC	3/6/2000	BBB	BBB/A-2	Stable	BBB	--	663	Anna Overton	(44) 20-7826-3642
DaimlerChrysler North America Holding Corp.	2/26/2001	A-	A-/A-2	Negative	A-	--	6000	Maria Bissinger	(49) 69-138709-7340
Dairy Farmers of America Inc.	3/15/2000	BBB+	BBB+/A-2	Stable	BBB+	--	350	Jayne Ross	(1) 212-438-7857
Dana Corp.	7/18/2001	BBB-	BBB-/A-3	Negative	BBB-	--	1250	Lisa Jenkins	(1) 212-438-7697
Danaher Corp.	8/29/2001	A+	A+	Watch Neg	A+	--	500	Daniel Di Senso	(1) 212-438-7693
Darden Restaurants Inc.	2/9/2000	BBB+	BBB+/A-2	Stable	BBB+	--	300	Diane Shand	(1) 212-438-7860
DaVita Inc.	3/30/2001	BB-	B+	Positive	--	B-	425	John Sico	(1) 212-438-7862
Dayton Superior Corp.	4/24/2000	BB-	B+	Stable	--	B-	149	Pamela Rice	(1) 212-438-7939
DDI Corp.	2/14/2001	BB-	BB-	Stable	--	B	300	Andrew Watt	(1) 212-438-7868
DeCrane Aircraft Holdings Inc.	9/29/1998	B+	B+	Positive	--	B-	130	Roman Szuper	(1) 212-438-7813
Del Monte Corp.	4/30/2001	B+	B+	Positive	--	B-	1440	Ronald Neysmith	(1) 212-438-7823
Delco Remy International, Inc.	12/3/1998	BB-	BB-	Stable	B+	B	180	Eric Ballantine	(1) 212-438-7684
Delta Air Lines Inc.	9/29/1997	BBB-	BBB-	Negative	BBB-	--	1250	Philip Baggaley, CFA	(1) 212-438-7683
Denbury Resources, Inc.	9/3/1999	BB-	B+	Positive	--	B-	300	Steven Nocar	(1) 212-438-7803
DENTSPLY International Inc.	6/22/2001	BBB+	BBB+/A-2	Negative	BBB+	--	500	Jean Stout	(1) 212-438-7865
DESA International Inc.	8/7/2000	B-	B-	Watch Neg	--	CCC	195	Cynthia Werneth	(1) 212-438-7819
Dillard's Inc.	9/11/2000	BBB-	BBB-/--	Watch Neg	BBB-	--	750	Gerald Hirschberg	(1) 212-438-7837
DIMON Inc.	6/20/2000	BB	BB	Stable	BB	--	250	Jayne Ross	(1) 212-438-7857
dj Orthopedics LLC	6/17/1999	BB-	B+	Stable	--	B-	65	Jean Stout	(1) 212-438-7865
Doane Pet Care	4/14/2000	B+	B+	Stable	--	B-	479	David	(1) 212-

Co.								Shapiro	438-7861
Dobson Operating Co. LLC	9/6/2000	BB-	BB-	Stable	--	--	925	Rosemarie Kalinowski	(1) 212-438-7841
Dollar General Corp.	4/30/2001	BBB+	BBB+	Watch Neg	BBB+	--	175	Mary Lou Burde, CFA	(1) 212-438-7825
Domino's Inc.	11/30/1998	B+	B+	Stable	--	B-	545	Robert Lichtenstein	(1) 212-438-5022
Donnelley (R.H.), Inc.	5/21/1998	BB	BB	Stable	--	B+	400	Donald Wong	(1) 212-438-7871
DPL Inc.	2/2/2000	BBB	BBB+/A-2	Stable	BBB	--	200	Deborah Kaylo	(1) 212-438-7668
Dresser Inc.	3/28/2001	BB-	BB-	Positive	--	B	820	Daniel Volpi	(1) 212-438-7688
DRS Technologies Inc.	7/11/2001	BB-	BB-	Stable	--	--	240	Martin Knoblowitz	(1) 212-438-7801
DT Industries Inc.	3/13/2001	B	B	Negative	--	--	140	Brian Janiak	(1) 212-438-5025
Duane Reade	7/3/2001	BB-	BB-	Stable	--	B	295	Diane Shand	(1) 212-438-7860
Duke Capital Corp.	8/21/1997	A	A+/A-1	Stable	A	--	950	Nancy Messer, CFA	(1) 212-438-7672
Duke Energy Corp.	8/3/2001	A+	A+/A-1	Stable	A+	--	1250	Nancy Messer, CFA	(1) 212-438-7672
Dura Operating Corp.	4/8/1999	BB-	--		--	--	950	Lisa Jenkins	(1) 212-438-7697
Dwr Cymru	7/20/2001	A-	--		--	--	43	Jan Willem Plantagie	(44) 20-7826-3722
Dwr Cymru (Financing) Ltd.	7/20/2001	A-	--		--	--	173	Anthony Flintoff	(44) 20-7826-3874
DynCorp	6/26/2000	BB-	BB-	Stable	--	B	290	Philip Schrank	(1) 212-438-7859
[redacted]									
Eagle Family Foods Inc.	7/1/1999	B	B	Negative	--	CCC+	235	David Shapiro	(1) 212-438-7861
Eagle-Picher Industries, Inc.	2/6/1998	B+	B+	Stable	--	B-	320	Brian Janiak	(1) 212-438-5025
Earthlink Inc.	3/29/1999	B+	B+	Stable	--	B-	100	Andrew Watt	(1) 212-438-7868
Ecolab Inc.	6/5/1998	A	A/A-1	Stable	A	--	275	Peter Kelly	(1) 212-438-7698
Edison Mission Midwest Holdings Co.	7/13/2001	BBB-	BBB-/A-3	Stable	--	--	1877	Terry Pratt	(1) 212-438-2080
El Paso Natural Gas Co.	9/23/1999	BBB+	BBB+/A-2	Stable	BBB+	--	1500	John Whitlock	(1) 212-438-7678
Elan Corp., PLC	3/3/1999	BBB	BBB	Positive	BBB	BBB-	325	Arthur Wong	(1) 212-438-7870
Eldorado Resorts LLC	2/10/1997	BB	BB-	Stable	--	B	36	Michael Scerbo	(1) 212-438-7858
Electronic Data Systems Corp.	5/5/1997	A+	A+/A-1	Negative	A+	--	2050	Philip Schrank	(1) 212-438-7859
Elgar Holdings Inc.	1/27/1998	B+	B	Negative	B	--	15	Andrew Watt	(1) 212-438-7868
EMCOR Group Inc.	7/25/2001	BBB-	BBB-	Stable	--	--	150	Joel Levington	(1) 212-438-7802
Emmis Communications Corp.	11/28/2000	B+	B+	Positive	--	B-	1400	Eric Geil	(1) 212-438-7833

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Dynegy Holdings Inc.

Research Links

17 records

	Report Type	Date	Title
	Rating Action	14 DEC 2001	MOODY'S DOWNGRADES RATINGS OF DYNEGY INC., DYNEGY HOLDINGS (SR. UNSECURED TO Baa3), ILLINOVA AND ILLINOIS POWER . RATINGS REMAIN UNDER REVIEW FOR POSSIBLE DOWNGRADE
--	Rating Action	29 NOV 2001	MOODY'S CONTINUES TO REVIEW RATINGS OF DYNEGY INC., DYNEGY HOLDINGS, ILLINOVA AND ILLINOIS POWER FOR POSSIBLE DOWNGRADE
--	Rating Action	12 NOV 2001	MOODY'S REVIEWS RATINGS OF DYNEGY INC., DYNEGY HOLDINGS, ILLINOVA AND ILLINOIS POWER FOR POSSIBLE DOWNGRADE
--	Rating Action	27 JUL 2001	MOODY'S RE-CALIBRATES ITS PREFERRED STOCK RATING SCALE TO PROMOTE CROSS-SECTOR COMPARABILITY
--	Rating Action	26 OCT 2000	MOODY'S CONFIRMS RATINGS OF DYNEGY INC., DYNEGY HOLDINGS, ILLINOVA AND ILLINOIS POWER; OUTLOOK IS STABLE
--	Rating Action	8 AUG 2000	MOODY'S REVIEWS RATINGS OF DYNEGY INC., DYNEGY HOLDINGS, ILLINOVA AND ILLINOIS POWER FOR POSSIBLE DOWNGRADE
--	Rating Action	3 JAN 2000	MOODY'S REVISES RATING OUTLOOK FOR DYNEGY INC (Baa2 SR. UNSEC.), ILLINOVA (Baa3 SR. UNSEC.) AND ILLINOIS POWER (Baa1 SR. SEC.) TO STABLE
--	Rating Action	14 JUN 1999	MOODY'S CONFIRMS DYNEGY INC. AT Baa2 (SR. UNSEC.), ILLINOVA CORPORATION AT Baa3 (SR. UNSEC.), AND ILLINOIS POWER AT Baa1 (SR. SEC.), RATING OUTLOOK IS NEGATIVE
--	Rating Action	24 AUG 1998	MOODY'S REVIEWS DYNEGY'S RATINGS WITH DIRECTION UNCERTAIN (SR. UNSEC. AT Baa2)
--	Rating Action	4 DEC 1997	MOODY'S CONFIRMS NGC CORPORATION (Sr. Unsec. At Baa2)
--	Rating Action	1 DEC 1997	MOODY'S ASSIGNS PRIME-2 COMMERCIAL PAPER RATING TO NGC CORPORATION
--	Rating Action	20 MAY 1997	MOODY'S DOWNGRADES NGC CORP.'S RATINGS (SR. UNSEC. TO Baa2); CONFIRMS RATINGS OF WARREN NGL, INC. (SUB. AT Ba2)
--	Rating Action	20 MAY 1997	MOODY'S ASSIGNS ' baa3' TO CAPITAL SECURITIES OF NGC CORP. CAPITAL TRUST I
--	Rating Action	19 FEB 1997	MOODY'S REVIEWS NGC CORP.'S RATINGS FOR POSSIBLE DOWNGRADE (SR. UNSEC. AT Baa1)
--	Rating Action	16 SEP 1996	MOODY'S UPGRADES RATINGS OF NGC CORP. (SR. UNSEC. TO Baa1) AND TRIDENT NGL (SUB. TO Ba2)

--	Rating Action	22 JAN 1996	MOODY'S REVIEWS RATINGS OF NGC CORP. (SR. UNSEC. AT Baa3) AND TRIDENT NGL (SUB. AT Ba3) FOR POSSIBLE UPGRADE
--	Rating Action	2 OCT 1995	MOODY'S ASSIGNS (P)Baa3 RATING TO NGC CORP. SHELF REGISTRATION

You have access to 1 of 17 available records. To increase your access please **contact** a Moody's representative.

Analyst Information

Analyst: John C. Cassidy
Backup Analyst: Alexandra S. Parker
Managing Director: John Diaz
Rating Group: Corporate Finance

Contact Moody's

Rating Information

LT Senior-Most Rating: Baa3, Dec 14 2001 , Senior Unsecured - Dom Curr
ST Most Recent Rating: P-3, Dec 14 2001 , Commercial Paper - Dom Curr
Watchlist Status: Y
Date: 17 DEC 2001
Direction: Possible Downgrade

Issuer Details

Ticker: DYN
Domicile: UNITED STATES
Previous Name: DYNEGY, INC.

Broad Industry: INDUSTRIAL
Specific Industry: GAS TRANSMISSION/DISTRIBUTION

Related Issuers

Current Rating List

13 records

Debt Id	Class	Curr	Rating	Date	Action	Watch	Date/Direction
629121AB0	Senior Unsecured	USD	Baa3	14 DEC 2001	Downgrade	Y	17 DEC 2001 Possible Downgrade
629121AC8	Senior Unsecured	USD	Baa3	14 DEC 2001	Downgrade	Y	17 DEC 2001 Possible Downgrade
629121AF1	Senior Unsecured	USD	Baa3	14 DEC 2001	Downgrade	Y	17 DEC 2001 Possible Downgrade
26816LAA0	Senior Unsecured	USD	Baa3	14 DEC 2001	Downgrade	Y	17 DEC 2001 Possible Downgrade
26816LAB8	Senior Unsecured	USD	Baa3	14 DEC 2001	Downgrade	Y	17 DEC 2001 Possible Downgrade
26816LAC6	Senior Unsecured	USD	Baa3	14 DEC 2001	Downgrade	Y	17 DEC 2001 Possible Downgrade
26816LAD4	Senior Unsecured	USD	Baa3	14 DEC 2001	Downgrade	Y	17 DEC 2001 Possible Downgrade
	Senior Unsecured Bank Credit Facility	USD	Baa3	14 DEC 2001	Downgrade	Y	17 DEC 2001 Possible Downgrade
	Junior Subordinate	USD	Ba1	14 DEC 2001	Downgrade	Y	17 DEC 2001 Possible Downgrade
	Senior Unsec. Shelf	USD	(P)Baa3	14 DEC 2001	Downgrade	Y	17 DEC 2001 Possible Downgrade
	Subordinate Shelf	USD	(P)Ba1	14 DEC 2001	Downgrade	Y	17 DEC 2001 Possible Downgrade
	Preferred Shelf	USD	(P)Ba2	14 DEC 2001	Downgrade	Y	17 DEC 2001 Possible Downgrade

	Commercial Paper	USD	P-3	14 DEC 2001	Downgrade	Y	17 DEC 2001 Possible Downgrade

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17 DEC 2001, 16:53 Eastern Time

Attachment S

(1) **Customer complaint contact information:**
Name: Brenda Crockett
Address: 1000 Louisiana Street, Suite 5800
Houston, TX 77002
Telephone: 713-507-6516

(2) DES plans to serve large commercial and industrial customers in the State of Arizona. As in any other states, DES and customers will negotiate contracts which will ensure that electric services provided to the customers will not be interrupted in the event that DES fails to provide the competitive services set forth in its application.

Attachment T

Attached are copies of notification letter sent to Affected Utilities and other Utility Distribution Companies.

Dynegy Energy Services, Inc.
1000 Louisiana Street, Suite 5800
Houston, Texas 77002
Phone 713.507.6400
www.dynegy.com

DYNEGY

October 21, 2001

AJO Improvement Company
P.O. Drawer 9
AJO, AZ 85321-0000

Re: A.A.C. R14-2-1603 (E)

To Whom It May Concern:

Pursuant to the above-referenced provision, Dynegy Energy Services, In. (DES) hereby submits notice of its intention to provide electric service in all territories where market is open in the State of Arizona.

This correspondence serves as official notification that DES may, at some point in time, provide service to customers in AJO Improvement Company's service area, subsequent to receiving the Certificate of Convenience and Necessity for Competitive Retail Electric Services from Arizona Corporation Commission.

Sincerely,

Jose Rocha
Vice President, Dynegy Energy Services, Inc.

Dynegy Energy Services, Inc.
1000 Louisiana Street, Suite 5800
Houston, Texas 77002
Phone 713.507.6400
www.dynegy.com

DYNEGY

September 21, 2001

Arizona Electric Power Cooperative, Inc.
P.O. box 670
Benson, AZ 85602

Re: A.A.C. R14-2-1603 (E)

To Whom It May Concern:

Pursuant to the above-referenced provision, Dynegy Energy Services, In. (DES) hereby submits notice of its intention to provide electric service in all territories where market is open in the State of Arizona.

This correspondence serves as official notification that DES may, at some point in time, provide service to customers in Arizona Electric Power Cooperative, Inc.'s service area, subsequent to receiving the Certificate of Convenience and Necessity for Competitive Retail Electric Services from Arizona Corporation Commission.

Sincerely,

Jose Rocha
Vice President, Dynegy Energy Services, Inc.

Dynegy Energy Services, Inc.
1000 Louisiana Street, Suite 5800
Houston, Texas 77002
Phone 713.507.6400
www.dynegy.com

DYNEGY

October 12, 2001

Arizona Public Service Company
P.O. Box 53999 Station 9905
Phoenix, AZ 85

Re: A.A.C. R14-2-1603 (E)

To Whom It May Concern:

Pursuant to the above-referenced provision, Dynegy Energy Services, In. (DES) hereby submits notice of its intention to provide electric service in all territories where market is open in the State of Arizona.

This correspondence serves as official notification that DES may, at some point in time, provide service to customers in Arizona Public Service Company's service area, subsequent to receiving the Certificate of Convenience and Necessity for Competitive Retail Electric Services from Arizona Corporation Commission.

Sincerely,

Jose Rocha
Vice President, Dynegy Energy Services, Inc.

Dynegy Energy Services, Inc.
1000 Louisiana Street, Suite 5800
Houston, Texas 77002
Phone 713.507.6400
www.dynegy.com

DYNEGY

September 21, 2001

Citizens Utilities Company-electric Divisions
1450 Poydras Street, 18th Floor
New Orleans, LA 70112

Re: A.A.C. R14-2-1603 (E)

To Whom It May Concern:

Pursuant to the above-referenced provision, Dynegy Energy Services, In. (DES) hereby submits notice of its intention to provide electric service in all territories where market is open in the State of Arizona.

This correspondence serves as official notification that DES may, at some point in time, provide service to customers in Citizens Utilities Company's service area, subsequent to receiving the Certificate of Convenience and Necessity for Competitive Retail Electric Services from Arizona Corporation Commission.

Sincerely,

Jose Rocha
Vice President, Dynegy Energy Services, Inc.

Dynegy Energy Services, Inc.
1000 Louisiana Street, Suite 5800
Houston, Texas 77002
Phone 713.507.6400
www.dynegy.com

DYNEGY

September 21, 2001

Duncan Valley Electric Cooperative, Inc.
P.O. Box 440
Duncan, AZ 85534-0000

Re: A.A.C. R14-2-1603 (E)

To Whom It May Concern:

Pursuant to the above-referenced provision, Dynegy Energy Services, In. (DES) hereby submits notice of its intention to provide electric service in all territories where market is open in the State of Arizona.

This correspondence serves as official notification that DES may, at some point in time, provide service to customers in Duncan Valley Electric Cooperative, Inc.'s service area, subsequent to receiving the Certificate of Convenience and Necessity for Competitive Retail Electric Services from Arizona Corporation Commission.

Sincerely,

Jose Rocha
Vice President, Dynegy Energy Services, Inc.

Dynegy Energy Services, Inc.
1000 Louisiana Street, Suite 5800
Houston, Texas 77002
Phone 713.507.6400
www.dynegy.com

DYNEGY

September 21, 2001

Graham Country Electric Cooperative, Inc.
P.O. Drawer B
PIMA, AZ 85543

Re: A.A.C. R14-2-1603 (E)

To Whom It May Concern:

Pursuant to the above-referenced provision, Dynegy Energy Services, In. (DES) hereby submits notice of its intention to provide electric service in all territories where market is open in the State of Arizona.

This correspondence serves as official notification that DES may, at some point in time, provide service to customers in Graham Country Electric Cooperative, Inc.'s service area, subsequent to receiving the Certificate of Convenience and Necessity for Competitive Retail Electric Services from Arizona Corporation Commission.

Sincerely,

Jose Rocha
Vice President, Dynegy Energy Services, Inc.

Dynegy Energy Services, Inc.
1000 Louisiana Street, Suite 5800
Houston, Texas 77002
Phone 713.507.6400
www.dynegy.com

DYNEGY

September 21, 2001

Morenci Water and Electric Company
P.O. Box 68
Morenci, AZ 85540

Re: A.A.C. R14-2-1603 (E)

To Whom It May Concern:

Pursuant to the above-referenced provision, Dynegy Energy Services, In. (DES) hereby submits notice of its intention to provide electric service in all territories where market is open in the State of Arizona.

This correspondence serves as official notification that DES may, at some point in time, provide service to customers in Morenci Water and Electric Company's service area, subsequent to receiving the Certificate of Convenience and Necessity for Competitive Retail Electric Services from Arizona Corporation Commission.

Sincerely,

Jose Rocha
Vice President, Dynegy Energy Services, Inc.

Dynegy Energy Services, Inc.
1000 Louisiana Street, Suite 5800
Houston, Texas 77002
Phone 713.507.6400
www.dynegy.com

DYNEGY

September 21, 2001

Mohave Electric Cooperative, Inc.
P.O. Box 1045
Bullhead City, AZ 86430

Re: A.A.C. R14-2-1603 (E)

To Whom It May Concern:

Pursuant to the above-referenced provision, Dynegy Energy Services, In. (DES) hereby submits notice of its intention to provide electric service in all territories where market is open in the State of Arizona.

This correspondence serves as official notification that DES may, at some point in time, provide service to customers in Mohave Electric Cooperative, Inc.'s service area, subsequent to receiving the Certificate of Convenience and Necessity for Competitive Retail Electric Services from Arizona Corporation Commission.

Sincerely,

Jose Rocha
Vice President, Dynegy Energy Services, Inc.

Dynegy Energy Services, Inc.
1000 Louisiana Street, Suite 5800
Houston, Texas 77002
Phone 713.507.6400
www.dynegy.com

DYNEGY

September 21, 2001

Navopache Electric Cooperative, Inc.
P.O. Box 308
Lakeside, AZ 85929

Re: A.A.C. R14-2-1603 (E)

To Whom It May Concern:

Pursuant to the above-referenced provision, Dynegy Energy Services, In. (DES) hereby submits notice of its intention to provide electric service in all territories where market is open in the State of Arizona.

This correspondence serves as official notification that DES may, at some point in time, provide service to customers in Navopache Electric Cooperative, Inc.'s service area, subsequent to receiving the Certificate of Convenience and Necessity for Competitive Retail Electric Services from Arizona Corporation Commission.

Sincerely,

Jose Rocha
Vice President, Dynegy Energy Services, Inc.

Dynegy Energy Services, Inc.
1000 Louisiana Street, Suite 5800
Houston, Texas 77002
Phone 713.507.6400
www.dynegy.com

DYNEGY

October 21, 2001

Salt River Project Agriculture Improvement and Power District
1521 N. Project Drive
Tempe, AZ 85281-1298

Re: A.A.C. R14-2-1603 (E)

To Whom It May Concern:

Pursuant to the above-referenced provision, Dynegy Energy Services, In. (DES) hereby submits notice of its intention to provide electric service in all territories where market is open in the State of Arizona.

This correspondence serves as official notification that DES may, at some point in time, provide service to customers in Salt River Project Agriculture Improvement and Power District's service area, subsequent to receiving the Certificate of Convenience and Necessity for Competitive Retail Electric Services from Arizona Corporation Commission.

Sincerely,

Jose Rocha
Vice President, Dynegy Energy Services, Inc.

Dynegy Energy Services, Inc.
1000 Louisiana Street, Suite 5800
Houston, Texas 77002
Phone 713.507.6400
www.dynegy.com

DYNEGY

September 21, 2001

Sulphur Springs Valley Electric Cooperative, Inc.
P.O. Box 820
Willcox, AZ 85644

Re: A.A.C. R14-2-1603 (E)

To Whom It May Concern:

Pursuant to the above-referenced provision, Dynegy Energy Services, In. (DES) hereby submits notice of its intention to provide electric service in all territories where market is open in the State of Arizona.

This correspondence serves as official notification that DES may, at some point in time, provide service to customers in Sulphur Springs Valley Electric Cooperative, Inc.'s service area, subsequent to receiving the Certificate of Convenience and Necessity for Competitive Retail Electric Services from Arizona Corporation Commission.

Sincerely,

Jose Rocha
Vice President, Dynegy Energy Services, Inc.

Dynegy Energy Services, Inc.
1000 Louisiana Street, Suite 5800
Houston, Texas 77002
Phone 713.507.6400
www.dynegy.com

DYNEGY

October 12, 2001

Tucson Electric Power Company
P.O. Box 711
Tucson, AZ 85702

Re: A.A.C. R14-2-1603 (E)

To Whom It May Concern:

Pursuant to the above-referenced provision, Dynegy Energy Services, In. (DES) hereby submits notice of its intention to provide electric service in all territories where market is open in the State of Arizona.

This correspondence serves as official notification that DES may, at some point in time, provide service to customers in Tucson Electric Power Company's service area, subsequent to receiving the Certificate of Convenience and Necessity for Competitive Retail Electric Services from Arizona Corporation Commission.

Sincerely,

Jose Rocha
Vice President, Dynegy Energy Services, Inc.

Challenge Innovation Performance

DYNEGY

1999 Annual Report

One simple, but effective, strategy has established Dynegy as an industry leader: we successfully combine an entrepreneurial spirit with experience-based knowledge and a demonstrated ability to execute our business plan. The result is a company capable of satisfying customers' ever-changing needs in power, gas and natural gas liquids sales and services.

There have been several important milestones in our company's 15-year history. From our acquisition of Chevron's Natural Gas Business Unit and Warren Petroleum in August 1996 to the purchase of Destec Energy, one of the world's leading independent power producers, in June 1997, to our recent merger with Illinova Corp., our company has regularly capitalized on opportunities that ensure maximum returns for our shareholders, customers, partners and employees.

As we enter the new millennium, Dynegy will continue to implement its strategy for success. To that end, on February 1, 2000, Dynegy completed its merger with Illinova. With the merger, Dynegy acquired more than 3,800 gross megawatts of generating capacity strategically located in the Midwest and Illinois Power, an electric and gas transmission and distribution company with a 76-year tradition of reliably serving customers throughout a 15,000-square-mile area of Illinois.

The Dynegy-Illinova merger was only one of several steps that our company undertook in 1999 to further its leadership position in a converging energy marketplace. Efforts to expand our wholesale marketing and trading franchise, increase our generation asset portfolio and augment our retail operations contributed to a 122 percent increase in the company's stock price during 1999.

Looking forward, as a company, we are committed to building shareholder value by expanding our competitive reach across the entire convergence value chain—from power generation to wholesale and retail marketing and trading of both power and gas, with a strong emphasis on enabling technology.

Corporate Leadership

Dynegy's leadership position in the energy industry is not based on the performance of its business segments alone. Behind the marketing and trading, the operations and production, is a strong infrastructure composed of talented people and state-of-the-art business processes and information systems.

Our company may have grown dramatically in the last four years as the result of two major acquisitions and a merger, but these changes have not altered the way we work. By addressing the challenges and responsibilities that come with operating a larger, more diverse organization, Dynegy is a fully integrated company. A decision-making philosophy based on empowerment and the ability to quickly share information across the entire company enables us to effectively execute our business plan.

As a company, we have focused our efforts on enhancing our work flows. In order to make us a smarter, more synergistic organization, we have invested in all aspects of our business processes and technology infrastructure. This ensures that we have the systems and the people to support our current operations, as well as to accommodate our plans for future growth. Dynegy's world-class information systems provide real-time prices, trade execution and deal management tools and comprehensive financial reporting capabilities. In addition, we have invested in innovative technology that enables Dynegy's risk control group to administer effective Value-at-Risk processes and measures. Technology investments have increased productivity across the entire company, enabling us to closely analyze our transactions and uniquely preparing us for a paradigm shift to eBusiness.

From left to right:
Robert D. Doty, Jr.
Senior Vice President, Finance
Milton L. Scott
Senior Vice President and Chief Administrative Officer
Bradley P. Farnsworth
Senior Vice President and Corporate Controller
R. Blake Young
Senior Vice President and Chief Information Officer

Our broad and diverse management team encourages market leadership. Chairman and Chief Executive Officer Chuck Watson, President and Chief Operating Officer Stephen W. Bergstrom, Executive Vice President and Chief Financial Officer John U. Clarke and General Counsel and Secretary Kenneth E. Randolph comprise Dynegy's Office of the Chairman. This core group of leaders is responsible for identifying the company's long-term objectives. Together, they ensure that Dynegy continues to seek out and capitalize on opportunities that will enable it to expand its energy franchise throughout North America, the United Kingdom and Europe. They also assure the effective execution of the company's plans and the commitment to its corporate values.

Dynegy's extended leadership group—the Corporate Strategy and Policy Committee—is composed of 17 executives who are responsible for leading the company's divisions and groups, including operations, human resources, information technology and finance and accounting. This team is responsible for implementing the strategies and activities that will enable the company to achieve its long-term objectives.

Energy Convergence

The significant growth in Dynegy's energy convergence segment is a result of our successful execution of the company's strategy to leverage power and natural gas marketing and trading capabilities with ownership or control over strategic generation assets.

Dynegy's energy convergence segment consists of the wholesale power and gas businesses, which are engaged in the marketing and trading of power and natural gas and the generation of electricity. It also is focused on the evolving retail power and gas markets through Dynegy Energy Services and strategic alliances with regional utilities.

The foundation of Dynegy's energy convergence strategy is the implementation of our merchant leverage effect —an arbitrage-driven approach to the wholesale power and gas market that capitalizes on the complementary relationship between our marketing and trading capabilities and ownership or control over strategic generation assets. By continuously leveraging our market intelligence, development experience and operations expertise, Dynegy's merchant leverage effect has resulted in increased returns and greater market share since our energy convergence strategy was implemented nearly four years ago.

Once again in 1999, the merchant leverage effect proved to be a profitable approach. For the year, earnings before interest and taxes for the energy convergence segment were $199.6 million, excluding the $8.9 million pre-tax gain on the sale of an investment in the first quarter of 1999, compared to $176.1 million, excluding a $2.7 million pre-tax severance charge in 1998. The company's financial performance in energy convergence was the result of strong domestic origination in power, greater asset diversity and higher returns on our worldwide power and gas trading and marketing operations. We achieved outstanding results despite one of the most unseasonable winters and summers in history.

Worldwide natural gas marketing volumes increased 11 percent to 9.9 billion cubic feet per day during

From left to right:
Gary T. Cardone, *President, U.K./Europe;* **Donna Atchison Oglesby**, *President, Dynegy Energy Services;* **M.K. (Matt) Schatzman**, *President, Energy Trading;* **Dan W. Ryser**, *President, Commercial Power;* **Joel M. Staib**, *President, Energy Marketing and Origination;* **Alec G. Dreyer**, *President, Generation*

Energy Trading Floor—
Houston, Texas

Dynegy's energy convergence segment has been, and will continue to be, the growth engine of our company.

1999. The increase reflects the rise in demand for natural gas-fired generation facilities, the growth in our U.K. operations and higher volumes sold to our retail alliances and power generation facilities. The majority of Dynegy's 26 domestic power plants use natural gas fuel to generate electricity. This means that the company can provide fuel to its own generation facilities, ensuring a solid and captive customer base. It also means we can manage our own internal fuel needs, which will continue to grow as we carry out our generation expansion program.

The company also produced and sold 79.3 million megawatt hours of electricity for the year. Megawatt hours sold were lower in 1999 than in 1998, mainly because of our focus on higher margin transactions.

We are concurrently implementing a four-part program to expand our existing generation portfolio in geographically diverse regions of the country. When combined with our national wholesale power and gas marketing and trading franchise, merchant generation creates numerous value-added opportunities for Dynegy and its shareholders. These opportunities include national market access, market infrastructure and intelligence, risk management and arbitrage opportunities, fuel management and procurement expertise, and transmission expertise for power, gas and coal.

The first part of the expansion program is the acquisition of clean, safe and affordable unregulated generation assets that are being sold by electric utilities. The restructuring of the power industry—and the subsequent trend by utilities to divest their interest in power plants and focus on transmission and distribution—is enhancing our ability to quickly assume control of assets and integrate them into our merchant generation portfolio.

Secondly, Dynegy is developing new natural gas-fired merchant power plants in response to critical market demands throughout the country. During 1999, the company announced six new projects:

■ In order to meet the rapidly growing demands of the wholesale energy market in the Midwest, Dynegy is expanding its Rocky Road Power Plant, a 250-megawatt, natural gas-fired simple-cycle peaking facility in East Dundee, Illinois. The addition of a 100-megawatt, natural gas-fired combustion turbine will be completed during the second quarter of 2000, bringing the facility's total generating capacity to 350 megawatts.

■ In March 1999, Dynegy announced plans to develop its second power plant in the state of Georgia. Construction on the Heard County Power Project, a 500-megawatt, natural gas-fired simple-cycle peaking facility located near Franklin in Heard County, Georgia, began in January 2000. Commercial operation is expected to begin during the second quarter of 2001.

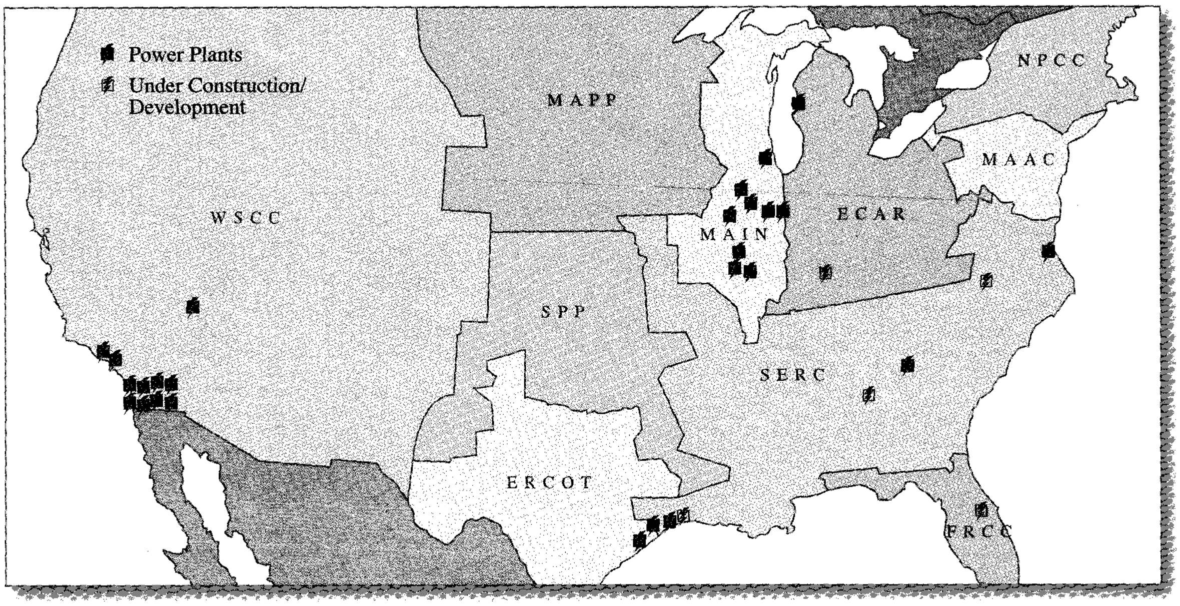
■ In late 1999, Dynegy began construction of a 155-megawatt, natural gas-fired simple-cycle peaking facility near Lake Charles, Louisiana. Commercial operation at the Calcasieu Power Plant will begin during the second quarter of 2000.

■ Construction of the 800-megawatt, simple-cycle Rockingham Power Plant in north-central North Carolina began during the third quarter of 1999. The facility will begin commercial operation by the summer of 2000.

■ Dynegy announced plans to develop one of the first merchant generating facilities in the state of Kentucky. Commercial operation at the Bluegrass Generation Project, a 500-megawatt, natural gas-fired simple-cycle peaking facility located near Louisville, will begin during the second quarter of 2002.

■ In December 1999, Dynegy announced plans to develop its first merchant power plant in the state of Florida. The 500-megawatt, natural gas-fired simple-cycle peaking facility will be located approximately 30 miles southeast of Orlando. Commercial operation at the Palmetto Power Project will begin by the summer of 2002.

Dynegy's strategy to develop mostly simple-cycle peaking facilities is based on four factors: demand, timing, efficiency and flexibility. Continuing demand and regional capacity shortages in several regions of the country during the summers of 1998 and 1999 demonstrated that there is a critical shortage of peak demand generation capacity in the United States. In addition, the amount of time required to construct and test a peaking facility—approximately 12 to 16 months—is also relatively short when compared to combined-cycle facilities. Peaking facilities also are very responsive; they can



Dynegy's diverse generation portfolio is strategically located in key growth areas of the country, including the West, Southeast and Midwest, which enhances our marketing and trading capabilities in all the North American Electric Reliability Council regions.

generate power and supply it into the national power grid in as little as 20 to 25 minutes from start-up. Finally, simple-cycle facilities can be converted with minimal capital investment into a more competitive combined-cycle configuration when market conditions warrant.

Consistent with our strategy and as a result of the long lead time required by industry manufacturers, we have executed or are currently negotiating purchase orders to acquire more than 40 state-of-the-art natural gas-fired combustion turbines. These turbines represent approximately 6,900 gross megawatts of generating capacity. Delivery of the turbines will occur ratably through 2003.

The third element of our expansion program is establishing contracts to purchase power from other power plant developers and operators. By doing so, Dynegy can further diversify its generation portfolio without capital investment in the underlying plant asset.

The fourth program element is management of third-party assets. Increasingly, electric utilities will be required to separate transmission and distribution facilities from generation assets. As these assets become unbundled and subject to competitive market pressures, Dynegy will provide management services to those companies recognizing the need for alignment with a national energy merchant.

As a company, we have set our sights on reaching an ambitious goal for our energy convergence segment. In order to accomplish our market share objective of 10 to 15 percent of the wholesale power market, Dynegy plans to own an interest in approximately 20,000 to 25,000 gross megawatts of generating capacity and achieve the remainder through contractual control or management of third-party assets.

The ongoing restructuring of the power industry will be an important factor in our continued success. Utilities are drawing upon our asset and risk management capabilities in an effort to become more competitive and cost-effective in a deregulated environment.

The opportunities currently being generated by deregulation in Europe also factor into our long-term energy convergence strategy. We are confident that the knowledge base we have refined through the restructuring of U.S. power and gas markets will translate well in European markets.

Midstream

Our strategic asset base, located in key producing basins from West Texas and New Mexico to the Texas and Louisiana Gulf Coast, provides our customers with gathering, processing, transmission, fractionation, storage, distribution and marketing services.

Dynegy's midstream segment includes North American midstream liquids operations, natural gas liquids transportation and marketing operations located throughout North America and around the world.

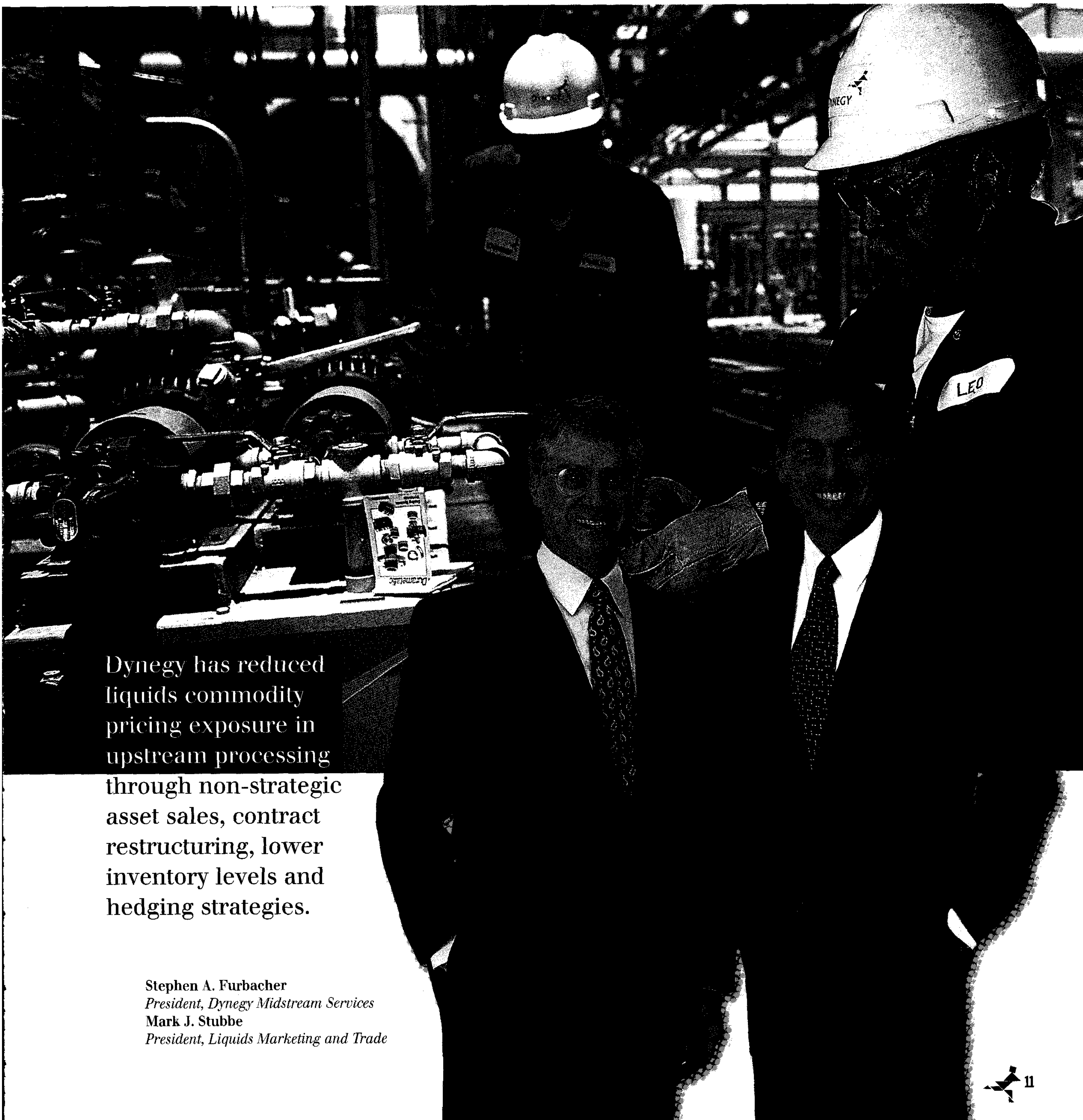
Dynegy owns and operates a total of 33 gas processing plants, seven natural gas liquids storage facilities, seven natural gas liquids marine facilities, three fractionation plants and approximately 14,000 miles of pipelines. Our natural gas liquids transportation fleet—composed of rail cars, trucks, barges and tankers—moves product to customers around the globe. With more than 537 million barrels per day sold in 1999, we are one of the world's largest marketers of natural gas liquids.

Our significantly improved financial performance in our midstream segment during 1999 was the result of our ability to identify and capitalize on Dynegy's competitive advantage—to extract margin at every link in the natural gas liquids value chain. For the year, earnings before interest and taxes from this business nearly doubled to $112.9 million, compared to normalized earnings before interest and taxes of $57.5 million in 1998, excluding a $19.4 million net pre-tax gain on the sale of Ozark Gas Transmission and a severance charge.

Our cost savings initiatives and industry transforming efforts begun in 1998 positioned us well to capitalize on the return in pricing. We have become a first quartile low-cost provider—a position that will allow us to generate earnings and cash flow, even in depressed commodity price cycles. Our cost savings initiatives and business improvements during the year yielded a permanent reduction of more than $50 million in operating and general and administrative costs. An additional $7 million ongoing reduction in maintenance capital expenditures was achieved through improvements in equipment reliability. Our plan includes a continued commitment to efficiency improvements, supply chain management programs, the pursuit of cost saving alliances and the effective use of new and existing technology. We will also continue developing a culture that encourages all employees to think and act as "students of the business"—a mindset we believe drives individual accountability for cost management.

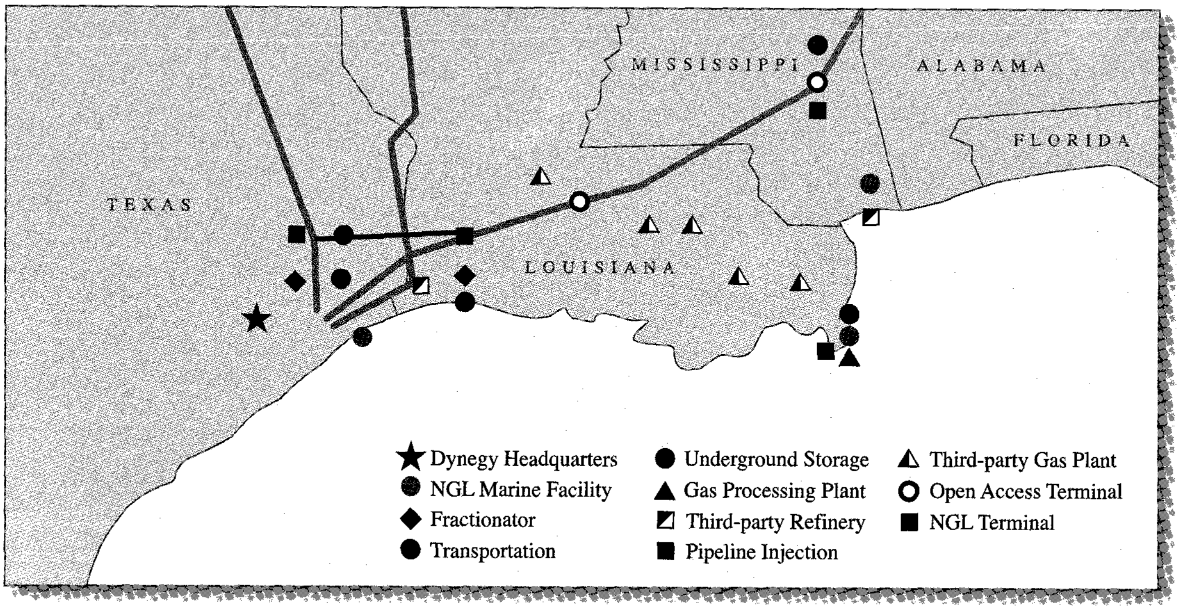
As a company, we have strengthened our industry position by accelerating the consolidation and disposition of processing and gathering assets that do not feed Dynegy's downstream value chain or are located in areas of declining production potential. In 1999, the strong

Liquids Fractionation Facility—Mont Belvieu, Texas



Dynegy has reduced liquids commodity pricing exposure in upstream processing through non-strategic asset sales, contract restructuring, lower inventory levels and hedging strategies.

Stephen A. Furbacher
President, Dynegy Midstream Services
Mark J. Stubbe
President, Liquids Marketing and Trade



Dynegy's concentration of midstream assets in the U.S. Gulf Coast region enables the company to capitalize on increased production activities in deep water Gulf of Mexico where natural gas is two to four times richer in liquids content.

rebound in commodity prices, coupled with our significantly reduced cost structure, provided an ideal opportunity to sell facilities that fell into this category.

The sale of our East Texas gathering and processing assets in December 1999 is being followed by the expected sale of our Mid-Continent assets in the first quarter of 2000. These transactions enable us to redirect capital into other areas of greater strategic focus within Dynegy, to reduce Dynegy's exposure to liquids commodity price volatility and to strengthen our balance sheet by reducing debt. Our remaining gathering and processing assets located in the Permian and Fort Worth Basins and along the Gulf of Mexico are directly linked to our downstream value chain.

Our core competency as a marketer and trader has enabled us to further leverage our value chain position in the downstream area of our midstream segment. Our commercial acumen has enabled us to strengthen our position as one of the world's leading marketers of natural gas liquids and to drive additional return on our investment. Combined with our aggressive "just-in-time" inventory strategy, improved asset utilization and significant cost reduction, our premier market position and superior trading capability led to a strong 1999 downstream performance.

Looking forward, we will capture full value chain opportunities across our system from our Permian and Fort Worth Basin assets through the entire downstream, with particular focus on the Texas and Louisiana Gulf Coast. It is our intention to strengthen and grow our position in the region through a strategy of acquisition, alliance and building new assets. Through our asset position and premier commercial capabilities, we can reliably and profitably deliver value to the major domestic markets in this area, while providing an important link to the international markets of the Atlantic Basin.

The innovative culture change in our midstream segment during the past year will enable us to execute our 2000 strategic plan in much the same way we were able to perform in 1999. The cultural shift we have made to self-managed work teams and facilitative leadership has empowered employees, subsequently driving innovative thinking and creating improved financial results. We will continue to reinforce this approach, while maintaining our focus on environmental, safety and health performance.

We are optimistic about the financial future for our midstream segment. We are positioned for growth as we continue our cost and efficiency improvements, capitalize on our U.S. Gulf Coast position and work to grow our international and U.S. wholesale natural gas liquids businesses.

ansmission and Distribution

The merger of Dynegy and Illinova marks a significant step for Illinois Power toward a new future in the retail energy delivery marketplace.

While Illinois Power prides itself on its 76-year tradition of providing reliable electric and gas services to more than 650,000 customers, it also recognized the need to transform itself to meet the developing realities of a competitive energy marketplace.

Illinois Power led the way in Illinois in 1997 to develop and pass comprehensive electric utility regulatory reform legislation. This legislation, which remains among the most progressive in the nation, provided the foundation for the company's subsequent strategic actions. The most significant of these was the transfer of its fossil-fired generating capacity into an unregulated affiliate—a first-of-its-kind move for a utility. This step was designed to provide greater flexibility and, more importantly, to position Illinois Power's assets to be integrated into Dynegy's broader-based national generation portfolio and become part of Dynegy's merchant leverage effect platform.

It is the same Illinois Power vision and ability to execute that made the merger with Dynegy such a strategic fit. By combining Illinois Power's electric generation and delivery capabilities in the Midwest with Dynegy's strength in wholesale marketing and trading, Illinois Power immediately was able to enhance its competitive position in both wholesale and retail markets.

The addition of Illinois Power's Midwest generation capacity and transmission and distribution network to Dynegy's energy franchise augments Dynegy's existing merchant leverage capabilities in the wholesale market.

Furthermore, the combination provides a significant strategic platform to support initiatives related to transmission policy and the retail energy arena —areas that will represent new opportunities in the future as the power industry continues to deregulate.

Although Illinois Power has transformed from an integrated utility into a focused energy delivery company, it will continue its strong tradition as a reliable provider of power, natural gas and energy-related products and services. In its new role as a member of the Dynegy Performance Team, Illinois Power will provide additional emphasis on delivering reliable service in cost-effective ways, while continuing its efforts to capitalize on strategic and operational synergies made possible by the merger with Dynegy.

ILLINOIS POWER

Part of the DYNEGY Performance Team

Illinois Power's Central Dispatch—Decatur, Illinois

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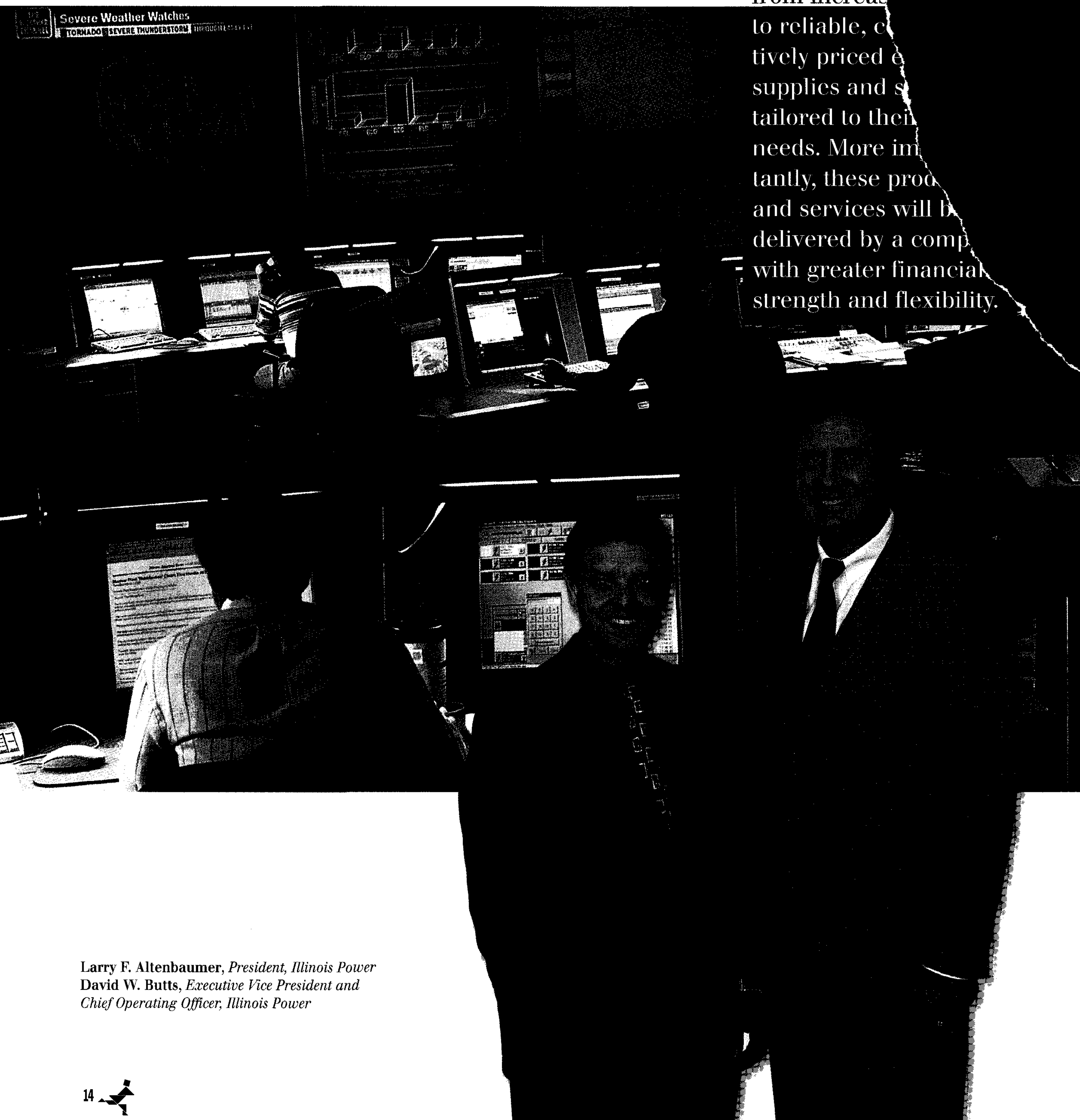


Larry F. Altenbaumer, *President, Illinois Power*
David W. Butts, *Executive Vice President and Chief Operating Officer, Illinois Power*

The Dynegy Commitment

Dynegy is committed to enhancing the social and economic well-being of the communities in which we operate. Each year, we forge partnerships with a variety of charitable organizations, providing substantial donations of both corporate and employee dollars, as well as the time and talent of hundreds of generous employee volunteers.

In 1999, for the second consecutive year, Dynegy participated in a Habitat for Humanity Work Project. More than 100 employees spent nearly 3,000 hours building a home in Houston for a family in need. Habitat for Humanity is just one of the many programs, initiatives and causes that Dynegy volunteers support with their time and talent each year.

At the heart of Dynegy's community commitment is our corporate value, *We Believe in People*. This statement is the driving force behind our efforts to reach out to neighbors and help improve the communities where together we live and work. Among the initiatives to which Dynegy employees throughout the country donate their time and dollars are Junior Achievement, serving young entrepreneurs through high school business mentoring programs; Habitat for Humanity, the program spearheaded by former President Jimmy Carter that builds safe and affordable homes for families of limited means; and United Way, whose fundraising campaigns provide dollars for thousands of community-based social service programs across the country.

Dynegy Chairman and Chief Executive Officer Chuck Watson, pictured with Dynegy Mascot Tommy Tangram, served as city-wide Chairman of the 1999-2000 United Way of the Texas Gulf Coast fundraising campaign. As part of the campaign, Dynegy's Houston employees raised $1.2 million, a 52 percent increase over their 1998 contribution.

Our commitment to the community does not end at philanthropic outreach, however. We also pledge to our shareholders, customers, employees, partners and the public that we will conduct our business in a way that respects the rights of our neighbors and protects the health and safety of our employees and the integrity of the environment.

Executive Officers

Chuck Watson
Chairman and Chief Executive Officer

Stephen W. Bergstrom
President and Chief Operating Officer

John U. Clarke
Executive Vice President and Chief Financial Officer

Kenneth E. Randolph
General Counsel and Secretary

Corporate Strategy and Policy Committee

Chuck Watson
Chairman and Chief Executive Officer

Stephen W. Bergstrom
President and Chief Operating Officer

John U. Clarke
Executive Vice President and Chief Financial Officer

Kenneth E. Randolph
General Counsel and Secretary

Larry F. Altenbaumer
President, Illinois Power

Gary T. Cardone
President, U.K./Europe

Robert D. Doty, Jr.
Senior Vice President, Finance

Alec G. Dreyer
President, Generation

Bradley P. Farnsworth
Senior Vice President and Corporate Controller

Stephen A. Furbacher
President, Dynegy Midstream Services

Donna Atchison Oglesby
President, Dynegy Energy Services

Dan W. Ryser
President, Commercial Power

M.K. (Matt) Schatzman
President, Energy Trading

Milton L. Scott
Senior Vice President and Chief Administrative Officer

Joel M. Staib
President, Energy Marketing and Origination

Mark J. Stubbe
President, Liquids Marketing and Trade

R. Blake Young
Senior Vice President and Chief Information Officer

Board of Directors

J. Joe Adorjan
Chairman, ADVEN Capital Partners, L.L.C.

Charles E. Bayless
Former Chairman, President and Chief Executive Officer,
Illinova Corporation and Illinois Power

Stephen W. Bergstrom
President and Chief Operating Officer, Dynegy Inc.

D.W. "Darry" Callahan
President, Chevron U.S. Chemicals Division

John U. Clarke*
Executive Vice President and Chief Financial Officer
Dynegy Inc.

Daniel L. Dienstbier
Private Investments

R.H. "Dick" Matzke
Vice Chairman of the Board, Chevron Corporation

C. Steven McMillan
President and Chief Operating Officer, Sara Lee Corporation

Robert M. Powers
Director

Sheli Z. Rosenberg
President and Chief Executive Officer
Equity Group Investments, Inc.

Joe J. Stewart
Director

Chuck Watson
Chairman and Chief Executive Officer, Dynegy Inc.

J. Otis Winters
Chairman, PWS Group Inc. Corporate Consultants

Patricia A. Woertz
President, Chevron Products Company

John D. Zeglis
President, AT&T

*Advisory Director

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 1999

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

For the transition period from _________ to ___________

Commission file number: 1-11156

DYNEGY INC.

(Exact name of registrant as specified in its charter)

Illinois (State or other jurisdiction of incorporation or organization)	74-2928353 (I.R.S. Employer Identification Number)
1000 Louisiana, Suite 5800 Houston, Texas (Address of principal executive offices)	77002 (Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act: Title of each class: Class A Common Stock, no par value	Name of each exchange on which registered: New York Stock Exchange
Securities registered pursuant to Section 12(g) of the Act: Title of each class: Series A Convertible Preferred Stock	Name of each exchange on which registered: ---

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

The aggregate value of Class A Common Stock held by non-affiliates of the registrant was approximately $4,222,087,213 on February 28, 2000, (based on $44.8125 per share, the last sale price of the Common Stock as reported on the New York Stock Exchange Composite Tape on such date). 99,066,639 shares of the registrant's Class A Common Stock and 40,521,250 shares of the registrant's Class B Common Stock were outstanding as of February 28, 2000.

DOCUMENTS INCORPORATED BY REFERENCE. Portions of Parts I, II and IV in the Annual Report to Shareholders for the fiscal year ended December 31, 1999. As to Part III (items 10, 11, 12 and 13), Notice and Proxy Statement for the 2000 Annual Meeting of Stockholders to be filed not later than 120 days after December 31, 1999.

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

DYNEGY INC.
FORM 10-K

TABLE OF CONTENTS

For definitions of certain terms used herein, see "Item 1. BUSINESS -- DEFINITIONS."

PART I

Item 1. BUSINESS

THE COMPANY

Dynegy Inc. ("Dynegy" or the "Company") is a leading provider of energy products and services in North America, the United Kingdom and in continental Europe. Products marketed by the Company's wholesale marketing operations include natural gas, electricity, coal, emissions, natural gas liquids, crude oil, liquid petroleum gas and related services. The Company's wholesale marketing operations are supported by ownership or control of an extensive asset base and transportation network that includes unregulated power generation, gas and liquids storage capacity, gas, power and liquids transportation capacity and gas gathering, processing and fractionation assets. Dynegy's asset base is further broadened by the acquisition of Illinova Corporation ("Illinova"), providing significant fossil-fuel merchant generation capacity and a regional electric and natural gas utility engaged in the transmission, distribution and sale of electricity and natural gas. The critical mass achieved through the combination of a large scale energy marketing operation with strategically located assets which augment the marketing efforts affords the Company the ability to offer innovative, value-creating energy solutions to its customers.

The Company is a holding company that conducts substantially all of its business through its subsidiaries. From inception of operations in 1984 until 1990, Natural Gas Clearinghouse ("Clearinghouse") limited its activities primarily to natural gas marketing. Starting in 1990, Clearinghouse began expanding its core business operations through acquisitions and strategic alliances resulting in the formation of a midstream energy asset business and establishing energy marketing operations in both Canada and the United Kingdom. The Company initiated electric power marketing operations in February 1994 in order to exploit opportunities created by the deregulation of the domestic electric power industry. Effective March 1, 1995, Clearinghouse and Trident NGL Holding, Inc. ("Holding"), a fully integrated natural gas liquids company, merged ("Trident Combination") and the combined entity was renamed NGC Corporation ("NGC"). On August 31, 1996, NGC completed a strategic combination with Chevron U.S.A. Inc. and certain Chevron affiliates (collectively "Chevron") whereby substantially all of Chevron's midstream assets merged with NGC ("Chevron Combination"). Effective July 1, 1997, NGC acquired Destec Energy, Inc. ("Destec Acquisition"), a leading independent power producer. During 1998, the Company changed its name to Dynegy Inc. in order to reflect its evolution from a natural gas marketing company to an energy services company capable of meeting the growing demands and diverse challenges of the dynamic energy market of the 21st Century. On June 14, 1999, Dynegy and Illinova announced the execution of definitive agreements for the merger of Illinova and Dynegy. The merger transaction was closed on February 1, 2000.

The principal executive office of the Company is located at 1000 Louisiana, Suite 5800, Houston, Texas 77002, and the telephone number of that office is (713) 507-6400. Dynegy and its affiliates maintain marketing and/or regional offices in Atlanta, Georgia; Boston, Massachusetts; Calgary, Alberta; Chicago, Illinois; Dallas, Texas; Decatur, Illinois; Englewood, Colorado; London, England; Midland, Texas; Montreal, Quebec; Oakville, Ontario; Oklahoma City, Oklahoma; Pleasanton, California; Tampa, Florida; Tulsa, Oklahoma; and Washington D.C.

DEFINITIONS

As used in this Form 10-K, the abbreviations listed below are defined as follows:

Bbl	42 U.S. gallons, the basic unit for measuring crude oil and natural gas condensate.
MBbls/d	Volume of one thousand barrels per day.
MMBbls	Volume of one million barrels.
MMcf/d	Volume of one million cubic feet per day.
Bcf	Volume of one billion cubic feet.
Bcf/d	Volume of one billion cubic feet per day.
Btu	British Thermal Unit – a measure of the amount of heat required to raise the temperature of one pound of water one degree Fahrenheit.
Bpd	Barrels per day.
NGLs	Natural gas liquids.
LPG	Liquid petroleum gas.
MW	Megawatts.
Spot	The Henry Hub cash price posting for natural gas per the "Inside FERC" publication.

Business

The Acquisition of Illinova Corporation

Dynegy completed its acquisition of Illinova Corporation early in the first quarter 2000. Illinova, headquartered in Decatur, Illinois, was an energy services holding company with 1999 annual revenues of $2.4 billion. Illinova's four principal operating subsidiaries were:

- Illinois Power Company, an electric and natural gas utility engaged in the transmission, distribution and sale of electricity and natural gas, serving approximately 650,000 customers over a 15,000 square-mile area of Illinois;
- Illinova Power Marketing, Inc., a subsidiary engaged in the ownership and operation of unregulated fossil-fueled electric generation in Illinois;
- Illinova Generating, Inc., a subsidiary that invests in, develops and operates independent power projects worldwide; and
- Illinova Energy Partners, Inc., a subsidiary that markets energy and energy-related services in the United States and Canada.

Dynegy believes the acquisition of Illinova provides significant financial, operational and corporate governance advantages that enhance its position as a leading provider of energy services and products. The combination brings together a strong, innovative utility company owning strategically located generation assets and operations, including electric transmission and retail distribution capabilities, with one of the leading North American energy marketers and independent power producers. These two companies have diverse but complementary operations, providing qualitative and quantitative expansion of Dynegy's electric generation capacity, while enhancing Dynegy's access to dependable cash flow and an improved platform for further expansion.

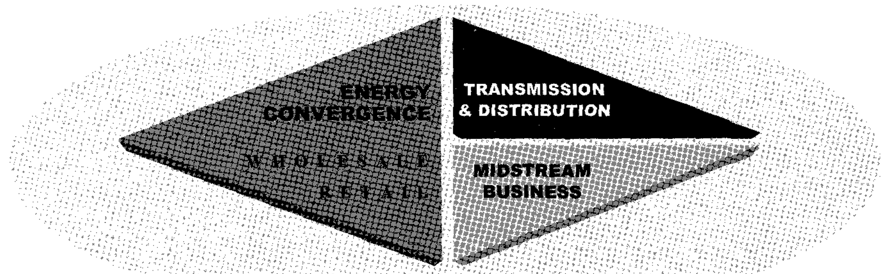
Factors considered in evaluating the benefits of the merger included:

- The merger is expected to be accretive to the earnings per share of the Dynegy shareholders.
- The addition of Illinova's traditional utility business is expected to provide a stable base of cash flow from which the combined company will be able to leverage its business strategy;
- The merger provides Dynegy with a larger platform in the electricity trading market from which it can expand its marketing operations. This larger platform is expected to provide the foundation for Dynegy's strategy to be at the forefront of the restructuring of the power industry and the convergence of the gas and electricity industries;
- The merger adds an additional 3,830 gross megawatts of electricity generating capacity to Dynegy's current capacity of 8,397 gross megawatts per year (both figures include current capacity as well as capacity under construction). This additional capacity is in the Midwestern United States and is expected to allow Dynegy to sell more electricity for its own account on better terms throughout the North American market;
- The merger is expected to provide continuing shareholders, who desire to invest in a full-service provider of energy products and services, an investment vehicle having the flexibility and resources required to respond to the numerous opportunities in the energy industry;
- The merger provides the liquidity needed to allow certain Dynegy shareholders to reduce the size of their investment in Dynegy; and
- The merger improves public float thereby enhancing the Company's access to equity capital at attractive cost.

Segment Discussion

In 1999, the Company reported its operations under two primary business segments: the Energy Convergence and Midstream segments. As previously disclosed herein, in 2000 the Company will add a third business segment consisting of the regulated utility operations, operating under Illinois Power Company, acquired in the Illinova acquisition. This segment will be referred to as the Transmission and Distribution segment. A general description of the business strategy employed by each segment is followed by a discussion of each segment's component businesses.

DYNEGY'S POST MERGER BUSINESS SEGMENTS



- **$22 Billion in Revenues (2000E)**
- **$12 Billion in Assets**
- **12,227 MW Gross Generation Capacity**
- **9,512 MW Net Generation Capacity**

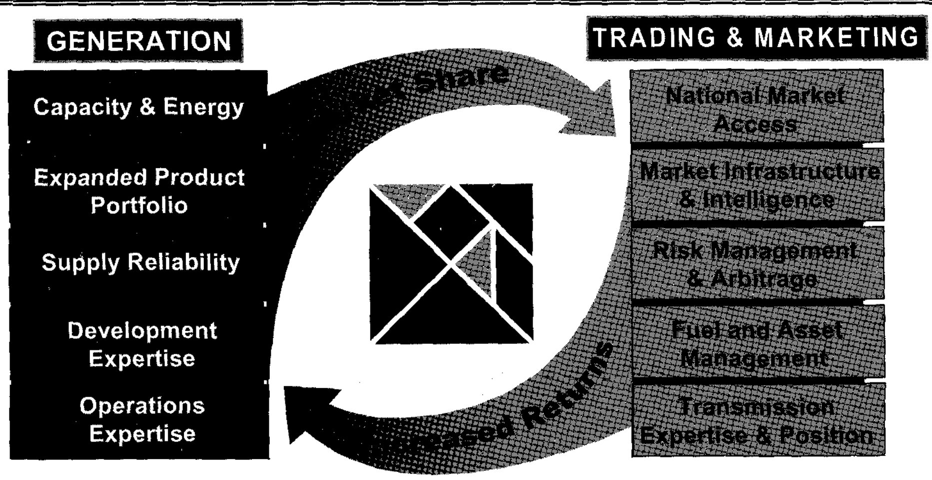
All Amounts Represent a Post Merger Data Estimate

- **1.4 MM Retail Customers**
- **10 Bcf/d Natural Gas Sales**
- **100 MM Mwh Produced & Sold**
- **450 MBls/d Liquids Sales**

Energy Convergence Segment

This segment is actively engaged in value creation through marketing and trading of natural gas, power, coal, emissions and the generation of electricity principally under the name Dynegy Marketing and Trade. Dynegy is pursuing an integrated wholesale energy business approach based on execution of an energy convergence strategy. This strategy exploits the marketing, trading and arbitrage opportunities existing in the natural gas and power markets that are enhanced by the control and optimization of related physical assets. The combination of a portfolio of strategic generation assets and a national gas and power marketing franchise allow for extraction of value resulting from arbitrage opportunities occurring across energy products, across geographic regions and over time. The Company refers to this synergistic relationship between merchant generation capacity and energy trading and marketing as the "Merchant Leverage Effect" depicted below.

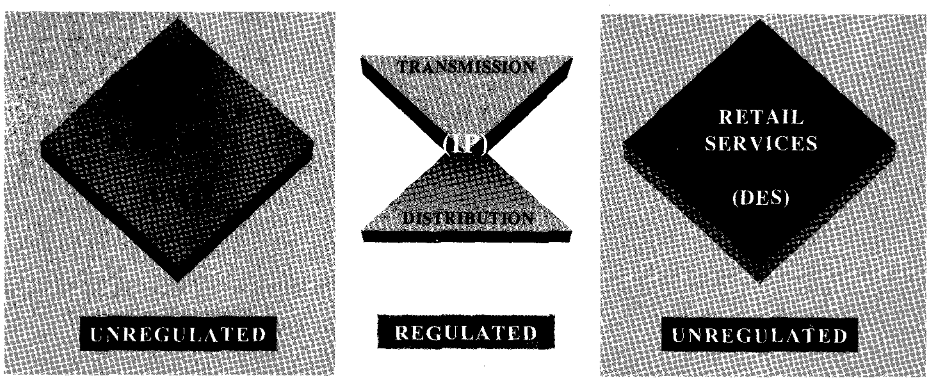
DYNEGY'S MERCHANT LEVERAGE EFFECT



Dynegy views its gas and power marketing and power generation businesses as an integrated unit. Ownership or control of merchant generation, or "Btu Conversion" capacity, when coupled with the Company's national wholesale gas and power marketing franchise, creates a wide range of value creation opportunities benefiting both the Company and its customers. Dynegy's wholesale trading and marketing franchise adds value to its generation assets by providing national market access, market infrastructure and intelligence, risk management and arbitrage opportunities, fuel management and procurement expertise and transmission expertise for inputs (gas and coal) and outputs (power). Generation capacity adds value to the Company's wholesale trading and marketing franchise by providing an outlet/market for gas and coal supplies, a source of reliable power supply and an enhanced ability to structure innovative new products and services for customers.

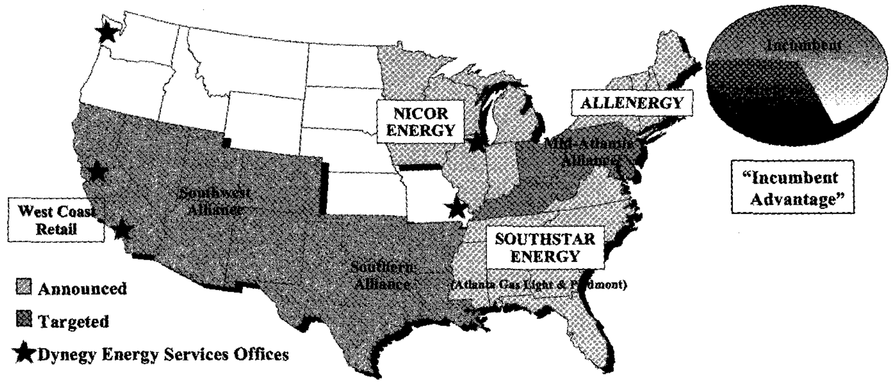
Concurrent with the restructuring of the U.S. wholesale electricity markets, Dynegy is continuing its focus on building a portfolio of merchant generation capacity in select markets across the country. Dynegy believes that merchant generation capacity, which is designed principally to supply power to markets during periods of peak demand, offers the greatest flexibility in executing its strategy of an integrated gas and power marketing and power generation business. For the foreseeable future, Dynegy will continue to expand its ownership or commercial control over strategic generation assets/capacity in selected markets through acquisitions, greenfield development and asset management agreements. The aforementioned acquisition of Illinova's unregulated fossil-fuel generation complements this strategy both in terms of strategic location and capacity. It is expected that approximately two-thirds of projected capital expenditures over the next three years will be directed to the control or ownership of generation assets designed to maximize value extraction through execution of the Merchant Leverage Effect.

RETAIL INDUSTRY UNBUNDLING



Deregulation of the retail gas and power markets is also evolving to encourage greater competition and access to markets. Dynegy's retail gas and electric strategy is designed to access a significant national customer base while mitigating the large capital investment and financial risks necessitated by other national retail marketing strategies. Rather than competing directly with its existing wholesale customers, Dynegy has chosen to strengthen key customer relationships by forming a number of regional retail gas alliances. The combination of Dynegy's low-cost energy supply (gas and power) with a regional utility's large, installed customer base and local name recognition positions each alliance to capture a significant portion of the local gas and power market, when those markets fully open to competition. Dynegy refers to this as the "Incumbent Advantage." Dynegy's goal is to form a North American network of regional retail energy alliances. In addition, Illinova Power Company and Illinova Energy Partners, Inc. each have varying levels of retail gas and electric operations. The Illinova retail operations include three distinct strategies: commercial & industrial and retail commodity sales and services; non-commodity energy related products and services; and, energy information software products. Dynegy is assessing the strategic fit of these operations in concert with its current retail strategy for the purpose of defining a coherent retail strategy for the future. These combined operations are being managed under the name Dynegy Energy Services. The integration of Illinova's retail operations along with Dynegy's established strategy will accelerate Dynegy's penetration of the retail gas and electric markets while reducing financial risk during this period of regulatory uncertainty and restructuring. The following chart provides geographic data on existing and targeted alliance markets.

DYNEGY ENERGY SERVICES – RETAIL ALLIANCE NETWORK

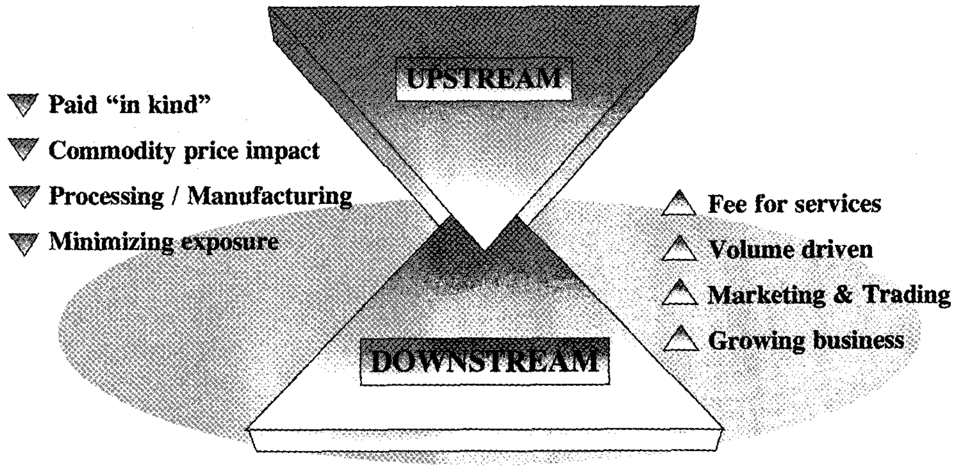


Dynegy's vision of the ultimate restructuring of the gas and power marketing and power generation businesses in the United States is expected to be replicated throughout Canada, the United Kingdom, Europe and other markets as those markets open up to greater competition, subject to any unique attributes associated with market deregulation in those areas. The Company maintains energy trading operations in Canada, the UK and Europe and is continuing to assess local, regional and national markets, regulatory environments and other factors in order to support and direct future economic investment.

Midstream Segment

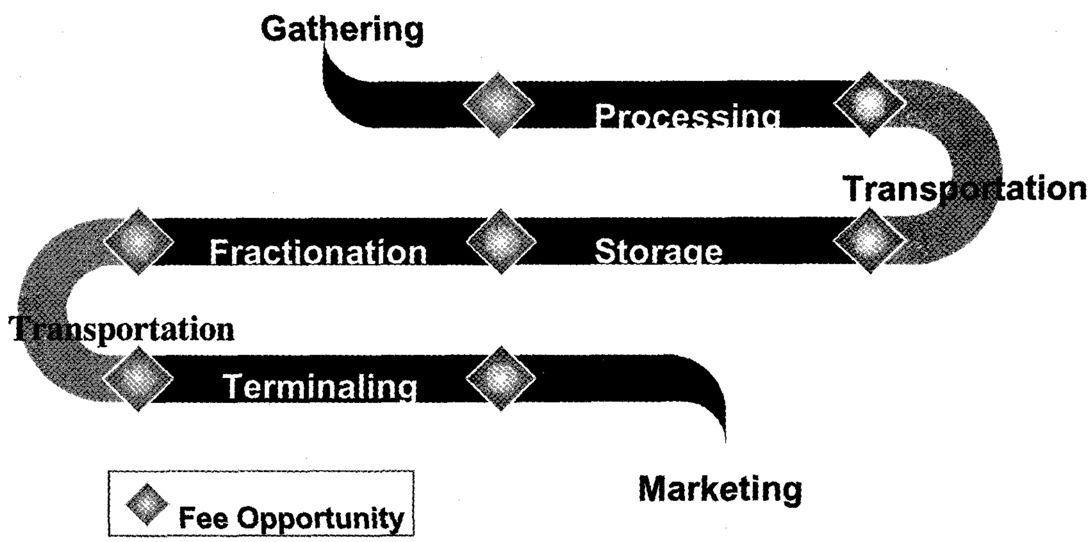
Since 1997, the midstream natural gas liquids industry has experienced significant upheaval. Volatility in NGL prices from 1997 through 1999 has placed significant pressure on operating margins within the industry. Despite significant consolidation over the recent past, the domestic midstream industry remains relatively fragmented and competition for additional inlet volumes remains intense. Dynegy, along with other industry participants, has responded to these industry conditions by aggressively reducing costs, rationalizing assets in non-core operating areas and improving its competitive position in core operating areas through asset consolidation and alliances. The principal goal of these efforts is to mitigate the variability of earnings and cash flow caused by fluctuations in commodity prices, while gaining and maintaining first quartile operating performance against industry peers. From 1998 through early 2000, the Company disposed of certain non-core assets, principally in the Mid-Continent region, combined regional operations through an alliance with an industry partner and consolidated certain upstream and downstream operations to achieve cost synergies. These efforts resulted in first quartile operating performance in 1999, positioning the Company to concentrate its operations and capital expenditure program in the strategic gulf coast area and any other areas that management views as strategic. Dynegy believes that financial returns will benefit from focusing its management and capital resources towards expanding upstream and downstream opportunities arising as Gulf of Mexico natural gas production increases, as world-wide liquids marketing activities become further linked to the industry-wide southern Texas and Louisiana infrastructure and as other developments in the natural gas industry arise, which complement the Company's strategy.

DYNEGY'S MIDSTREAM BUSINESS



This segment principally operates under the name Dynegy Midstream Services and consists of the North American midstream liquids operations, the global liquefied petroleum gas transportation and the natural gas liquids marketing operations, located primarily in Houston and in London, and certain other businesses. The North American midstream liquids operations are actively engaged in the gathering and processing of natural gas and the transportation, fractionation and storage of NGLs. Major producers upstream and refiners downstream have divested their ownership in midstream assets and operations over the last decade. Traditionally, these operations provided intermediate service and support functions within most integrated petroleum companies. Dynegy believes that it can achieve significant cost and operating efficiencies as well as attractive returns on services provided to the market from the independent ownership and operation of these assets. Dynegy captures value throughout the midstream service business model as shown below. As a result, Dynegy has built a vertically integrated natural gas liquids infrastructure having the capability of extracting profit throughout the value chain extending from inlet natural gas volumes gathered from producing horizons throughout the US and Canada to marketing NGLs to wholesalers and end-users throughout the world.

DYNEGY'S "LIQUIDS VALUE CHAIN"



The Company is a recognized industry leader in substantially all midstream component businesses, ranging from natural gas processing to marketing NGLs to end users. During 1999, Dynegy was the second largest processor of natural gas in the United States; it owned substantial fractionation capacity exceeding three hundred thousand barrels per day and the Company marketed over four hundred fifty thousand barrels of NGLs daily. These activities were supported by an extensive storage and transportation system, which included in excess of 14,000 miles of natural gas pipelines, 2,000 miles of crude oil pipelines, 500 miles of NGL pipelines and 60 million barrels of NGL storage capacity. To further assist its operations, the Company has access to substantial barge, rail, trucking and terminalling assets as well as large-hull ships having long-haul capabilities, which enhance international trading opportunities. As discussed elsewhere, the Company is disposing of its Mid-Continent natural gas processing and gathering assets during the first quarter 2000.

Overview of Segment Businesses

Energy Convergence Segment - Natural Gas

The Company's wholesale natural gas marketing activities are conducted throughout North America and in the United Kingdom. These activities consist of contracting to purchase specific volumes of natural gas from suppliers at various points of receipt to be supplied over a specific period of time; aggregating natural gas supplies and arranging for the transportation of these gas supplies through proprietary and third-party transmission systems; negotiating the sale of specific volumes of natural gas over a specific period of time to local distribution companies (LDCs), utilities, power plants and other end-users; and matching natural gas receipts and deliveries based on volumes required by customers.

Natural Gas Purchases. The Company purchases natural gas from a variety of suppliers under contracts with varying terms and conditions intended to ensure a stable supply of natural gas. When purchasing natural gas, the Company considers price, location, liquids content, if applicable, and quantities available. In 1999, the Company purchased natural gas in every major producing basin in the United States and Canada from over 290 suppliers, ranging from major producers to small independent companies. Pursuant to ancillary agreements entered into as part of the Chevron Combination, Dynegy has the obligation to purchase and the right to market substantially all of the natural gas produced or controlled by Chevron in the United States (except Alaska). The Chevron relationship provides the Company with a significant, stable supply of natural gas which, when combined with gas supplies available from its network of other supply sources, allows it to effectively manage gas supplies and reduces the risk of short-term supply shortages during periods of peak demand.

Transportation. The Company arranges for transportation of the natural gas it markets from the supplier receipt point to the delivery point requested by the purchaser. The Company generally retains title to the natural gas from the receipt point to the delivery point and obtains transportation on unaffiliated pipelines. The Company believes that its understanding of the United States' pipeline network, along with the scale and geographic reach of its gas marketing efforts, are important to the Company's success as a gas marketer. The Company uses a variety of transportation arrangements to move its customers' volumes, including short-term and long-term firm and interruptible agreements with pipelines and brokered firm contracts with its customers.

Natural Gas Sales. The Company sells natural gas under sales agreements that have varying terms and conditions intended to match seasonal and other changes in demand. The Company's wholesale customer base consists primarily of gas and electric utilities and industrial and commercial end-users and marketers of natural gas. In 1999, sales were made to approximately 820 customers located throughout the contiguous United States and parts of Canada. For the year ended December 31, 1999, the Company's North American operations sold an aggregate average of 8.8 Bcf per day of natural gas.

Natural Gas Storage. Natural gas storage capacity plays an important role in the Company's ability to act as a full-service natural gas marketer by allowing it to manage relatively constant gas supply volumes with uneven demand levels. Through the use of its storage capabilities, the Company offers peak delivery services to satisfy winter heating and summer electric-generating demands. Storage inventories also provide performance security or "backup" service to the Company's customers. The Company at various times leases short-term and long-term firm and interruptible storage.

United Kingdom. The Company maintains an independent energy marketing business through a wholly owned subsidiary in the United Kingdom. Additionally, Dynegy owns a twenty-five percent participating preferred stock interest in Accord Energy Limited ("Accord"), a U.K.-based energy marketing company. During 1999, the

Company's U.K. subsidiary purchased product from 45 suppliers and marketed sales to 46 customers. For the year ended December 31, 1999, the Company's U.K.-based operations sold an aggregate average of 1.1 Bcf per day of natural gas. Additionally, in 1999, the U.K. energy trading operation began financial trading in the United Kingdom and the Norway Power Pool ("Nord Pool") electricity markets.

Energy Convergence Segment - Power

Dynegy markets electricity and power products and services through indirect wholly-owned subsidiaries, providing a 24-hour-a-day resource for the sale and purchase of power through access to wholesale markets throughout North America. The Company helps generation customers manage and optimize their fuel supplies, optimize generation assets and capacity utilization and maximize energy conversion and tolling opportunities. In addition, the Company provides market aggregation and sales assistance and risk-management services and strategies. The Company will at times contract for transmission capacity over regulated transmission lines in order to facilitate regional movements of power. In 1999, Dynegy made sales to approximately 200 customers and sold 67 million-megawatt hours of electricity.

Following the close of the Illinova acquisition, Dynegy had interests in power projects in operation, under construction, in late stage development or pending acquisition having combined gross capacity of 12,227 megawatts of electricity. The Illinova acquisition added 4,989 megawatts of capacity to Dynegy's portfolio; however, Dynegy was required by the federal Public Utility Regulatory Policies Act of 1978 ("PURPA") to divest or restructure its interests in certain qualified facilities, as a condition precedent to closing the Illinova acquisition. Such interests were divested on February 1, 2000, resulting in the loss of 709 gross megawatts of capacity. Approximately 64 percent of owned capacity is gas-fired and a majority of the gas-fired capacity is held through interests owned in joint ventures or other similar financial structures. In addition to ownership and operation of generating capacity, the Company may, at times, provide services to the ventures in which it owns an interest in the areas of project development, engineering, environmental affairs, operating and maintenance services, business management and fuel supply services. Such management services include:

- Engineering oversight of all conceptual planning, feasibility studies, environmental studies and plant, engineering and construction design;
- Specialized and comprehensive operating, maintenance, testing and start-up services;
- Power and fuel management involving purchases and sales for and from the projects;
- Contract negotiation;
- Development and maintenance of business plans and forecasts;
- Development and implementation of profit improvement opportunities;
- Monitoring regulatory, legislative, and environmental affairs; and
- Providing various accounting and financial services.

Midstream Segment – Natural Gas Gathering and Processing

The natural gas processing industry is a major segment of the oil and gas industry, providing the necessary service of refining raw natural gas into marketable pipeline quality natural gas and natural gas liquids. The Company owns interests in 38 gas processing plants, including 24 plants that it operates, as well as associated and stand-alone natural gas gathering pipeline systems. These assets are primarily located in the key producing areas of New Mexico, Texas, Louisiana, Arkansas, Oklahoma, Kansas and Alberta, Canada.

During 1999, the Company processed an average of 2.9 Bcf per day of natural gas and produced an average of 123 thousand barrels per day of natural gas liquids. As part of the Chevron Combination's ancillary agreements, Dynegy acquired the right to process substantially all of Chevron's processable natural gas in those geographic areas where it is economically feasible for Dynegy to provide such service.

Through two transactions, one in December 1999 and one in January 2000, the company agreed to sell its Mid-Continent natural gas processing and gathering facilities. These facilities were non-strategic, were under-performing in comparison to other assets in its portfolio and exposed Dynegy to commodity price risk that was difficult to mitigate on a consistent basis. The December sale has closed and the January sale is set to close in March 2000. During 1999, these combined assets processed an average of 362 Bcf per day of natural gas and produced an average of 30 thousand barrels per day of natural gas liquids. As part of the December 1999 sale, Dynegy executed a purchase and sale contract to acquire substantially all of the natural gas liquids processed by certain of these natural gas processing plants for a period of three years. The aggregate sales proceeds from these sales approximated $422 million and the Company recognized no material gain or loss on either transaction.

Midstream Segment - Fractionation

Natural gas liquids removed from the natural gas stream at gas processing plants are generally in the form of a commingled stream of liquid hydrocarbons (raw product). The commingled natural gas liquids are separated at fractionation facilities into the component products of ethane, propane, normal butane, isobutane and natural gasoline. The Company has ownership interests in three fractionation facilities; two in Mont Belvieu, Texas and one in Lake Charles, Louisiana. During 1999, these facilities fractionated an average of 327 thousand gross barrels per day.

Midstream Segment - NGL Marketing

In North America, the Company markets its own NGL production and also purchases NGLs from third parties for resale. Dynegy also markets and trades LPGs throughout the world through use of chartered large-hull ships. Product marketed and traded by this business is acquired from producing areas in the North Sea, West Africa, Algeria and the Arabian Gulf as well as from the U.S. Gulf Coast region. During 1999, the Company sold approximately 537 thousand barrels per day of natural gas liquids to over 820 customers from these operations.

Midstream Segment - Transportation Operations

The Company's transportation assets are inter-connected with the nation's gas liquids and natural gas pipeline systems. Through this network of pipeline connections, terminals, rail cars, trucks, barges and storage facilities, the Company moves natural gas liquids from producing regions in the Gulf Coast, West and Midwest to most major domestic and international markets. The Company operates large-scale marine terminals in Texas, Florida and Louisiana, which offer importers a variety of methods for transporting products to the marketplace. In addition, Dynegy has access to over 60 million barrels of underground liquids storage providing customers with the ability to store, trade, buy and sell specification products. Dynegy also leases large-hull ships capable of importing/exporting liquid petroleum gas to/from markets throughout the world.

Midstream Segment - Crude Oil Marketing

During 1999, Dynegy placed its domestic crude oil marketing operations for sale, as the business was not considered strategic or complementary to the organization's long-term strategy. Divestiture of these operations is expected to occur in the first quarter 2000. During 1999, the Company sold approximately 207 thousand barrels per day of crude oil to over 100 customers. The Company will continue crude oil marketing operations in Canada, through a wholly owned Canadian subsidiary.

Business Risk Management Assessment

Dynegy's operations and periodic returns are impacted by a myriad of factors, some of which may not be mitigated by risk management methods. These risks include, but are not limited to, commodity price, interest rate and foreign exchange rate fluctuations, weather patterns, counterparty risk, management estimations, strategic investment decisions, changes in competition, operational risks, environmental risks and changes in regulation.

The Company is exposed to commodity price variability related to its natural gas, natural gas liquids, crude oil, electricity and coal businesses. In addition, fuel requirements at its power generation and gas processing facilities represent additional commodity price risks to the Company. In order to manage these commodity price risks, Dynegy routinely utilizes certain types of fixed-price forward purchase and sales contracts, futures and option contracts traded on the New York Mercantile Exchange and swaps and options traded in the over-the-counter financial markets to:

- Manage and hedge its fixed-price purchase and sales commitments;
- Provide fixed-price commitments as a service to its customers and suppliers;
- Reduce its exposure to the volatility of cash market prices;
- Protect its investment in storage inventories; and
- Hedge fuel requirements at its gas processing and power generation facilities.

The Company may, at times, have a bias in the market, within established guidelines, resulting from the management of its portfolio. In addition, as a result of marketplace liquidity and other factors, the Company may, at times, be unable to fully hedge its portfolio for certain market risks. Dynegy monitors its exposure to fluctuations in interest rates and foreign currency exchange rates and may execute swaps, forward-exchange contracts or other financial instruments to hedge and manage these exposures.

The Company employs the mark-to-market method of accounting for a portion of its operations, which accounts for all energy trading activities at fair value as of each balance sheet date and recognizes currently in its results of operations the net gains or losses resulting from the revaluation of these contracts. As a result, substantially all of the operations of the Company's world-wide gas marketing, power marketing, and crude marketing operations are accounted for under a mark-to-market accounting methodology. In certain of these markets, long-term contract commitments may extend beyond the period in which market quotations for such contracts are available. The lack of long-term pricing liquidity requires the use of mathematical models to value these commitments under the accounting method employed. These mathematical models utilize historical market data to forecast future elongated pricing curves, which are used to value the commitments that reside outside of the liquid market quotations. The application of forecasted pricing curves to contractual commitments may result in realized cash returns on these commitments that vary, either positively or negatively, from the results estimated through application of the mathematical model. Dynegy believes that its mathematical models utilize state-of-the-art technology, pertinent industry data and prudent discounting in order to forecast certain elongated pricing curves.

Dynegy's commercial groups manage, on a portfolio basis, the resulting market risks inherent in commercial transactions, subject to parameters established by the Dynegy Board of Directors. Market risks are monitored by a risk control group that operates independently from the commercial units that create or actively manage these risk exposures to ensure compliance with Dynegy's risk management policies. Risk measurement is also practiced against the Dynegy portfolios with value at risk, stress testing and scenario analysis.

In addition to risks associated with price or interest rate movements, credit risk is also inherent in the Company's operations. Credit risk relates to the risk of loss resulting from the nonperformance of contractual obligations by a counterparty. Dynegy maintains credit policies with regard to its counterparties, which management believes minimize its overall credit risk.

Dynegy's stated business strategy is to expand ownership or control of merchant generation capacity in select markets across the country. Dynegy believes that merchant generation capacity, which is designed principally to supply power to markets during periods of peak demand, offers the greatest flexibility in executing its strategy of an integrated gas and power marketing and power generation business. This strategy heightens the risk for volatility in periodic returns by increasing the Company's exposure to variability in anticipated demand resulting from:

- changing weather patterns,
- unexpected delays in industry-wide construction of new capacity,
- unforeseen supply constraints or bottlenecks resulting from transmission failures or other factors,
- unforeseen new technologies, and
- other similar factors.

Further, as Dynegy moves forward with the execution of its strategic plan to own or control 70,000 megawatts of capacity within five years, risk of earnings volatility increases through exposure to unanticipated variability in generation capacity dependability factors. As a result of supply contracts routine in the industry, Dynegy's exposure relating to performance by these generating assets resides not only with owned and controlled assets, but also with third-party operated facilities. The volatility of earnings, whether it be favorable or unfavorable, will likely be most profound during periods of peak demand when, and if, regional industry-wide generation capacity fails or is curtailed. The increasing importance of and dependency upon physical generation of electricity as a percentage of Dynegy's overall portfolio and strategy may substantially alter Dynegy's earnings risk profile over time.

Finally, the addition of these generation assets to Dynegy's portfolio may increase enterprise exposure to environmental and regulatory laws and regulations. These exposures could result in increased expenditures for capital improvements to meet certain statutory requirements and could result in expenditures for remediation of unanticipated environmental contamination. The potential redirection of capital to these types of expenditures could reduce the level of available discretionary capital currently expected to be used in executing Dynegy's strategic plan in future periods.

Many of these risks are outside the control of Dynegy and may not be fully mitigated through application of risk management methods and/or state-of-the-art, first quartile power generation operating methods.

Competition

All phases of the businesses in which Dynegy is engaged are highly competitive. In connection with both domestic and foreign operations, the Company encounters strong competition from companies of all sizes, having varying levels of financial and personnel resources.

Dynegy competes in its energy marketing and trading businesses with international, national and regional full service energy providers, merchants, producers and pipelines for sales based on its ability to aggregate competitively priced supplies from a variety of sources and locations and to utilize efficient transportation. With respect to its marketing and trading operations, Dynegy believes that:

- E-Commerce will fast become the primary business enabler resulting in a shift in how the industry conducts its business;
- Customers will increasingly scrutinize the financial condition of their suppliers to assure that contract obligations will be met;
- Suppliers and transporters will demand more stringent credit terms to secure performance;
- The increased role of full service energy providers may add to the financial cost of doing business;
- Increasing availability of pricing information to participants in the industry will continue to exert downward pressure on per-unit profit margins in the industry;
- Suppliers will have to be multi-fuel marketers; and
- Large competitors having significant liquidity and other resources will compete with Dynegy for similar business.

As a result, Dynegy believes its financial condition and its access to capital markets will play an increasing role in distinguishing the Company from many of its competitors. Further, Dynegy believes that technological advances in executing transactions will differentiate the competition in the near term. Operationally, Dynegy believes its ability to remain a low-cost merchant and to effectively combine value-added services, competitively priced supplies and price risk management services will determine the level of success in its marketing and trading operations.

The demand for power may be met by generation capacity based on several competing technologies, such as gas-fired or coal-fired cogeneration and power generating facilities fueled by alternative energy sources including hydro power, synthetic fuels, solar, wind, wood, geothermal, waste heat, solid waste and nuclear sources. The Company's power generation business competes with other non-utility generators, regulated utilities, unregulated subsidiaries of regulated utilities and other energy service companies in the development and operation of energy-producing projects. The trend towards deregulation in the U.S. electric power industry has resulted in a highly competitive market for acquisition or development of domestic power generating facilities. As the nation's regulated utilities seek non-regulated investments and states move toward retail electric competition, these trends can be expected to continue for the foreseeable future.

The Company's natural gas liquids and crude oil marketing businesses face significant competition from a variety of competitors including major integrated oil companies, major pipeline companies and their marketing affiliates and national and local gas gatherers, processors, brokers, marketers and distributors of varying sizes and experience. The principal areas of competition include obtaining gas supplies for gathering and processing operations, obtaining supplies of raw product for fractionation, the marketing of natural gas liquids, crude oil, residue gas, condensate and sulfur, and the transportation of natural gas, natural gas liquids and crude oil. Competition typically arises as a result of the location and operating efficiency of facilities, the reliability of services and price and delivery capabilities. The trend towards industry consolidation in the North American upstream liquids businesses has resulted in a highly competitive market for acquisition and development of such facilities. Dynegy's leadership position in this industry provides unique opportunities to extract value from its investments. The Company believes it has the infrastructure, long-term marketing abilities, financial resources and management experience to enable it to effectively compete.

Regulation

General. The Company is subject to the laws, rules and regulations of the jurisdictions and countries in which it conducts its operations. The regulatory burden on the energy industry increases its cost of doing business and, consequently, affects its profitability. Inasmuch as these rules and regulations are frequently amended or reinterpreted, the Company is unable to predict the future cost or impact of complying with such regulations. These rules and regulations affect the industry as a whole; therefore, the Company does not believe that it is affected in a significantly different manner from its competitors.

Natural Gas Regulation. The transportation and sale for resale of natural gas is subject to regulation by the Federal Energy Regulatory Commission ("FERC") under the Natural Gas Act of 1938, as amended ("NGA") and, to a lesser extent, the Natural Gas Policy Act of 1978, as amended ("NGPA"). Interstate transportation and storage services by natural gas companies, including interstate pipeline companies, and the rates charged for such services, are regulated by the FERC. Certain of the Company's pipeline activities and facilities are involved in interstate transportation of natural gas, crude oil and natural gas liquids, and are subject to these or other federal regulations.

Natural Gas Marketing. Commencing in 1985, the FERC promulgated a series of orders and regulations adopting changes that significantly altered the business of transporting and marketing natural gas by fostering competition. The thrust of these regulations was to induce interstate pipeline companies to provide nondiscriminatory transportation services to producers, distributors and other shippers. The effect of the foregoing regulations has been the creation of an open access market for natural gas purchases and sales and the creation of a business environment which has fostered the evolution of various unregulated, privately negotiated natural gas sales, purchase and transportation arrangements. Regulations in Canada have resulted in a similar business environment in that country. The sale for resale of natural gas in North America has substantially completed its evolution to an unregulated, open access market. The Company does not believe that any further regulatory matters will have a material adverse effect on the Company's operations or competitiveness.

In the first quarter of 2000, the FERC issued Order No. 637, which changed the character of interstate transportation services. Interstate pipelines will begin implementation of the new regulations in May 2000. The Company does not believe that the terms of the FERC Order will adversely affect its operations.

In Canada, certain federal and provincial regulatory authorities require parties to hold export or removal permits for transactions pursuant to which natural gas is to be exported from the jurisdiction in which it is produced. These requirements apply whether the gas is removed from one province to another or from a province to the United States. The Company's indirectly wholly-owned Canadian subsidiary, Dynegy Canada Inc., holds permits from the National Energy Board, the Alberta Energy and Utilities Board ("AEUB") and the British Columbia Ministry of Employment and Investment, Oil and Gas Section for such purposes. In addition, Dynegy Canada Inc. holds export permits from the National Energy Board similar to the foregoing for butane, propane and crude oil. In the United Kingdom, regulation of the natural gas business is subject to regulation by the Office of Gas Supply.

Gas Processing. The primary function of Dynegy's gas processing plants is the extraction of natural gas liquids and the conditioning of natural gas for marketing, and not natural gas transportation. The FERC has traditionally maintained that a processing plant is not a facility for transportation or sale for resale of natural gas in interstate commerce and therefore is not subject to jurisdiction under the NGA. Even though the FERC has made no specific declaration as to the jurisdictional status of the Company's gas processing operations or facilities, Dynegy believes its gas processing plants are primarily involved in removing natural gas liquids and therefore exempt from FERC jurisdiction. Nonetheless, certain facilities downstream of processing plants are being considered for use in transporting gas between pipelines, which may invoke FERC's jurisdiction. Such jurisdiction should apply to the downstream facility as a pipeline, however, and not to the plants themselves.

In Alberta Canada, the AEUB governs the permitting, emissions and operations of gas gathering and processing facilities. These facilities require a permit from the AEUB to process or transport a specified volume of gas and a demonstration at the time of application that the impact on the environment will be minimal. Dynegy Canada Inc. holds all necessary permits required in order to own and operate its processing and gathering facilities. Notwithstanding the jurisdiction of the AEUB, the rates, terms and conditions of service of such facilities are generally the result of privately negotiated arrangements.

Gathering. The NGA exempts gas-gathering facilities from the jurisdiction of the FERC. Interstate transmission facilities, on the other hand, remain subject to FERC jurisdiction. The FERC has historically

Item 1a. EXECUTIVE OFFICERS

Set forth below are the names and positions of the current executive officers of the Company, together with their ages, position(s) and years of service with the Company.

Name	Age *	Position(s)	Served with the Company Since
C. L. Watson	50	Chairman of the Board, Chief Executive Officer, and a Director of the Company	1985
Stephen W. Bergstrom	42	President and Chief Operating Officer of Dynegy Inc., and a Director of the Company	1986
John U. Clarke	47	Executive Vice President, Chief Financial Officer	1997
Kenneth E. Randolph	43	Senior Vice President, General Counsel and Secretary of the Company	1984

* As of April 1, 2000

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

C. L. Watson is the Chairman and Chief Executive Officer of Dynegy Inc. He joined the company as President in 1985 and became Chairman and Chief Executive Officer of NGC in 1989. Prior to his employment with Clearinghouse, he served as Director of Gas Sales for the Western United States for Conoco Inc. Mr. Watson serves on the board of directors of Baker Hughes Incorporated.

Stephen W. Bergstrom, President and Chief Operating of Dynegy Inc. is responsible for the day-to-day development and execution of Dynegy's strategy across its operating business units. He is also a member of Dynegy's board of directors. Mr. Bergstrom was formerly President and Chief Operating Officer of Dynegy Marketing and Trade and Senior Vice President of Dynegy Inc., with responsibility for natural gas and power marketing, supply and generation functions. After joining Clearinghouse in 1986 as Vice President of Gas Supply, Mr. Bergstrom was promoted to Senior Vice President of Gas Marketing and Supply in 1987. In 1990, he was named Executive Vice President of Clearinghouse. Prior to joining the Company, Mr. Bergstrom was Vice President of Gas Supply for Enron Gas Marketing. Mr. Bergstrom began his professional career with Transco Energy Company of Houston.

John U. Clarke, Executive Vice President, Chief Financial Officer, joined the Company in April 1997 and serves as the Company's principal financial officer. Mr. Clarke is also an Advisory Director of the Company. Prior to joining Dynegy, Mr. Clarke was a managing director and co-head of a specialty energy practice group with Simmons & Company International, an investment-banking firm for approximately one year. He previously had served as President of Concept Capital Group, Inc., a financial advisory firm formed by Mr. Clarke in May, 1995. Mr. Clarke was Executive Vice President and Chief Financial and Administrative Officer with Cabot Oil & Gas Corporation from August 1993 to February 1995, and worked for Transco Energy Company, from April 1981 to May 1993, last serving as Senior Vice President and Chief Financial Officer. Mr. Clarke began his career with Tenneco Inc. in January 1978. He is a director of Natco Group, Inc.

Kenneth E. Randolph serves as Senior Vice President, General Counsel and Secretary of the Company. He has served in this capacity for Dynegy (or its predecessor, Clearinghouse) since July 1987. In addition, he served as a member of the Clearinghouse Management Committee from May 1989 through February 1994 and managed Clearinghouse's marketing operations in the Western and Northwestern United States from July 1984 through July 1987. Prior to his employment with the Company, Mr. Randolph was associated with the Washington, D.C. office of Akin, Gump, Strauss, Hauer & Feld, L.L.P.

Item 2. PROPERTIES

Current year operational activity conducted in these areas is discussed under "Item 1. BUSINESS – General." Following is a description of such properties owned by the Company at December 31, 1999.

Power Generation Facilities

Dynegy has interests in twenty-eight power projects in operation, under construction, in late stage development or pending acquisition. The majority of these projects are cogeneration facilities operated by Dynegy. The portfolio also includes one heat recovery plant. A cogeneration plant utilizes power production technology that results in the sequential generation of two or more useful forms of energy (e.g., electricity and steam) from a single fuel source (e.g., natural gas). The Company's generation assets include projects that are Qualifying Facilities or EWGs (including "Merchant Plants"). A Qualifying Facility is operated under laws outlined in PURPA, by the FERC and by certain state legislatures, as previously discussed herein, and typically sells the power it generates to a single power purchaser. A Merchant Plant operates independently from designated power purchasers and as a result will generate and sell power to the market when market economics dictate that electricity prices exceed the cost of production. Merchant Plants provide flexibility to the Company in executing its Energy Convergence strategy. The combined gross capacity of facilities in operation is approximately 5,687 megawatts of electricity and over 3.6 million pounds per hour of steam sold to third parties. The following table provides pertinent information concerning power projects owned by the Company:

SUMMARY OF DYNEGY'S POWER GENERATION FACILITIES

Power Generation Project	Percent Owned	Gross Capacity (MW)	Location	Primary Fuel	Primary Power Purchaser
Operating:					
CoGen Power [3]	50	5	Port Arthur, TX	Waste heat	Great Lakes Carbon Corporation
CoGen Lyondell [3]	Lessee (50%)	610	Channelview, TX	Gas-fired	Lyondell Chemical Company
Oyster Creek	50	424	Freeport, TX	Gas-fired	The Dow Chemical Company
El Segundo	50	1,020	El Segundo, CA	Gas-fired	Merchant Facility
Long Beach	50	560	Long Beach, CA	Gas-fired	Merchant Facility
Black Mountain	50	85	Las Vegas, NV	Gas-fired	Nevada Power Company
Commonwealth Atlantic	50	340	Chesapeake, VI	Gas-fired	Virginia Electric & Power Company
Hartwell Energy	50	300	Hart County, GA	Gas-fired	Ogelthorpe Power Corporation
Michigan Power	50	123	Ludington, MI	Gas-fired	Consumers Energy Company
Cabrillo I - Encina	50	1,008	Carlsbad, CA	Gas-fired	Merchant Facility
Cabrillo II - California CT	50	253	San Diego County, CA	Gas-fired	Merchant Facility
Rocky Road	50	250	East Dundee, IL	Gas-fired	Merchant Facility
Total		**4,978**			
Operating - First Quarter 2000 Dispositions:					
Corona [1]	40	47	Corona, CA	Gas-fired	SOCAL Edison Company
Kern Front[1]	50	48	Kern County, CA	Gas-fired	Pacific Gas & Electric Company
High Sierra[1]	50	48	Kern County, CA	Gas-fired	Pacific Gas & Electric Company
Double "C" [1]	50	48	Kern County, CA	Gas-fired	Pacific Gas & Electric Company
San Joaquin [1]	100	48	Stockton, CA	Gas-fired	Pacific Gas & Electric Company
Chalk Cliff[1]	100	46	Kern County, CA	Gas fired	Pacific Gas & Electric Company
Badger Creek[1]	50	46	Kern County, CA	Gas-fired	Pacific Gas & Electric Company
McKittrick[1] [2]	100	46	McKittrick, CA	Gas-fired	Pacific Gas & Electric Company
Live Oak[1] [2]	50	46	Kern County, CA	Gas-fired	Pacific Gas & Electric Company
Crockett [1]	8	240	Crockett, CA	Gas-fired	Pacific Gas & Electric Company
Bear Mountain[1]	100	46	Bakersfield, CA	Gas-fired	Pacific Gas & Electric Company
		709			

Development Projects					
Rockingham	100	800	Rockingham County, NC	Gas-fired	Duke Energy (3 years)
Calcasieu	100	155	Lake Charles, LA	Gas-fired	Merchant Facility
Heard County	100	500	Heard County, GA	Gas-fired	Merchant Facility
Palmetto Power	100	500	Osceola County, FL	Gas-fired	Merchant Facility
Bluegrass	100	500	Louisville, KY	Gas-fired	Merchant Facility
Rocky Road Expansion	50	100	East Dundee, IL	Gas-fired	Merchant Facility
CoGen Lyondell Expansion	50	155	Channelview, TX.	Gas-fired	Merchant Facility
Total		2,710			
Total Capacity		**8,397**			

(1) Interest in Qualifying Facility sold February 1, 2000 pursuant to PURPA requirements.
(2) Dynegy's ownership increased to 100 percent in McKittrick effective October 1, 1999 and in Live Oak effective January 1, 2000.
(3) In December 1999, Dynegy's ownership/lessee interest decreased from 100 percent.

Gathering Systems and Processing Facilities

Dynegy's natural gas processing services are provided at two types of gas processing plants, referred to as field and straddle plants. Field plants aggregate volumes from multiple producing wells into quantities that can be economically processed to extract natural gas liquids and to remove water vapor, solids and other contaminants. Straddle plants are situated on mainline natural gas pipelines and allow operators to extract natural gas liquids from a natural gas stream when the market value of natural gas liquids separated from the natural gas stream is higher than the market value of the same unprocessed natural gas. The following table provides certain information, including operational data for the year ended December 31, 1999, concerning the gas processing plants and gathering systems in which Dynegy owns an interest.

SUMMARY OF DYNEGY'S GAS PROCESSING FACILITIES

Gas Processing Facilities	% Owned	Location: County/Parish	Location: State	Total Plant: Practical Capacity [2] (MMcf/d) [1]	Total Plant: 1999 Inlet Throughput (MMcf/d) [1]	NGL Production (Bpd) [1]
Operated Field Plants -						
Chico Complex [3]	100.00	Wise	TX	100	77.8	11,520.8
Fashing	58.24	Atascosa	TX	38	14.7	298.5
Gladys	100.00	Alberta	Can.	15	4.3	37.0
Mazeppa	100.00	Alberta	Can.	80	38.5	518.0
Sand Hills Complex [3]	100.00	Crane	TX	200	147.0	14,588.9
Sherman [3]	100.00	Grayson	TX	33	19.1	835.8
Sligo	100.00	Bossier	LA	40	31.3	599.6
West Seminole [3]	40.14	Gaines	TX	5	4.0	399.6
Versado Gas Processors Joint Venture [7]	63.00	Various	TX / NM	---	147.6	18,456.7
Operated Straddle Plants -						
Barracuda	100.00	Cameron	LA	190	187.6	5,278.5
Lowry [3]	100.00	Cameron	LA	265	233.9	6,555.4
Stingray	100.00	Cameron	LA	300	266.6	3,488.7
VESCO	23.00	Plaquemines	LA	299	223.8	5,767.0
Yscloskey [5][8]	27.71	St. Bernard	LA	473	251.2	7,751.6
Non-Operated Field Plants -						
Diamond M [3]	7.66	Scurry	TX	---	0.7	53.3
Indian Basin [3]	16.35	Eddy	NM	30	21.6	1,659.8
Snyder [3][6]	3.25	Scurry	TX	2	1.8	109.2
Waskom	33.33	Gregg	TX	50	37.6	1,555.6
Non-Operated Straddle Plants -						
Bluewater [8]	15.20	Acadia	LA	122	27.6	424.9
Calumet [5][8]	32.60	St. Mary's	LA	300	256.2	5,676.4
Iowa	9.92	Jefferson Davis	LA	50	359.9	931.0
Patterson [8]	17.20	St. Mary's	LA	3	5.8	199.5
Sea Robin [8]	0.80	Vermillion	LA	187	5.2	205.2
Terrebone [8]	7.40	Terrebone	LA	10	30.1	1,190.4
Toca [8]	13.80	St. Bernard	LA	93	110.6	4,658.3

First Quarter 2000 Dispositions:						
Operated Field Plants -						
Binger [3] [9]	100.00	Caddo	OK	10	7.3	795.3
Canadian Complex [3][9]	100.00	Hemphill	TX	25	20.5	1,947.1
Leedey [3][9]	100.00	Roger Mills	OK	50	26.8	2,495.5
Lefors Complex [3][9]	100.00	Wheeler	TX	13	10.0	2,786.0
Moores Orchard [3] [10]	100.00	Fort Bend	TX	7	3.1	44.5
Niject [9]	00.16	Caddo	OK	3	0.0	1.0
Ringwood [3][9]	100.00	Major	OK	75	18.5	1,666.5
Rodman [3][9]	100.00	Garfield	OK	65	55.5	4,999.4
Operated Straddle Plants -						
Cheney [9]	100.00	Kingman	KS	85	59.7	3,369.8
Non-Operated Field Plants -						
Spivey [4] [5][9]	5.16	Harper	KS	3	10.1	35.5
Dover Hennessey [3][9]	18.29	Kingfisher	OK	14	4.9	516.0
Maysville [3][9]	44.00	Garvin	OK	59	35.6	4,916.1

(1) Capacity, throughput and gross production are net to the Company's ownership interest.
(2) Capacity data is at practical recovery rates, net to Dynegy's interest.
(3) Dynegy owns the indicated percentage of an associated gas gathering system.
(4) Dynegy owns 2.48 percent of the associated gas gathering system.
(5) Dynegy ownership is adjustable and subject to periodic (usually annual) redetermination.
(6) Dynegy owns the indicated percentage of the Snyder gas gathering system and 3.98 percent of the Diamond M gas gathering system that also supplies the Snyder plant.
(7) Versado Gas Processors includes the Saunders, Monument and the Eunice Complex facilities. Ownership in the Saunders, Monument and Eunice facilities changed from 100 percent to 63 percent during 1998 as a result of formation of a joint venture with Texaco. Statistical information includes the aggregate inlet gas throughput and NGL production volumes accruing to Dynegy's interest during the year.
(8) Dynegy ownership change attributable to a swap with Texaco reducing our interest in Sea Robin in exchange for an increased interest in this facility.
(9) A definitive purchase and sale agreement was signed on January 28, 2000 for the sale of this plant. Sale expected to be completed by March 2000.
(10) This plant was sold in January 2000.

Fractionation Facilities

The following table provides certain information concerning stand alone fractionation facilities in which Dynegy owns an interest.

SUMMARY OF DYNEGY'S FRACTIONATION FACILITIES [1]

Fractionation Facilities	Percent Owned	Gross Capacity [2] (MBbls/d)	Net Capacity [2] (MBbls/d)	1999 Inlet Throughput (MBbls/d)
Lake Charles, La. [3]	100.00	55	55	38
Cedar Bayou Fractionators (Mont Belvieu, Tx.)	88.00	205	180	178
Gulf Coast Fractionators (Mont Belvieu, Tx.)	38.75	110	42	111

(1) Table does not include fractionation operations at VESCO or at other gas processing facilities.
(2) Gross capacity data is at practical recovery rates and net capacity is at practical rates multiplied by Dynegy's interest.
(3) The Lake Charles, La. Fractionator extracts ethane and propane only.

Storage and Terminal Facilities

The following table provides information concerning terminal and storage facilities owned by the Company:

SUMMARY OF DYNEGY'S STORAGE AND TERMINAL FACILITIES

Storage and Terminal Facilities	% Owned	Location County/Parish	Location State	Description
Hackberry Storage	100.00	Cameron	LA	NGL storage facility
Mont Belvieu Storage	100.00	Chambers	TX	NGL storage facility
Hattiesburg Storage	100.00	Washington	MS	NGL storage facility
Mont Belvieu Terminal	100.00	Chambers	TX	Product terminal facility
Galena Park Terminal	100.00	Harris	TX	LPG import/export terminal
Calvert City Terminal	100.00	Marshall	KY	Product transport terminal
Greenville Terminal	100.00	Washington	MS	Propane terminal
Hattiesburg Terminal	50.00	Forrest	MS	Propane terminal
Pt. Everglades Terminal	100.00	Broward	FL	Marine propane terminal
Tampa Terminal	100.00	Hillsborough	FL	Marine propane terminal
Tyler Terminal	100.00	Smith	TX	Product terminal
Mont Belvieu Transport	100.00	Chambers	TX	Offices and repair shop
Abilene Transport	100.00	Taylor	TX	Raw LPG transport terminal
Bridgeport Transport	100.00	Jack	TX	Raw LPG transport terminal
Gladewater Transport	65.00	Gregg	TX	Raw LPG transport terminal
Grand Lake Tank Farm	100.00	Cameron	LA	Condensate storage

Natural Gas, Liquids and Crude Oil Pipelines

Dynegy owns interests in various interstate and intrastate pipelines and gathering systems as follows:

SUMMARY OF DYNEGY'S PIPELINE ASSETS

Pipeline Systems	% Owned	1999 Throughput (1)	States	Description
Crude Oil Pipeline System	100.00	28.0	TX/OK	Crude oil pipelines
Kansas Gas Supply (2)	100.00	54.2	KS/OK	Intrastate natural gas pipeline
Dynegy NGL Pipeline	100.00	26.0	TX/LA	Interstate liquids pipeline
Pelican Pipeline	100.00	29.0	LA	Gas gathering pipeline
Vermillion Pipeline	100.00	8.1	Gulf of Mexico	Gas gathering pipeline
Western Gas Gathering (2)	100.00	2.6	KS	Gas gathering pipeline
Pawnee Rock (2)	100.00	10.6	KS	Gas gathering pipeline
Seahawk	100.00	26.4	LA	Intrastate natural gas pipeline
Dynegy Midstream Pipeline, Inc. (2)	100.00	44.4	OK	Interstate natural gas pipeline
Dynegy Intrastate Gas Supply (2)	100.00	4.9	TX	Intrastate natural gas pipeline
Lake Boudreaux	100.00	0.8	LA	Gas gathering pipeline
Grand Lake Liquids System	100.00	2.5	LA	Intrastate liquids pipeline
Gregg Lake	36.00	19.7	Alberta, Can.	Gas gathering pipeline

(1) 1999 throughput is based on thousands of barrels per day for the liquids and crude lines and million cubic feet per day for the gas gathering and transportation lines.
(2) A definitive purchase and sale agreement was signed on January 28, 2000 for the sale of this asset. Sale expected to be completed by March 2000.

Other Property Information

Dynegy owns a 39 percent interest in a partnership that owns and operates the West Texas LPG Pipeline, an interstate LPG pipeline. The interest was acquired in the Chevron Combination.

In 1996, the Company and Chevron formed Venice Gas Processing Company, a Texas limited partnership ("Venice"). Venice was formed for the purpose of owning and operating the Venice Complex, located in Plaquemines Parish, Louisiana. The complex includes 271 miles of pipeline that extends into the Gulf of Mexico having capacity of 810 MMcf/d, a lean oil gas processing plant, a 35,000 barrel per day fractionator, a 299 MMcf/d cryogenic gas processing unit, 12 million barrels of NGL storage capacity, a marine terminal and acreage. In 1997, Venice reorganized as a limited liability company changing its name to VESCO. In September 1997, the VESCO members agreed to expand ownership in VESCO to include an affiliate of Shell Midstream Enterprises, a subsidiary of Shell Oil Company ("Shell"), effective September 1, 1997, in exchange for Shell's commitment of certain offshore reserves to VESCO. In 1998, ownership in the LLC was again expanded to include Koch, in exchange for their contribution of the cryogenic processing unit. At December 31, 1999, Dynegy's interest in VESCO approximated 23 percent. Dynegy operates the facility and has commercial responsibility for product distribution and sales.

Title to Properties

The Company believes it has satisfactory title to its properties in accordance with standards generally accepted in the energy industry, subject to such exceptions which, in the opinion of the Company, would not have a material adverse effect on the use or value of said properties.

The operating agreements for certain of the Company's natural gas processing plants and fractionation facilities grant a preferential purchase right to the plant owners in the event that any owner desires to sell its interest. Such agreements may also require the consent of a certain percentage of owners before rights under such agreements can be transferred. The Company is subject, as a plant owner under such agreements, to all such restrictions on transfer of its interest. In a few instances, the Company has granted rights of first refusal with respect to any future sale of certain assets. Certain of the Company's power generation assets are subject to rights of first refusal or consent requirements with the Company's partners or power purchasers which restrict the transfer of interests in the facilities.

Substantially all of Dynegy's gathering and transmission lines are constructed on rights-of-way granted by the apparent record owners of such property. In some instances, land over which rights-of-way have been obtained may be subject to prior liens that have not been subordinated to the right-of-way grants. Permits have been obtained from public authorities to cross over or under, or to lay facilities in or along, water courses, county roads, municipal streets and state highways, and in some instances, such permits are revocable at the election of the grantor. Permits have also been obtained from railroad companies to cross over or under lands or rights-of-way, many of which are also revocable at the grantor's election. Some such permits require annual or other periodic payments. In a few minor cases, property was purchased in fee.

Industry Segments

Segment financial information is included in Note 15 of Dynegy's consolidated financial statements contained elsewhere herein.

Item 3. LEGAL PROCEEDINGS

Through its acquisition of Destec Energy Inc., Dynegy became a party to certain litigation with Pacific Gas and Electric Company ("PG&E") and with the Southern California Gas Company ("SOCAL"). These cases represent pre-acquisition contingencies acquired by the Company and settlement thereof did not have a material adverse effect on the Company's results of operations or financial position. The following describes resolution of these two cases.

In April 1997, PG&E had filed a lawsuit in the Superior Court of the State of California, City and County of San Francisco, against Destec Energy, Inc., Destec Holdings, Inc. and Destec Operating Company (wholly-owned subsidiaries of the Company now known respectively as Dynegy Power Corp., Dynegy Power Holdings, Inc. and Dynegy Operating Company) as well as against San Joaquin CoGen Limited ("San Joaquin") and its general partners (collectively the "Dynegy Defendants"). In the lawsuit, PG&E asserted claims and alleged unspecified damages for fraud, negligent misrepresentation, unfair business practices, breach of contract and breach of the implied covenant of good faith and fair dealing. Subsequent to the acquisition of Destec Energy Inc. by Dynegy, Dynegy and PG&E engaged in settlement discussions, which resulted in the execution of a Termination and Settlement Agreement between PG&E and the Dynegy Defendants on March 9, 1999 (the "PG&E Settlement Agreement"). The PG&E Settlement Agreement provided for, upon the receipt of CPUC approval, a dismissal with prejudice of PG&E's claims against the Dynegy Defendants, a release by PG&E of all claims relative to FERC matters and a termination of the San Joaquin power purchase agreement as of December 31, 1999, whereupon the San Joaquin facility would continue to operate as a merchant plant. Upon termination of the power purchase agreement, Dynegy would repay project debt of approximately $26 million. By Order dated October 7, 1999, the CPUC approved the PG&E Settlement Agreement. The CPUC approval became final on November 8, 1999.

Pursuant to its lawsuit against Dynegy, PG&E had named Libbey-Owens-Ford ("LOF"), San Joaquin's steam host, as an additional defendant in the action in October 1997. It is alleged that San Joaquin was liable to PG&E under the Gas Transportation Agreement or Power Purchase Agreement due to LOF's failure to use sufficient quantities of steam as required to retain its status as a qualifying facility under federal standards. The Dynegy Defendants will seek to recover from LOF losses resulting from the settlement with PG&E.

In March 1995, SOCAL had filed a lawsuit in the Superior Court of the State of California for the County of Los Angeles, against Destec Energy, Inc., Destec Holdings and Destec Gas Services, Inc. (now known respectively as Dynegy Power Corp., Dynegy Holdings, Inc. and Dynegy Gas Services, Inc.), wholly-owned direct and indirect subsidiaries of the Company (collectively, the "Defendants"), as well as against Chalk Cliff Limited and McKittrick Limited (collectively, the "Partnerships"). All general partners of the Partnerships were also named defendants. The lawsuit alleged breach of contract against the Partnerships and their respective general partners, and interference and conspiracy to interfere with contracts against the Defendants. The breach of contract claims arose out of the "transport-or-pay" provisions of the gas transportation service agreements between the Partnerships and SOCAL. SOCAL sought damages from the Partnerships for past damages and anticipatory breach damages in an amount equal to approximately $31 million. Subsequent to the acquisition of Destec Energy Inc. by Dynegy, Dynegy and SOCAL engaged in settlement discussions, which resulted in the execution of a Settlement Agreement between SOCAL and all defendants in the pending litigation on August 25, 1999, (the "SOCAL Settlement Agreement"). The SOCAL Settlement Agreement was approved by the CPUC and is final. The Settlement Agreement provided for the dismissal of the pending litigation, the termination of underlying gas transmission service contracts, and Dynegy's payment of settlement consideration approximating $31 million. The pending appeals were dismissed and the litigation and the associated foreclosure proceedings have therefore come to an end.

On August 3, 1998, Modesto Irrigation District ("MID") filed a lawsuit against PG&E and Destec in federal court for the Northern District of California, San Francisco division. The lawsuit alleges violation of federal and state antitrust laws and breach of contract against Destec. The allegations are related to a power sale and purchase arrangement in the city of Pittsburg, CA. MID seeks actual damages from PG&E and Destec in amounts not less than $25 million. MID also seeks a trebling of any portion of damages related to its antitrust claims. By order dated February 2, 1999, the federal District Court dismissed MID's state and federal antitrust claims against PG&E and Destec; however, the Court granted MID leave of thirty days to amend its complaint to state an antitrust cause of action. On March 3, 1999, MID filed an amended complaint recasting its federal and state antitrust claims against PG&E and Destec and restating its breach of contract claim against Destec. PG&E and Destec have filed motions to dismiss MID's revised federal and state antitrust claims. The hearing on the motions to dismiss was held in July 1999. On August 20, 1999, the District Court again dismissed MID's antitrust claims against PG&E and Destec, this time without leave to amend the complaint. As a result of the dismissal of the antitrust claims, the District Court also dismissed the pendant state law claims. MID has appealed the District Court's dismissal of its suit to the Ninth Circuit Court of Appeal. Following dismissal of its federal court suit, MID filed suit in California state court asserting its breach of contract claims against Destec and its tortious interference with contract claims against PG&E. Motions to dismiss MID's state court claims are pending and scheduled for hearing during the first quarter 2000. Dynegy believes the allegations made by MID are meritless and will continue to vigorously defend MID's claims. In the opinion of management, the amount of ultimate liability with respect to these actions will not have a material adverse effect on the financial position or results of operations of the Company.

On July 30, 1999, The Dow Chemical Company ("Dow") filed a lawsuit in the United States District Court for the District of Delaware against Dynegy Power Corporation ("DPC"), a wholly-owned subsidiary of the Company. Dow sought contribution from DPC in connection with claims against Dow asserted by The AES Corporation ("AES") in a lawsuit filed on November 30, 1998 in the United States District Court for the Southern

District of Texas. AES asserts various federal and Texas securities laws claims, and Texas claims for fraud and civil conspiracy, arising out of AES' September 1997 purchase of stock of Destec Engineering, a subsidiary of DPC (at that time Destec Power Corp). Specifically, AES alleges that Destec Power made certain misrepresentations about the expected profits that Destec Engineering would earn in connection with the construction of the Elsta power plant in The Netherlands, and the anticipated completion date of the Elsta plant. AES alleges that Dow is liable because it "controlled" or had the power to control the management of Destec Power. AES's original complaint did not assert any claims against Destec Power or any other Dynegy entity. Dow is vigorously defending against AES' claims. In response to a motion to transfer filed by Dow, the United States District Court for the Southern District of Texas transferred the suit to the United States District Court for Delaware. Following transfer of the litigation, AES added DPC as a defendant, asserting claims similar to the claims asserted against Dow. Dow subsequently dismissed the suit against DPC without prejudice. AES and DPC have reached a settlement of AES's claims against DPC. The settlement is currently before the District Court for approval. If approved by the District Court, the settlement will result in the dismissal of AES's suit against DPC with prejudice. In the opinion of management, the ultimate resolution of this lawsuit will not have a material adverse effect on the Company's financial position or results of operations.

Complaint Against Illinois Power Company. On November 3, 1999, the U.S. Environmental Protection Agency ("EPA") issued a Notice of Violation ("NOV") against Illinois Power Company ("Illinois Power") and, with the Department of Justice ("DOJ"), filed a Complaint against Illinois Power in the U.S. District Court for the Southern District of Illinois, No. 99C833. Similar notices and lawsuits have been filed against a number of other utilities. Both the NOV and Complaint allege violations of the Clean Air Act and regulations thereunder. More specifically, both allege, based on the same events, that certain equipment repairs, replacements and maintenance activities at Illinois Power's three Baldwin Station generating units constituted "major modifications" under either or both the Prevention of Significant Deterioration and the New Source Performance Standards regulations. When non-exempt "major modifications" occur, the Clean Air Act and related regulations generally require that generating facilities meet more stringent emissions standards. The DOJ amended its complaint to assert the claims found in the NOV. Illinois Power is filing responsive pleadings in the first quarter 2000.

The regulations under the Clean Air Act provide certain exemptions to the definition of "major modifications," particularly an exemption for routine repair, replacement or maintenance. The Company has analyzed each of the activities covered by the EPA's allegations and believes each activity represents prudent practice regularly performed throughout the utility industry as necessary to maintain the operational efficiency and safety of equipment. As such, the Company believes that each of these activities is covered by the exemption for routine repair, replacement and maintenance and that the EPA is changing, or attempting to change through enforcement actions, the intent and meaning of its regulations.

The Company also believes that, even if some of the activities in question were found not to qualify for the routine exemption, there were no increases either in annual emissions or in the maximum hourly emissions achievable at any of the units caused by any of the activities. The regulations provide an exemption for increased hours of operation or production rate and for increases in emissions resulting from demand growth.

Although none of Illinois Power's other facilities are covered in the Complaint and NOV, the EPA has officially requested information concerning activities at Illinois Power's Vermilion, Wood River and Hennepin Plants. It is possible that the EPA will eventually commence enforcement actions against those plants as well.

The EPA has the authority to seek penalties for the alleged violations in question at the rate of up to $27,500 per day for each violation. The EPA also will be seeking installation of "best available control technology" ("BACT") (or equivalent) at the Baldwin Station and possibly at the other three plants as well.

The Company believes that the EPA's and DOJ's claims are without merit, and that the ultimate resolution of this lawsuit will not have a material adverse effect on the Company's financial position or results of operations.

The Company assumed liability for various claims and litigation in connection with the Illinova acquisition, Chevron Combination, the Trident Combination, the Destec acquisition and in connection with the acquisition of certain gas processing and gathering facilities from Mesa Operating Limited Partnership. The Company believes, based on its review of these matters and consultation with outside legal counsel, that the ultimate resolution of such items will not have a material adverse effect on the Company's financial position or results of operations. Further, the Company is subject to various legal proceedings and claims, which arise in the normal course of business. In the opinion of management, the amount of ultimate liability with respect to these actions will not have a material adverse effect on the financial position or results of operations of the Company.

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

A special meeting (the "Special Meeting") of the stockholders of Dynegy was held on October 11, 1999. The purpose of the Special Meeting was to consider and vote upon (i) the Agreement and Plan of Merger, dated as of June 14, 1999 (the "Merger Agreement"), by and among Illinova Corporation, Energy Convergence Holding Company, Energy Convergence Acquisition Corporation, Dynegy Acquisition Corporation and Dynegy Inc. and (ii) approve the adoption of the Dynegy Inc. 2000 Long Term Incentive Plan (the "Long Term Incentive Plan").

The following votes were cast with respect to the approval and adoption of the Merger Agreement and the Long Term Incentive Plan, respectively:

	Merger Agreement	Long Term Incentive Plan
For:	144,443,075	133,007,249
Against/Withheld	141,719	11,520,574
Abstentions:	4,033	31,504
Broker Non-Votes:	---	---

PART II

Item 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The Company's Class A Common Stock, no par value ("Class A Common Stock") is listed and traded on the New York Stock Exchange under the ticker symbol "DYN". The number of stockholders of record of the Class A Common Stock as of February 28, 2000, was 35,713.

The following table sets forth the high and low closing prices for transactions involving the Company's common stock for each calendar quarter (prior to consummation of the Illinova transaction), as reported on the New York Stock Exchange Composite Tape and related dividends paid per common share during such periods.

SUMMARY OF DYNEGY'S COMMON STOCK PRICE AND DIVIDEND PAYMENTS

	High	Low	Dividend
1999:			
Fourth Quarter	$ 24.313	$ 20.375	$ 0.0125
Third Quarter	24.375	20.250	0.0125
Second Quarter	20.750	14.250	0.0125
First Quarter	15.000	10.250	0.0125
1998:			
Fourth Quarter	$ 15.250	$ 10.250	$ 0.0125
Third Quarter	14.063	9.563	0.0125
Second Quarter	15.375	12.500	0.0125
First Quarter	17.250	14.625	0.0125

Prior to consummation of the Illinova acquisition, the holders of the common stock were entitled to receive dividends if, when and as declared by the Board of Directors of the Company out of funds legally available therefor. Consistent with the Board of Directors' intent to establish a policy of declaring quarterly cash dividends, a cash dividend of $0.0125 per share was declared and paid in each quarter during 1999 and 1998. The holders of the Series A Preferred Stock were entitled to receive dividends or distributions equal per share in amount and kind to any dividend or distribution payable on shares of the Company's common stock, when and as the same are declared by the Company's Board of Directors. Accordingly, the Company also paid quarterly cash dividends on its Series A Preferred Stock of $0.0125 per share, or $0.05 per share on an annual basis.

In 2000, Dynegy's Class A and Class B common stock will be entitled to a $0.60 per share dividend if, when and as declared by the Board of Directors of the Company out of funds legally available therefor. The Class B common stock has certain conversion features and maintains certain preemptive rights under the shareholder agreement. The holders of the Series A Convertible Preferred Stock are entitled to receive dividends or distributions totaling $3.00 per share annually if and when declared by the Board of Directors of the Company out of funds legally available therefor. Dividends on the preferred shares are cumulative from the date of issuance and are payable quarterly on the last day of March, June, September and December. The preferred stock carry certain priority, liquidation, redemption, conversion and voting rights not available to the common shareholders.

Item 6. SELECTED FINANCIAL DATA

The selected financial information presented below was derived from, and is qualified by reference to, the Consolidated Financial Statements of the Company, including the Notes thereto, contained elsewhere herein. The selected financial information should be read in conjunction with the Consolidated Financial Statements and related Notes and Management's Discussion and Analysis of Financial Condition and Results of Operations.

DYNEGY'S SELECTED FINANCIAL DATA

	Year Ended December 31,				
	1999	1998	1997	1996	1995
	($ in thousands, except per share data)				
Statement of Operations Data (1):					
Revenues	$ 15,429,976	$ 14,257,997	$ 13,378,380	$ 7,260,202	$ 3,665,946
Operating margin	543,875	428,687	385,294	369,500	194,660
General and administrative expenses	200,717	185,708	149,344	100,032	68,057
Depreciation and amortization expense	129,458	113,202	104,391	71,676	44,913
Asset impairment, abandonment					
Severance and other charges	---	9,644	275,000	---	---
Net income (loss)	$ 151,849	$ 108,353	$ (102,485)	$ 113,322	$ 92,705
Earnings (loss) per share (3)	$ 0.91	$ 0.66	$ (0.68)	$ 0.83	$ 0.82
Pro forma earnings per share (3)	n/a	n/a	n/a	n/a	$ 0.40
Shares outstanding	166,975	164,605	167,009	136,099	113,176
Cash dividends per common share	$ 0.05	$ 0.05	$ 0.05	$ 0.05	$ 0.05
Cash Flow Data:					
Cash flows from operating activities	$ 8,839	$ 250,780	$ 278,589	$ (30,954)	$ 90,648
Cash flows from investment activities	(318,664)	(295,082)	(510,735)	(111,140)	(310,623)
Cash flows from financing activities	326,688	49,622	204,984	176,037	221,022
Other Financial Data:					
EBITDA (4)	$ 450,780	$ 363,517	$ 291,899	$ 289,023	$ 142,538
Dividends or distributions to partners, net	8,115	7,988	7,925	6,740	9,253
Capital expenditures, acquisitions					
And investments (5)	448,522	478,464	1,034,026	859,047	979,603

	December 31,				
	1999	1998	1997	1996	1995
	($ in thousands)				
Balance Sheet Data (2):					
Current assets	$ 2,805,080	$ 2,117,241	$ 2,018,780	$ 1,936,721	$ 762,939
Current liabilities	2,538,523	2,026,323	1,753,094	1,548,987	705,674
Property and equipment, net	2,017,881	1,932,107	1,521,576	1,691,379	948,511
Total assets	6,525,171	5,264,237	4,516,903	4,186,810	1,875,252
Long-term debt	1,333,926	1,046,890	1,002,054	988,597	522,764
Total equity	1,309,482	1,128,063	1,019,125	1,116,733	552,380

(1) The Destec Acquisition was accounted for as an acquisition of a business in accordance with the purchase method of accounting and the results of operations attributed to the acquired business are included in the Company's financial statements and operating statistics effective July 1, 1997. The Chevron Combination was accounted for as an acquisition of assets under the purchase method of accounting and the results of operations attributed to the acquired assets are included in the Company's financial statements and operating statistics effective September 1, 1996. The Trident Combination was accounted for as an acquisition of a business in accordance with the purchase method of accounting and the results of operations attributed to the acquired business are included in the Company's financial statements and operating statistics effective March 1, 1995.

(2) The Destec Acquisition and the Chevron and Trident Combinations were each accounted for under the purchase method of accounting. Accordingly, the purchase price was allocated to the assets acquired and liabilities assumed based on their estimated fair values as of the effective dates of each transaction. The effective dates of the Destec Acquisition, Chevron Combination and Trident Combination were June 30, 1997, September 1, 1996 and March 1, 1995, respectively.

(3) Earnings (loss) per share are computed in accordance with provisions of Statement of Financial Accounting Standards No. 128, "Earnings Per Share", for each of the years ended December 31, 1999, 1998, 1997, 1996 and 1995, respectively. Pro forma earnings per share for the year ended December 31, 1995 is based on reported net income for the period adjusted for the incremental statutory federal and state income taxes that would have been provided had Clearinghouse been a taxpaying entity prior to the Trident Combination. The pro forma earnings

per share computation for the year ended December 31, 1995, eliminates the effect of a one-time $45.7 million income tax benefit associated with the Trident Combination. The weighted average shares outstanding for the year ended December 31, 1995, is based on the weighted average number of common shares outstanding plus the common stock equivalents that would arise from the exercise of outstanding options or warrants, when dilutive.

(4) Earnings before interest, taxes, depreciation and amortization ("EBITDA") is presented as a measure of the Company's ability to service its debt and to make capital expenditures. It is not a measure of operating results and is not presented in the Consolidated Financial Statements. The 1997 amount includes the non-cash portion of items associated with the $275 million impairment and abandonment charge.

(5) Includes all value assigned the assets acquired in various business and asset acquisitions. The 1997 amount is before reduction for value received upon sale of Destec's foreign and non-strategic assets of approximately $735 million.

Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

General

Company Profile

Dynegy Inc. ("Dynegy" or the "Company") is a leading provider of energy products and services in North America, the United Kingdom and in continental Europe. Products marketed by the Company's wholesale marketing operations include natural gas, electricity, coal, emissions, natural gas liquids, crude oil, liquid petroleum gas and related services. The Company's wholesale marketing operations are supported by ownership or control of an extensive asset base and transportation network that includes unregulated power generation, gas and liquids storage capacity, gas, power and liquids transportation capacity and gas gathering, processing and fractionation assets. Dynegy's asset base is further broadened by the acquisition of Illinova, providing significant fossil-fuel merchant generation capacity and a regional electric and natural gas utility engaged in the transmission, distribution and sale of electricity and natural gas. The critical mass achieved through the combination of a large scale energy marketing operation with strategically located assets which augment the marketing efforts affords the Company the ability to offer innovative, value-creating energy solutions to its customers.

The Company is a holding company that conducts substantially all of its business through its subsidiaries. From inception of operations in 1984 until 1990, Clearinghouse limited its activities primarily to natural gas marketing. Starting in 1990, Clearinghouse began expanding its core business operations through acquisitions and strategic alliances resulting in the formation of a midstream energy asset business and establishing energy marketing operations in both Canada and the United Kingdom. The Company initiated electric power marketing operations in February 1994 in order to exploit opportunities created by the deregulation of the domestic electric power industry. Effective March 1, 1995, Clearinghouse and Holding merged and the combined entity was renamed NGC. On August 31, 1996, NGC completed a strategic combination with Chevron U.S.A. Inc. and certain Chevron affiliates whereby substantially all of Chevron's midstream assets merged with NGC. Effective July 1, 1997, NGC acquired Destec. During 1998, the Company changed its name to Dynegy Inc. in order to reflect its evolution from a natural gas marketing company to an energy services company capable of meeting the growing demands and diverse challenges of the dynamic energy market of the 21st Century.

On June 14, 1999, Dynegy and Illinova announced the execution of definitive agreements for the merger of Illinova and Dynegy. The merger transaction was closed on February 1, 2000.

Business Segments

Dynegy's operations are reported herein in two segments: the Energy Convergence and Midstream segments. In 2000, the Company will add a third business segment consisting of regulated utility operations, operating under Illinois Power Company, acquired in the Illinova acquisition. This segment will be referred to as the Transmission and Distribution segment. The Energy Convergence segment is actively engaged in value creation through marketing and trading of natural gas, power, coal and emissions and the generation of electricity principally under the name Dynegy Marketing and Trade. The Midstream segment consists of the North American midstream liquids operations, the global liquefied petroleum gas transportation and the natural gas liquids marketing operations, located primarily in Houston and in London, and certain other businesses. The North American midstream liquids operations are actively engaged in the gathering and processing of natural gas and the transportation, fractionation and storage of NGLs. The Midstream segment operates principally under the name Dynegy Midstream Services.

Illinova Acquisition

Dynegy completed its acquisition of Illinova early in the first quarter 2000. Illinova was an energy services holding company maintaining four principal operating subsidiaries. These subsidiaries were:

- Illinois Power Company, an electric and natural gas utility engaged in the transmission, distribution and sale of electricity and natural gas, serving approximately 650,000 customers over a 15,000 square-mile area of Illinois;
- Illinova Power Marketing, Inc., a subsidiary engaged in the ownership and operation of unregulated fossil-fueled electric generation in Illinois;
- Illinova Generating, Inc., a subsidiary that invests in, develops and operates independent power projects worldwide; and
- Illinova Energy Partners, Inc., a subsidiary that markets energy and energy-related services in the United States and Canada.

Illinois Power Company operations will continue as a regulated regional utility. The operations of Illinois Power Marketing, Inc. and Illinova Generating, Inc., respectively, are part of Dynegy's unregulated portfolio of merchant generation capacity and related operations within Dynegy Marketing and Trade, a division in the Energy Convergence segment. Illinova Energy Partners, Inc. is part of Dynegy Energy Services, another division within the Energy Convergence segment.

The merger of Dynegy and Illinova involved the creation of a new holding company, now known as Dynegy Inc., and two separate but concurrent mergers. In one concurrent merger, a wholly-owned subsidiary of Dynegy Inc. merged with and into Illinova. In the other concurrent merger, a second wholly-owned subsidiary of Dynegy Inc. merged with and into old Dynegy. As a result of these two concurrent mergers, Illinova and old Dynegy continue to exist as wholly-owned subsidiaries of Dynegy Inc., and are referred to as Illinova Holding and Dynegy Holding, respectively. Dynegy accounted for the merger as a purchase of Illinova. This accounting treatment is based on various factors present in the merger, including the majority ownership (and voting control) of Dynegy's shareholders following the merger, the role of Dynegy's management following the merger (including the service of C.L. Watson as Chairman and Chief Executive Officer) and the influence of Chevron because of the size of its ownership interest and its rights under the shareholder agreement, articles of incorporation and bylaws. As a result, the consolidated financial statements of Dynegy after the merger will reflect the assets and liabilities of Dynegy at historical book values and the assets and liabilities of Illinova at fair values.

In the combination, Dynegy shareholders, other than Chevron U.S.A. Inc. ("Chevron"), NOVA Gas Services (U.S.) Inc. ("NOVA") and BG Holdings, Inc., elected to exchange each Dynegy share for 0.69 of a share of Dynegy Class A common stock, based on a fixed exchange ratio, or elected to receive $16.50 per share in cash consideration, subject to proration. NOVA and BG Holdings, Inc. elected cash and thereby reduced their respective ownership in Dynegy as part of this combination. Therefore, instead of receiving Dynegy Class A common stock in exchange for their respective shares of Dynegy Holding common stock, NOVA and the parent of BG Holdings, Inc. each received a combination of cash, subject to proration, and shares of Dynegy Series A Convertible Preferred Stock. Chevron received shares of Dynegy Class B common stock in exchange for all of its shares of Dynegy Holding common stock and Series A Preferred Stock, respectively. Additionally, as part of the combination, Chevron purchased $200 million of additional Dynegy Class B common stock. Each share of Illinova common stock was converted into one share of Dynegy Class A common stock. Immediately after the combination, former Dynegy shareholders owned approximately 51 percent of the outstanding shares of Dynegy.

Approximately 60 percent of the consideration received by existing Dynegy shareholders was in the form of Dynegy stock and 40 percent was cash. In aggregate, the cash portion of the consideration approximated $1.07 billion. Dynegy financed the cash component of the merger initially with borrowings under a debt facility and the issuance of $200 million of Class B common stock to Chevron. Dynegy anticipates repaying or refinancing a significant portion of the debt facility with proceeds from an offering of equity securities, additional public debt issuances, proceeds from asset sales and cash flow from operations.

Dynegy believes the acquisition of Illinova provides significant financial, operational and corporate governance advantages that enhance its position as a leading provider of energy services and products. The combination will bring together a strong, innovative utility company owning strategically located generation assets and operations, including electric transmission and retail distribution capabilities, with one of the leading North American energy marketers and independent power producers. These two companies have diverse but complementary operations, providing qualitative and quantitative expansion of Dynegy's electric generation capacity, while enhancing Dynegy's access to dependable cash flow and an improved platform for further expansion. It is expected that the combined company will be well positioned to be successful in the increasingly competitive energy marketplace. Dynegy expects the merger to enhance shareholder value more than either company could do on its own.

Factors considered in evaluating the benefits of the merger included:

- The merger is expected to be accretive to the earnings per share of the Dynegy shareholders;
- The addition of Illinova's traditional utility business is expected to provide a stable base of cash flow from which the combined company will be able to leverage its business strategy;
- The merger provides Dynegy with a larger platform in the electricity trading market from which it can expand its marketing operations. This larger platform is expected to provide the foundation for Dynegy's strategy to be at the forefront of the restructuring of the power industry and the convergence of the gas and electricity industries;
- The merger adds an additional 3,830 gross megawatts of electricity generating capacity to Dynegy's post-merger capacity of 8,397 gross megawatts per year (both figures include current capacity as well as capacity under construction). This additional capacity is in the Midwestern United States and is expected to allow Dynegy to sell more electricity for its own account on better terms throughout the North American market;
- The merger is expected to provide continuing shareholders, who desire to invest in a full-service provider of energy products and services, an investment vehicle having the flexibility and resources required to respond to the numerous opportunities in the energy industry;
- The merger provides the liquidity needed to allow certain Dynegy shareholders to reduce the size of their investment in Dynegy; and
- The merger improves public float thereby enhancing the Company's access to equity capital at attractive cost.

Asset Dispositions

During the fourth quarter of 1999 and in early 2000, the Company disposed of certain assets and settled certain contractual arrangements realizing approximately $795 million in aggregate net proceeds. These transactions were entered into as a result of statutory requirements pursuant to the acquisition of Illinova, for the purpose of eliminating operating assets considered non-strategic or which were under-performing in comparison to other assets in the portfolio and in some cases to diversify direct ownership in certain generation assets while maintaining commercial control over such investments. The net proceeds received in these transactions are being used to retire merger-related debt or are being re-deployed into the Company's capital investment program. The financial impact of these transactions in the aggregate were not material to Dynegy's results of operations or financial position in 1999 and is not expected to be material to net income or financial position for the year ended December 31, 2000. Further, disposition of these assets is not expected to have a material adverse effect on Dynegy's prospective competitive position in the businesses in which it operates. The transactions entered into and the reasons for such are as follows:

- Qualified Facilities -

  As a condition precedent to the Illinova acquisition, Dynegy sold its interests in eleven qualifying cogeneration facilities to a third party for approximately $256 million. The sale of these interests was dictated by PURPA requirements imposed as a result of Dynegy's acquisition of a regulated utility.

- Mid-Continent Liquids Assets -

  Through two transactions, one in December 1999 and one in January 2000, the company agreed to sell its Mid-Continent natural gas processing and gathering facilities. The December sale has closed and the January sale is set to close in March 2000. These facilities were non-strategic, were under-performing in comparison to other assets in the portfolio and exposed Dynegy to commodity price risk that was difficult to mitigate on a consistent basis. As part of the December 1999 sale, Dynegy executed a purchase and sale contract to acquire substantially all of the natural gas liquids processed by certain of these natural gas processing plants for a period of three years. The aggregate net proceeds from these sales will approximate $422 million and the Company recognized no material gain or loss on either transaction.

- Gasification Operations -

  In two separate transactions, Dynegy settled a long-term sales contract and sold the underlying technology and assets associated with its coal gasification business in Indiana. Coal gasification technology was not strategic to Dynegy's long-term goals. Aggregate net proceeds from these transactions is proprietary information.

- Reduced Interest in Rocky Road Power Generation Facility -

  Dynegy reduced its ownership interest in the Rocky Road power generation facility, located in Illinois, from 100 percent to 50 percent in December 1999 pursuant to its stated plan to diversify ownership in these types of assets in order to deploy as much capital as possible to this segment of our operations. Dynegy continues to operate and market the energy from this facility through agency relationships with the LLC. Aggregate net proceeds from this transaction is proprietary information.

- Crude Business -

  Dynegy's domestic crude oil marketing operations are held for sale. Management expects to dispose of these assets during the first quarter 2000. The Company's Canadian crude oil marketing operations are unaffected by this proposed disposition.

Execution of Business Strategy

Dynegy successfully executed key operating and business strategies that management believes provide impetus for financial growth in 2000 and beyond. Key accomplishments during the period, which are more fully described elsewhere herein, included:

- Completion of the acquisition of Illinova;
- Expansion of ownership or control of power generating assets and infrastructure;
- Expansion of operations in the United Kingdom and in Europe;
- Continued concentration on maximizing unit margins through selective disposition of marginally profitable sales volumes;
- Expansion of a retail energy marketing strategy combining existing alliances with businesses acquired in the Illinova acquisition;
- First quartile operating performance in the Company's natural gas liquids businesses through formation of joint ventures, asset consolidations, discrete asset dispositions, revenue enhancements and strategic cost efficiency and reduction measures;
- Continued emphasis on "just-in-time" controlled inventory management techniques and execution of risk management methods to reduce exposure to swings in liquids commodity prices;
- Continued implementation of technology infrastructure improvements intended to provide the Company with state-of-the-art business and financial software applications; and
- Appropriate maintenance of the Company's capital structure.

Energy Convergence -

Dynegy is continuing its expansion of ownership or commercial control of strategic assets and generating capacity in selected major market areas through acquisitions, greenfield development and asset management agreements in order to leverage its marketing and trading capabilities. Execution of this strategy began with the acquisition of Destec in 1997 and has accelerated with the acquisition of Illinova, the formation of a west coast generation venture and the greenfield projects that have been completed or are under construction.

As discussed previously, the Company completed the acquisition of Illinova in early 2000 adding 3,830 megawatts of merchant generation capacity, strategically located in the mid-west, to its portfolio. In June 1999, the Company completed construction and began commercial operations of a 250 megawatt gas-fired merchant plant designed to assist in reducing power system congestion induced by peak electricity demands in the mid-west. Dynegy owns a 50 percent interest in this facility. In the second quarter of 1999, the Company completed a restructuring of ownership interests in generation capacity owned jointly with an industry partner, through consolidation of four separate investments into a single joint venture. These assets represent over 1,200 megawatts of generation capacity located in southern California and the restructuring resulted in favorable financing and operating synergies. During 1999, the Company announced its intent to develop power generation projects in the following areas: Rockingham County, North Carolina; Lake Charles, Louisiana; Heard County, Georgia; Osceola County, Florida; Louisville, Kentucky; East Dundee, Illinois; and Channelview, Texas. These facilities will add an additional 2,710 megawatts of generation capacity to Dynegy's portfolio. The net additions to Dynegy's portfolio were tempered somewhat by the aforementioned disposition of the qualifying facilities. However, the sale of these assets, which did not consist of merchant generation capacity, is not expected to be significant to the Company's execution of its long-term strategy. Finally, consistent with our stated strategy and as a result of the long lead time required by industry manufacturers, the Company has executed or is currently negotiating purchase orders to acquire in excess of forty state-of-the-art gas-fired turbines, representing approximately 6,900 megawatts of capacity. Delivery of the manufactured turbines will occur ratably beginning in 1999 and ending in 2003. The timing of delivery of these turbines coincides with Dynegy's capital asset program, which is linked to our goal of owning or controlling 70,000 megawatts of generation capacity within five years.

During 1999, Dynegy continued its focus on higher margin business in its gas and power marketing operations. The execution of this strategy was enhanced by the marketing, trading and arbitrage opportunities provided by the control and optimization of physical assets. Also in 1999, Dynegy expanded its trading and marketing strategy by adding power marketing operations to its existing gas marketing operations in the UK. This business is beginning to expand into Europe beginning with trading operations in the Nord Pool and office expansions in continental Europe.

The acquisition of Illinova brings together two diverse retail gas and power marketing strategies that we believe complement each other. Dynegy will continue to execute its retail gas and electric strategy, which is designed to access a significant national customer base while mitigating the large capital investment and financial risks necessitated by other national retail marketing strategies. However, where commercial synergies exist, Dynegy will leverage off the existing Illinova operations in order to maximize returns from its retail strategy, without altering the overall risk profile of this business.

Midstream Segment -

During 1999, the Midstream segment continued execution of the restructuring and rationalization of its operations that were begun in 1997. The segment's businesses were able to achieve first quartile operating performance through efficiency improvements and cost reductions that enhanced its competitive position in the marketplace. These businesses increased their focus on extracting fee income throughout the value chain, unbundling services and leveraging off the Company's commercial skills and relationships. In addition, the segment businesses focused efforts on re-negotiating or restructuring marginally profitable contractual arrangements in order to position these businesses for profitable growth. Finally, the segment continued to invest in strategically located midstream assets in order to advance existing commercial advantages or to leverage off identified economies of scale, while divesting itself of under-performing assets. The intent of these initiatives is to mitigate the variability that commodity prices have on the operating results of the segment, as well as to position the segment's businesses to take full advantage of improvements in market conditions when they occur. For the foreseeable future, Dynegy will focus its operations and capital expansion towards infrastructure and opportunities present in the western Gulf of Mexico area, stretching from Mont Belvieu, Texas to Mississippi, and in other areas Management views as strategic.

Dynegy believes that existing owned infrastructure and commercial acumen uniquely positions the Company to exploit opportunities in both the domestic and world-wide liquids marketing and trading business. Dynegy will continue to focus on reducing commodity volatility exposure, while maintaining first quartile operating efficiency with an operational emphasis on downstream marketing and trading.

Technology Infrastructure Enhancements -

Dynegy has continued its three-year plan, launched in 1998, to enhance our competitiveness through technology infrastructure improvements aimed at optimizing major business and financial processes at the Company. Using state-of-the-art technology and software applications, the project team is focused on process enhancements extending throughout the organization, linking initial price and market discovery with risk control, production, aggregation, distribution, cash settlement, accounting and financial statement recognition.

As an integral part of this three-year plan, management is defining and executing an end-to-end eBusiness Strategy, having the intent of placing Dynegy at the forefront of our industry as it relates to this technological advancement. Dynegy believes that eCommerce is fast becoming the primary business enabler in our industry resulting in a paradigm shift in how business is conducted. Management believes that opportunities existing from application of this technology are significant and that a successful execution of a comprehensive strategy is paramount to maximizing our stated goals and strategies.

Capital Maintenance -

During 1999 and into 2000, the Company managed its consolidated capital structure providing capital for the acquisition of Illinova, the formation of the West Coast Power generation joint venture under favorable terms and providing capital for the execution of its aggressive capital investment program. The Company was granted an investment grade credit rating following the acquisition of Illinova with no diminution of previous ratings, despite an increase in indebtedness required to execute the transaction. Dynegy anticipates a sale of common equity in the first half of 2000 that, when combined with proceeds from the sale of non-strategic assets, should provide a debt to capital ratio consistent with historic norms.

Impact of Price Fluctuations

Dynegy's operating results are impacted by commodity price, interest rate and foreign exchange rate fluctuations. The Company routinely enters into financial instrument contracts to hedge purchase and sale commitments, fuel requirements and inventories in its natural gas, natural gas liquids, crude oil, electricity and coal businesses in order to minimize the risk of market fluctuations. As a result of marketplace liquidity and other factors, the Company may, at times, be unable to fully hedge its portfolio for certain market risks. Dynegy also monitors its exposure to fluctuations in interest rates and foreign currency exchange rates and may execute swaps, forward-exchange contracts or other financial instruments to manage these exposures.

The Energy Convergence segment includes the integrated component businesses: wholesale gas marketing, wholesale power marketing and power generation. Operating margins earned by wholesale gas and power marketing, exclusive of risk-management activities, are relatively insensitive to commodity price fluctuations since most of the purchase and sales contracts do not contain fixed-price provisions. Generally, prices contained in these contracts are tied to a current spot or index price and, therefore, adjust directionally with changes in overall market conditions. However, market price fluctuations for natural gas and electricity can have a significant impact on the operating margin derived from risk-management activities in these businesses. Dynegy generally attempts to balance its fixed-price physical and financial purchase and sales commitments in terms of contract volumes, and the timing of performance and delivery obligations. To the extent a net open position exists, fluctuating commodity market prices can impact Dynegy's financial position or results of operations, either favorably or unfavorably. The net open positions are actively managed, and the impact of changing prices on the Company's financial condition at a point in time is not necessarily indicative of the impact of price movements throughout the year. Historically, fuel costs, principally natural gas, represented the primary variable cost impacting the financial performance of the Company's investment in power generating facilities. Operating margins at these facilities were relatively insensitive to commodity price fluctuations since most purchase and sales contracts contained variable power sales contract features tied to a current spot or index natural gas price, allowing revenues to adjust directionally with changes in natural gas prices. However, the Company's investment strategy, which emphasizes growth of merchant generation capacity, is altering the makeup of its generation asset portfolio. The growth of merchant generation capacity as a percentage of total available capacity increases the Company's exposure to commodity price risk. The financial performance and cash flow derived from merchant generation capacity is impacted, either favorably or unfavorably, by changes in and the relationship between natural gas and electricity prices. The Company actively manages the price risks described above and may, at times, have a bias in the market, within established guidelines, resulting from management of its portfolio.

Operating margins associated with the Midstream segment's natural gas gathering, processing and fractionation activities are very sensitive to changes in natural gas liquids prices and the availability of inlet volumes. The impact from changes in natural gas liquids prices results principally from the nature of contractual terms under which natural gas is processed and products are sold. In addition, certain of the Midstream businesses' processing plant assets are impacted by changes in, and the relationship between, natural gas and natural gas liquids prices which, in turn influences the volumes of gas processed. Commodity price fluctuations may also affect the operating margins derived from the Company's natural gas liquid marketing business. Based upon current levels of natural gas processing activities and industry fundamentals, the estimated impact on annual operating margins of each one-cent movement in the annual average price of natural gas liquids approximates \$6 to \$8 million. The availability of inlet volumes directly affects the utilization and profitability of the segment's businesses throughout the Liquids Value Chain. The acquisition of inlet volumes is highly competitive and the availability of such volumes to industry-wide participants is also impacted by price variability. Unilateral decisions made by producers to shut-in production or otherwise curtail workovers, reduce well maintenance activities and/or delay or cancel drilling activities, as a result of depressed commodity prices or other factors, negatively affects production available to the entire midstream industry. Because such decisions are based upon the pricing environment at any particular time, management cannot predict with precision the impact that such decisions may have on its business.

Operations Risk

Dynegy's stated business strategy is to expand ownership or control of merchant generation capacity in select markets across the country. As Dynegy moves forward with the execution of its strategic plan to own or control 70,000 megawatts of capacity within five years, risk of earnings volatility increases through exposure to unanticipated variability in generation capacity dependability factors. The increasing importance of and dependency upon physical generation of electricity as a percentage of Dynegy's overall portfolio and strategy may substantially alter Dynegy's earnings risk profile over time. Many of the implied risks associated with ownership and control of generation capacity may not be fully mitigated through application of risk management methods and/or state-of-the-art, first quartile power generation operating methods.

The addition of generation assets to Dynegy's portfolio may increase enterprise exposure to environmental and regulatory laws and regulations. These exposures could result in increased expenditures for capital improvements to meet certain statutory requirements and could result in expenditures for remediation of unanticipated environmental contamination. The potential redirection of capital to these types of expenditures could reduce the level of available discretionary capital currently anticipated to be used in executing Dynegy's strategic plan in future periods.

Seasonality

Dynegy's revenue and operating margin are subject to fluctuations during the year, primarily due to the impact certain seasonal factors have on sales volumes and the prices of natural gas, electricity and natural gas liquids. Natural gas sales volumes and operating margin are typically higher in the winter months than in the summer months, reflecting increased demand due to greater heating requirements and, typically, higher natural gas prices. However, as a result of the industry-wide emphasis on the growth of gas-fired generation, historical seasonality associated with natural gas sales volumes and prices may become less pronounced in the future. Conversely, power marketing operations are typically impacted by higher demand and commodity price volatility during the summer cooling season. Consistent with power marketing, the Company's electricity generating facilities generally experience peak demand during the summer cooling season, particularly for merchant plant generating facilities. Partly as a result of Dynegy's emphasis on merchant power generation, revenue and operating margin may vary, either positively or negatively, as weather driven demand varies from historic norms. The Midstream Businesses are also subject to seasonal factors; however, such factors typically have a greater impact on sales prices than on sales volumes. Natural gas liquids prices typically increase during the winter season due to greater heating requirements. The Company's wholesale propane business is seasonally weighted in terms of volume and price, consistent with the trend in the Company's natural gas operations, as a result of greater demand for crop-drying and space-heating requirements in the fall and winter months.

Effect of Inflation

Although Dynegy's operations are affected by general economic trends, management does not believe inflation has had a material effect on the Company's results of operations.

Liquidity and Capital Resources

The Company's business strategy has historically focused on acquisitions or construction of core operating facilities in order to capture significant synergies existing among these types of assets and Dynegy's natural gas, power and natural gas liquids marketing businesses. For the foreseeable future, the Company's primary focus will be the acquisition and/or construction of power generating assets that will enable the Company to fully realize the Merchant Leverage Effect of commercialization of these generating assets. The Company's energy convergence strategies are focused on marketing, trading and arbitrage opportunities involving natural gas and power, centered around the control and optimization of Btu conversion capacity within the wholesale gas and power businesses.

Dynegy has historically relied upon operating cash flow and borrowings from a combination of commercial paper issuances, money market lines of credit, corporate credit agreements and various public debt issuances for its liquidity and capital resource requirements. The following briefly describes the terms of these arrangements.

Commercial Paper and Money Market Lines of Credit

The Company uses commercial paper proceeds and borrowings under uncommitted money market lines of credit for general corporate purposes, including short-term working capital requirements. The Company maintains a commercial paper program for amounts up to $800 million, as supported by its corporate credit agreements. At December 31, 1999, approximately $456 million of commercial paper was outstanding and $40 million was outstanding under existing money market lines of credit.

Corporate Credit Agreements

Dynegy's corporate credit agreements are comprised of a $400 million, five-year revolving credit agreement maturing in May 2003, and a $400 million, 364-day revolving credit agreement maturing in May 2000. Both agreements provide funding for working capital, letters of credit and other general corporate expenditures. At December 31, 1999, letters of credit and borrowings under the corporate credit agreements aggregated $36 million and, after consideration of the outstanding commercial paper, aggregate unused borrowing capacity under the corporate credit agreements approximated $267 million.

Canadian Credit Facility

In November 1998, an indirect wholly-owned Canadian subsidiary of the Company entered into a $60 million, two-year revolving credit facility maturing in November 2000. Borrowings under this agreement may be used for general corporate purposes. At December 31, 1999, $40 million was outstanding under this agreement.

Public Debt

The Company has five separate public debt issues aggregating $900 million, which mature in 2002, 2005, 2006, 2018 and 2026, respectively. Net proceeds derived from these issues were used to reduce outstanding borrowings under credit arrangements existing at the date of each respective issuance.

Non-Recourse Debt

The consolidated debt balance includes three notes aggregating $89 million. These notes have recourse only to the assets of identified power generation projects. Each of the three notes represents a fifteen-year term loan obligation payable in semi-annual installments of principal plus accrued interest. These notes are related to the Qualifying Facilities that were sold in February, 2000.

Preferred Securities of Subsidiary Trust

NGC Corporation Capital Trust I ("Trust"), a wholly owned subsidiary of Dynegy, issued in a private transaction $200 million aggregate liquidation amount of 8.316% Subordinated Capital Income Securities (referred to herein as "Securities") representing preferred undivided beneficial interests in the assets of the Trust. The Trust invested the proceeds from the issuance of the Trust Securities in an equivalent amount of 8.316% Subordinated Debentures ("Subordinated Debentures") of the Company. The sole assets of the Trust are the Subordinated Debentures. Following the issuance of the Securities, the Trust completed an exchange offer through which all of the outstanding Securities were exchanged by the holders thereof for registered securities having substantially the same rights and obligations.

Other Matters

Stockholder Issues. Effective with the execution of the acquisition of Illinova, BG and NOVA each reduced their stakes in Dynegy to below 5 percent by accepting $16.50 cash per share for a significant portion of their previous aggregate common stock ownership in Dynegy Holding. Further, Dynegy granted both BG and NOVA registration rights for shares of Series A Convertible Preferred Stock and shares of Class A common stock issued or issuable upon conversion of the Series A Convertible Preferred Stock held by each following execution of the merger. Finally, BG and NOVA were granted rights to obligate Dynegy to initiate a registered public offering for all shares requested to be sold by BG and NOVA, subject to certain conditions precedent.

Pursuant to the terms of the merger agreement, Chevron maintained a 28 percent equity stake in Dynegy. Further, in accordance with a shareholder agreement, Chevron was granted certain rights pursuant to its ownership of all of the Class B common shares of Dynegy.

Acquisition and Construction Projects. Included in the 2000 budget is $873 million committed to construction projects in progress, identified asset acquisitions, maintenance capital projects, environmental projects, technology infrastructure and software enhancements, contributions to equity investments and certain discretionary capital investment funds. The capital budget is subject to revision as unforeseen opportunities or circumstances arise. Funds committed to the various segments in 2000 are as follows:

CAPITAL BUDGET FOR 2000 ACQUISITION AND CONSTRUCTION PROJECTS

Segment	Estimated Capital Spending ($ in thousands)
Energy Convergence:	
Power Generation	$ 450,000
Marketing and Trade	50,000
Illinois Power	178,000
Midstream Segment	110,000
Information Technology Infrastructure and Software and Other	85,000
	$ 873,000

Commitments. In conducting its operations, the Company routinely enters into agreements that commit future cash flow to the lease and or acquisition of assets used in its businesses. These commitments are typically associated with capital projects, reservation charges for storage and transportation capacity, office and equipment leases and other similar items. The terms of these agreements vary based on the nature and intent of each transaction. The following describes the more significant commitments outstanding at December 31, 1999.

The Company is engaged in a continuous capital asset expansion program consistent with its business plan and energy convergence strategies. The emphasis of this capital asset program is on the acquisition or construction of strategically located power generation assets. Consistent with this strategy and as a result of the long lead time required by industry manufacturers, a subsidiary of the Company has executed or is currently negotiating purchase orders to acquire in excess of forty state-of-the-art gas-fired turbines representing approximately 6,900 megawatts of generating capacity. These purchase orders represent a capital commitment of approximately $1.3 billion. Delivery of the manufactured turbines will occur ratably through 2003. Commitments under these purchase orders are generally payable consistent with the delivery schedule. The purchase orders include milestone requirements by the manufacturer and provide Dynegy with the ability to cancel each discrete purchase order commitment in exchange for a fee, which escalates over time. The capital asset program is subject to periodic review and revision, and the actual number of projects and aggregate cost for such projects will be dependent on various factors including available capital resources, market conditions, legislative actions, load growth, changes in materials, supplies and labor costs and the identification of partners in order to spread investment risk.

The Company routinely enters into supply and market contracts for the purchase and sale of electricity, some of which contain fixed capacity payments. Obligations under these supply contracts, which are not already fair valued on the balance sheet at December 31, 1999, totaled $212 million on a discounted basis. Such obligations are generally payable on a ratable basis, the term of which extends through 2011. In return for such fixed capacity payments, Dynegy receives volumes of electricity at agreed prices, which it then may re-market. Based on year-end estimates, the market value of electricity available for sale under these contracts exceeds the cost of such electricity, which amount includes the fixed capacity payments disclosed herein.

In October 1999, the Company announced that it had achieved all of the necessary approvals to begin construction on its Heard County Power Project, a 500-megawatt natural gas-fired, simple-cycle peaking facility located in Franklin in Heard County, Georgia. A Dynegy subsidiary will design and construct the generating facility, as agent for a third party, and Dynegy is obligated to guarantee approximately 90 percent of the actual cost of the project during the construction phase. It is anticipated that Dynegy will subsequently lease the completed facility from that third party for an initial term of five years. Under certain circumstances, the Company maintains an option to purchase the facility from the third party and it may participate in the outright sale of the asset.

A wholly owned subsidiary of the Company leases a power generating asset under an agreement that is classified as an operating lease. This agreement has aggregate future minimum lease payments of approximately $7.1 million at December 31, 1999.

Dividend Requirements. In 2000, Dynegy's Class A and Class B common stock will be entitled to a $0.60 per share dividend if, when and as declared by the Board of Directors of the Company out of funds legally available therefor. The Class B common stock has certain conversion features and maintains certain preemptive rights under the shareholder agreement. The holders of the Series A Convertible Preferred Stock are entitled to receive dividends or distributions totaling $3.00 per share annually if and when declared by the Board of Directors of the Company out of funds legally available therefor. Dividends on the preferred shares are cumulative from the date of issuance and are payable quarterly on the last day of March, June, September and December. The preferred stock carry certain priority, liquidation, redemption, conversion and voting rights not available to the common shareholders.

Stock Repurchase Plan. The Company has a stock repurchase program, approved by the Board of Directors, that allows it to repurchase, from time to time, up to 1.6 million shares of common stock (1.1 million shares on an adjusted basis pursuant to the Illinova acquisition) in open market transactions. At December 31, 1999, approximately 399,000 shares (276,000 shares on an adjusted basis pursuant to the Illinova acquisition) remained available for repurchase under this program.

Quantitative and Qualitative Market Risk Disclosures. The Company is exposed to certain market risks inherent in the Company's financial instruments, which arise from transactions entered into in the normal course of business. The Company routinely enters into financial instrument contracts to hedge purchase and sale commitments, fuel requirements and inventories in its natural gas, natural gas liquids, crude oil, electricity and coal businesses in order to minimize the risk of market fluctuations. Dynegy also monitors its exposure to fluctuations in interest rates and foreign currency exchange rates and may execute swaps, forward-exchange contracts or other financial instruments to hedge and manage these exposures. The absolute notional contract amounts associated with commodity risk-management, interest rate and forward exchange contracts, respectively, were as follows:

ABSOLUTE NOTIONAL CONTRACT AMOUNTS

	December 31,		
	1999	1998	1997
Natural Gas (Trillion Cubic Feet)	5.702	4.179	2.558
Electricity (Million Megawatt Hours)	42.949	1.835	2.244
Natural Gas Liquids (Million Barrels)	19.902	6.397	4.355
Crude Oil (Million Barrels)	35.554	18.800	14.920
Interest Rate Swaps (in thousands of US Dollars)	$ 36,524	$ 69,332	$ 180,000
Fixed Interest Rate Paid on Swaps (Percent)	8.210	8.067	6.603
U.K. Pound Sterling (in thousands of US Dollars)	$ 85,812	$ 69,254	$ 74,638
Average U.K. Pound Sterling Contract Rate (in US Dollars)	$ 1.6191	$ 1.6143	$ 1.5948
Canadian Dollar (in thousands of US Dollars)	$ 288,898	$ 268,307	$ 37,041
Average Canadian Dollar Contract Rate (in US Dollars)	$ 0.6775	$ 0.6710	$ 0.7240

Cash-flow requirements for these commodity risk-management, interest rate and foreign exchange contracts were estimated based upon market prices in effect at December 31, 1999. Cash-flow requirements were as follows:

CASH FLOW REQUIREMENTS FOR RISK MANAGEMENT CONTRACTS						
	2000	2001	2002	2003	2004	Beyond
			($ in thousands)			
Future estimated net inflows (outflows) based on year end market prices/rates	$ 33,893	$ 13,735	$ 13,958	$ 13,711	$ 12,447	$ 6,446

Dynegy measures entity-wide market risk in its financial trading and risk-management portfolios using value at risk. The quantification of market risk using value at risk provides a consistent measure of risk across diverse energy markets and products with different risk factors in order to set the overall corporate risk tolerance, to determine risk targets, and to set position limits. The use of this methodology requires a number of key assumptions including the selection of a confidence level and the holding period to liquidation. Dynegy relies on value at risk to determine the maximum potential reduction in the trading portfolio value allowed within a given probability over a defined period. Because of limitations to value at risk, Dynegy uses other means to monitor market risk in the trading portfolios. In addition to value at risk, Dynegy performs regular stress and scenario analysis to measure extreme losses due to exceptional events. The value at risk and stress testing results are reviewed to determine the maximum allowable reduction in the total equity of the commodity portfolios. Additional measures are used to determine the treatment of risks outside the value at risk methodologies, such as market volatility, liquidity, event and correlation risk. Dynegy estimates value at risk using a JP Morgan RiskMetrics TM approach assuming a one-day holding period and a 95 percent confidence level. At December 31, 1999, the value at risk for Dynegy's trading and risk-management portfolios approximated $5.8 million and the average of such value during the year ended December 31, 1999 was estimated at $4.8 million.

Accounting Pronouncements. Effective January 1, 1999, the Company adopted the provisions of Emerging Issues Task Force Issue No. 98-10, "Accounting for Energy Trading and Risk Management Activities" ("EITF 98-10") pursuant to the implementation requirements stated therein. The resulting effect of adoption of the provisions of EITF 98-10 was to alter the Company's comprehensive method of accounting for energy-related contracts, as defined in that statement. The cumulative effect of this change in accounting principle was not material to the 1999 results of operations. The pro forma effect on prior periods of the adoption of the provisions of EITF 98-10 was not determinable.

Previously, only North American fixed-price natural gas transactions were measured at fair value, net of future servicing costs and reserves as estimated by the Company. The Company now accounts for all energy trading activities at fair value as of each balance sheet date and recognizes currently the net gains or losses resulting from the revaluation of these contracts to market in its results of operations. As a result, substantially all of the operations of the Company's world-wide gas marketing, power marketing, and crude marketing operations are now accounted for under a mark-to-market accounting methodology. Generally, revenue recognition for the Company's natural gas liquids processing, fractionation, transportation and marketing activities, as well as its power generation businesses, remain on an accrual-based accounting methodology. Sales and purchases by these businesses are not trading operations, as defined in the statement, and therefore not subject to the provisions of EITF 98-10.

The Company continues to analyze the effects of adoption of the rules promulgated by Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("Statement No. 133"). Provisions in Statement No. 133 will affect the accounting and disclosure of contractual arrangements and operations of the Company. The Financial Accounting Standards Board recently deferred implementation of the provisions of Statement No. 133 to fiscal periods beginning after June 15, 2000. Dynegy intends to adopt the provisions of Statement No. 133 within the timeframe and in accordance with the requirements provided by that statement. Management is currently assessing the financial statement impact; however, such impact is not determinable at this time.

Management believes the adoption of the provisions of EITF 98-10 and Statement No. 133 may affect the variability of future periodic results reported by Dynegy, as well as its competitors, as market conditions and resulting trading portfolio valuations change from time to time. Such earnings variability, if any, will likely result principally from valuation issues arising from imbalances between supply and demand created by illiquidity in certain commodity markets resulting from, among other things, a lack of mature trading and price discovery mechanisms, transmission and/or transportation constraints resulting from regulation or other issues in certain markets and the need for a representative number of market participants maintaining the financial liquidity and other resources necessary to compete effectively.

Year 2000 Issues. Dynegy completed all phases of the Year 2000 Program relative to computer systems and technology infrastructure considered essential to the Company's business prior to the event. The year 2000 event passed without significant incident. Dynegy's contingency plans are designed to minimize any disruptions or other adverse effects resulting from unexpected incompatibilities regarding core systems and business applications and to facilitate the early identification and remediation of system problems that manifest themselves after December 31, 1999. To date, no significant items have been identified. Dynegy continues to assess, test and remediate business applications and technology infrastructure that were previously determined to be other than essential to core business operations. The extent of these activities is very insignificant to Dynegy's overall business.

Aggregate costs expended for the Year 2000 Project totaled $6 million. Approximately $2 million of this amount was expended during 1998 with an additional $4 million expended in 1999.

Environmental Matters. Dynegy's operations are subject to extensive federal, state, provincial and local statutes, rules and regulations governing the discharge of materials into the environment or otherwise relating to environmental protection. Compliance with these statutes, rules and regulations requires capital and operating expenditures including those related to monitoring and permitting at various operating facilities and the cost of remediation obligations. The Company's environmental expenditures have not been prohibitive in the past, but are anticipated to increase in the future with the trend toward stricter standards, greater regulation, more extensive permitting requirements and an increase in the number of assets operated by the Company subject to environmental regulation.

Dynegy's aggregate expenditures for compliance with laws and regulations related to the discharge of materials into the environment or otherwise related to the protection of the environment approximated $4 million in 1999. The addition of fossil fuel-fired electric generation to Dynegy's portfolio, acquired in the Illinova acquisition, increases Dynegy's exposure to environmental regulation, as well as anticipated increased expenditures for remediation requirements and capital costs associated with Clean Air Act requirements and other federal and state legislation. Many of these exposures represent risks that Dynegy heretofore has not otherwise been subjected to. Management is confident that it has the resources in place to effectively manage the anticipated issues imposed by this heightened regulation and the financial liquidity to address anticipated expenditures associated with adherence to such regulation. Total environmental expenditures for both capital and operating maintenance and administrative costs are not expected to exceed $75 million in 2000, inclusive of the assets purchased in the Illinova acquisition.

Conclusion

The Company continues to believe that it will be able to meet all foreseeable cash requirements, including expenditures associated with the Illinova acquisition, working capital, capital expenditures and debt service, from operating cash flow, supplemented by borrowings under its various credit facilities, if required.

Results of Operations

The following table reflects certain operating and financial data for the Company's business segments for the years ended December 31, 1999, 1998 and 1997, respectively.

DYNEGY'S OPERATING AND FINANCIAL DATA

	Energy Convergence			Midstream		
	1999	1998	1997	1999	1998	1997
			($ in thousands)			
Power Marketing and Generation	$ 178,241	$ 106,216	$ 23,513	$ ---	$ ---	$ ---
Natural Gas Marketing	105,353	130,059	103,292	---	---	---
Upstream Operations	---	---	---	122,844	91,472	206,564
Downstream Operations	---	---	---	123,870	91,802	51,425
Crude Oil Operations	---	---	---	13,567	9,138	500
Equity Investments	62,185	75,242	36,241	17,669	15,796	22,718
Subtotal - Financial Contribution (1)	345,779	311,517	163,046	277,950	208,208	281,207
Depreciation	35,116	29,026	16,425	94,342	84,176	87,966
General and Administrative	128,260	110,543	76,184	72,457	75,165	73,160
Impairment, Abandonment and Other	---	2,723	20,228	---	6,921	254,772
Other Items	26,068	4,181	(2,770)	1,700	34,963	10,653
Earnings Before Interest and Taxes (2)	$ 208,471	$ 173,406	$ 47,439	$ 112,851	$ 76,909	$ (124,038)
Normalized EBIT (3)	$ 199,602	$ 176,129	$ 67,667	$ 112,851	$ 57,509	$ 130,734
Operating Statistics:						
Natural Gas Marketing (4) -						
US Sales Volumes	6.5	5.9	6.1	---	---	---
Canadian Sales Volumes	2.3	2.3	1.9	---	---	---
UK Sales Volumes	1.1	0.7	0.2	---	---	---
	9.9	8.9	8.2	---	---	---
Power Marketing (5)	66.5	120.8	94.7	---	---	---
Power Generation (6) -						
Gross	21.5	15.9	7.2	---	---	---
Net	12.8	9.8	4.3	---	---	---
NGLs Processed (7) -						
Field Plants	---	---	---	85.9	91.8	89.8
Straddle Plants	---	---	---	36.6	30.9	46.4
	---	---	---	122.5	122.7	136.2
NGL Gathering and Transmission (4)	---	---	---	0.2	0.3	0.4
Barrels Received for Fractionation (8)	---	---	---	210.9	192.5	201.3
NGL Marketing (8)	---	---	---	449.9	410.7	413.9
LPG Sales (8)	---	---	---	87.2	72.9	91.8
Crude Oil Marketing (8)	---	---	---	206.8	239.6	168.3

(1) Financial Contribution is the sum of the segment's operating margin and equity earnings from unconsolidated affiliates.

(2) Earnings Before Interest and Taxes ("EBIT"), equals pretax earnings before deduction of interest expense.

(3) Normalized EBIT adjusts EBIT for identified non-recurring items described in the following narrative on three-year results.

(4) Billion Cubic Feet Per Day

(5) Million Megawatt Hours

(6) Million Megawatt Hours Generated

(7) Thousand Barrels Per Day - Gross

(8) Thousand Barrels Per Day

Three Years Ended December 31, 1999

For the year ended December 31, 1999, the Company realized net income of $151.8 million, or $0.91 per diluted share. This compares with $108.4 million, or $0.66 per diluted share and a net loss of $102.5 million, or $0.68 per share in 1998 and 1997, respectively. The comparability of results period to period was impaired by the recognition of net non-recurring, after-tax gains totaling $5.8 million during 1999, after tax gains totaling $10.8 million during 1998, and net after-tax charges totaling $218.5 million recognized in 1997. In addition, the comparability of results for the three years is influenced by the Destec Acquisition that was effective July 1, 1997. Revenues in each of the three years in the period ended December 31, 1999, totaled $15.4 billion, $14.3 billion, and $13.4 billion, respectively. Operating cash flows totaled $8.8 million for the year ended December 31, 1999, compared with operating cash inflows of $250.8 million in 1998 and $278.6 million in 1997.

Non-recurring items in the current period relate to a $5.8 million after-tax gain on the sale of an investment. In 1998 non-recurring items included a $17.1 million after-tax gain on the sale of Ozark offset by a $6.3 million after-tax severance charge. The 1997 loss included one-time charges principally associated with the abandonment and impairment of certain operating and non-operating assets, inventory obsolescence and lower-of-cost-or-market writedowns, reserves for contingencies and other obligations, a charge for a hedging related loss and a charge associated with a change in the method of accounting for certain business process re-engineering and information technology transformation costs.

After consideration of the non-recurring items described above, Dynegy's normalized net income for the year ended December 31, 1999, approximated $146.0 million, or $0.87 per diluted share, compared with normalized net income of $97.5 million, or $0.59 per diluted share in 1998, and $108.7 million, or $0.65 per diluted share, in 1997. The lower normalized results in 1998 as compared with the other two years generally reflect a material increase in earnings derived from the Company's Energy Convergence segment offset by the significant negative impact that crude and NGL commodity prices had on the Midstream segment in 1998, as well as a trend towards higher overhead, depreciation and interest costs during the three-year period.

Consolidated operating margin for each of the three years in the period ended December 31, 1999, totaled $543.9 million, $428.7 million and $385.3 million, respectively. For the year ended December 31, 1999, the Company reported operating income of $213.7 million, compared with operating income of $120.1 million and an operating loss of $143.4 million for the 1998 and 1997 periods, respectively. Operating income in both the 1998 and 1997 periods was negatively impacted by the pre-tax effect of portions of the aforementioned non-recurring items. The increase in depreciation and amortization expense during the three-year period reflects the depreciable assets acquired in the Chevron Combination and the Destec Acquisition as well as the continued expansion of the Company's depreciable asset base through other asset acquisitions and capital projects completed during the three-year period. Depreciation and amortization expense in the 1999 and 1998 periods benefited from the prospective effect of the asset impairments and abandonments recognized in 1997. The increased level of general and administrative expenses period-to-period principally reflects the incremental costs associated with a larger, more diverse base of operations, non-capitalizable consulting and other costs required to support technology infrastructure improvements, higher variable compensation costs in 1999 than in 1998 or 1997 and, to a lesser degree, expenses related to identifying and resolving Year 2000 issues.

During the three-year period ended December 31, 1999, the Company significantly increased its investment in unconsolidated affiliates, principally as a result of the ownership interests and legal structures employed in a majority of the investments made by the Energy Convergence segment. As a result, the financial results of Dynegy's equity investments to its consolidated operating results have become more significant. The Company has structured these investments to mitigate financial risk to the corporation. In addition, the bylaws of a majority of these investments require periodic cash distributions allowing Dynegy to manage its share of cash flow generated by these investments in an efficient manner. The Company's equity share in the earnings of its unconsolidated affiliates contributed an aggregate $79.9 million to 1999 pre-tax results, compared to $91.0 million in 1998 and $59.0 million in 1997. Equity earnings in 1999 were lower than in 1998 principally in the generation investment equity earnings group reflecting weather driven demand differences between periods and higher interest costs in 1999 associated with the formation of a new partnership. Cash distributions received from these investments during each of the three years in the period ended December 31, 1999 approximated $66 million, $85 million and $55 million, respectively. The following table provides a summary of equity earnings by investment for the comparable periods:

DYNEGY'S EQUITY EARNINGS FROM UNCONSOLIDATED AFFILIATES						
	Years Ended December 31,					
	1999		1998		1997	
			($ in thousands)			
Accord Energy Limited [1]	$	21,009	$	21,822	$	25,885
Other Gas Marketing Investments, Including NCL [1]		(5,980)		(3,469)		(2,942)
Electric Power Marketing Investments		659		509		518
Power Generation Investments		46,497		56,380		12,780
Gulf Coast Fractionators		3,534		3,741		6,624
West Texas LPG Pipeline Limited Partnership		5,066		6,428		7,162
Venice Energy Services Company, L.L.C.		6,812		4,310		8,052
Other Midstream Businesses Investments, net		2,257		1,317		880
	$	79,854	$	91,038	$	58,959

(1) For a discussion of the Accord and NCL restructurings, refer to Note 11 of the Consolidated Financial Statements.

Interest expense totaled $78.2 million for the year ended December 31, 1999, compared with $75.0 million and $63.5 million for the comparable 1998 and 1997 periods. The higher interest expense period to period is attributed to higher average outstanding principal amounts resulting primarily from debt assumed in and resulting from the Company's capital expenditure program, the Chevron Combination and the Destec Acquisition partially offset by interest rates that trended lower over the three-year period.

Other income and expenses, net benefited operating results in each of the years ended 1999 by $27.8 million, $39.1 million and $7.9 million, respectively. In addition to the pretax effect of the previously mentioned non-recurring gain on sale of an investment, 1999's other income and expense, net included a $38 million pretax gain associated with the sale of an asset and a $23 million pretax reserve associated with the realization of certain assets. As a result, 1999 other income and expense, net benefited by approximately $15 million as a result of these items. Also, included in 1999's pre-tax earnings was a $15 million pretax reserve for under-realization on a long-term generation sales contract. Such amount was classified in operating margin. The effect of these three items on net income was immaterial in the period, and to the segment disclosures since all three items relate to Energy Convergence operations. Therefore, the items were not highlighted as non-recurring items in previous discussions on annual results. Each of the net amounts in 1998 and 1997 result principally from the pretax effect of certain of the aforementioned non-recurring items recognized in each period as well as numerous other less significant recurring and non-recurring income and expense items.

During the second quarter of 1997, the Company sold $200 million aggregate liquidation amount of 8.316% Subordinated Capital Income Securities. Accumulated distributions associated with these Securities totaled $16.6 million for each of the years ended December 31, 1999 and 1998 and $9.8 million for the year ended December 31, 1997, respectively.

The Company reported an income tax provision of $74.7 million in 1999, compared to an income tax provision of $50.3 million in 1998 and an income tax benefit of $62.2 million in 1997, reflecting effective rates of 33 percent, 32 percent and (41) percent, respectively. In general, differences between the aforementioned effective rates and the statutory rate of 35 percent result primarily from permanent differences attributable to amortization of certain intangibles, permanent differences arising from the effect of certain foreign equity investments and state income taxes.

Energy Convergence -

The Energy Convergence segment had earnings before interest and taxes ("EBIT") of $208.5 million for the year ended December 31, 1999, compared to $173.4 million in 1998, and $47.4 million in 1997. Normalized EBIT for each of the three years in the period ended December 31, 1999, totaled $199.6 million, $176.1 million and $67.7 million, respectively. These results were influenced, either positively or negatively, by:

- lower demand for electricity in 1999 than in 1998, particularly in the southern California market,
- favorable market movements in the United Kingdom in 1999 combined with significant growth in operations in the UK over the three year period,
- expansion of power trading to the UK and Europe in 1999,
- increased gas and power marketing origination in 1999,

- less price volatility in the North American power markets in 1999 and 1997 as compared to 1998, which reduced trading opportunities,
- significant mild weather in 1999 and 1998 as compared with historical norms,
- advertising costs by our retail alliances,
- increased depreciation and general and administrative expenses reflecting the capital and overhead costs required to support the larger, more diverse base of operations, partially offset by
- the acquisition of Destec and its power generation platform in 1997.

Worldwide gas marketing operations were negatively influenced in all periods by unseasonably warm weather in the winter months that eliminated any significant volatility in commodity prices during those periods. Worldwide sales volumes totaled 9.9 Bcf/d in 1999, 8.9 Bcf/d in 1998 and 8.2 Bcf/d in 1997. Worldwide per-unit margins were \$0.029, \$0.040 and \$0.035 for each of three years in the period ended December 31, 1999, respectively.

The dramatic growth in financial contribution from the power marketing business in 1999 is attributable to favorable price movements in the United Kingdom and increased origination in the U. S. markets despite the lack of weather-driven volatility and trading opportunities during the year. This is in contrast to the financial contribution in 1998. Value extraction in that period was derived from the extreme market volatility experienced in certain U.S. markets, particularly in the mid-west, during the 1998 summer.

Results in power generation reflect the execution of the Company's growth strategy over the three-year period. During this timeframe, gross generation production grew 14.3 million megawatt hours or nearly 200 percent.

Midstream -

The Midstream segment had earnings before interest and taxes ("EBIT") of \$112.9 million for the year ended December 31, 1999, compared to \$76.9 million in 1998, and a loss of \$(124.0) million in 1997. Normalized EBIT for each of the three years in the period ended December 31, 1999, totaled \$112.9 million, \$57.5 million and \$130.7 million, respectively. Improved natural gas liquids and crude oil prices, supplemented by targeted cost reductions and revenue enhancements favorably impacted this segment's results period-to-period. Sustained market price improvements in 1999 have resulted in increased gas processing, fractionation and trading opportunities. In addition, world demand for natural gas liquids strengthened in 1999, particularly in Europe and Asia enhancing revenues from global marketing operations. Forward sales of equity liquids production prevented this segment from fully realizing value during the upturn in commodity prices during 1999. This hedging technique has also been employed in 2000, resulting in the hedging of approximately 50 percent of 2000 equity production at a price above the historical ten-year mean propane price. Average NGL market prices averaged \$0.34 per gallon in 1999 compared to \$0.25 per gallon in 1998 and \$0.34 per gallon in 1997. Likewise, crude oil prices improved during the year averaging \$17.10 per barrel in 1999, \$11.97 per barrel in 1998 and \$18.64 per barrel in 1997. During 1998, the decline in NGL and crude oil commodity prices negatively impacted operations. During 1997, operating margins from these businesses were negatively impacted by high-cost inventory purchased during the fourth quarter of 1996, which was recognized in operating results during the first quarter of 1997, culminating in a lower-of-cost-or-market writedown of \$12.3 million at March 31, 1997. Additionally, included in the 1997 period are pre-tax charges related to a lower-of-cost-or-market writedown of crude oil inventory of \$2.7 million and a hedge-related loss of \$8.3 million.

Operationally, this segment's businesses continue to reflect a leadership position in significantly all domestic midstream businesses. Aggregate domestic natural gas liquids processing volumes totaled 122.5 thousand gross barrels per day in 1999 compared to an average 122.7 thousand gross barrels per day during 1998 and 136.2 thousand gross barrels per day in 1997. Volumes for 1999 and 1998 remain flat due to the rationalization of certain assets and the slow return of production volumes behind the field plants in 1999 resulting principally from the aforementioned producer behavior, offset by volumes received through an alliance with an industry partner. In 2000, natural gas processing volumes will be lower as a result of the aforementioned asset sales. The lower volumes in 1999 and 1998 as compared to 1997 reflect the economic decisions made during the 1998 period to reduce production at its straddle processing plants principally as a result of the relationship of natural gas and NGL commodity prices. Fractionation volumes and natural gas liquids marketing volumes averaged 210.9 and 537.1 thousand barrels per day, respectively, during 1999 reflecting significant increases over previous periods. The fractionation volumes increased principally as a result of the addition of the Lake Charles fractionator to the asset portfolio. The increases in trading and marketing volumes reflect a more active world-wide trading and marketing presence as well as an increasing operational focus on this sector of the business.

Operating Cash Flow

Cash flow from operating activities totaled $8.8 million during the year ended December 31, 1999 compared to $250.8 million during 1998 and $278.6 million during 1997. Changes in operating cash flow primarily reflect an increase in inventory and an increase in non-cash earnings resulting from risk management activities. Changes in other working capital accounts, which include prepayments, other current assets and accrued liabilities, reflect expenditures or recognition of liabilities for insurance costs, certain deposits, salaries, taxes other than on income, certain deferred revenue accounts and other similar items. Fluctuations in these accounts, period-to-period, reflect changes in the timing of payments or recognition of liabilities and are not directly impacted by seasonal factors. The 1997 period benefited from an advance payment for future gas deliveries.

Capital Expenditures, Commitments and Dividend Requirements

Capital Expenditures and Investing Activities. During the year ended December 31,1999, the Company invested a net $318.7 million principally on power generation assets, including a power generation partnership, and additional expenditures related to maintenance capital improvements at existing facilities and capital investment associated with technology infrastructure improvements. During the year, the company sold certain Liquid's segment assets, an investment held by the Energy Convergence segment and a 50 percent interest in a power generation partnership, netting proceeds of $80.6 million.

During the year ended December 31, 1998, the Company invested a net $295.1 million, principally on discrete asset acquisitions primarily focused in the Energy Convergence segment. Expenditures were also made to complete construction of the Lake Charles, Louisiana fractionator, for capital improvements at existing facilities and on capital additions at the Company's headquarters. During the period, the Company divested itself of its investment in Ozark, as well as certain non-strategic Midstream Segment assets. Aggregate net proceeds from these dispositions approximated $84 million.

During the year ended December 31, 1997, the Company spent a net $510.7 million, principally on the Destec Acquisition, the purchase of NCL's gas marketing operations and on acquisitions of additional interests in gas processing facilities, pipelines and other midstream assets. Expenditures were also made on capital improvements at existing facilities and on capital additions at the Company's headquarters. The Company invested $27.7 million in its unconsolidated affiliates, principally for amounts committed to VESCO. During the period, the Company divested itself of the Mont Belvieu I fractionation facility pursuant to an agreement reached with the Federal Trade Commission related to the Chevron Combination. Further, Dynegy sold its 49.9 percent interest in NCL, as part of the restructuring of that investment and consummated the sales of certain non-strategic assets acquired in the Destec Acquisition. Aggregate net proceeds from these dispositions, plus proceeds from other immaterial dispositions, approximated $453 million.

Dynegy acquired Destec on June 27, 1997, in a transaction valued at $1.26 billion, or $21.65 per share of Destec common stock. Concurrent with this acquisition, Dynegy sold Destec's international facilities and operations to The AES Corporation for $439 million. In July and August 1997, the Company sold Destec's interest in a partnership that owned a power generation facility and certain oil, gas and lignite reserves, respectively, for aggregate proceeds of $296 million. Proceeds from the sales of these non-strategic assets were used to retire debt incurred in the acquisition.

Dividend Requirements and Stock Repurchases. Dynegy declares quarterly dividends on its outstanding common stock at the discretion of its Board of Directors. The holders of the Series A Preferred Stock were entitled to receive dividends or distributions equal per share in amount and kind to any dividend or distribution payable on shares of the Company's common stock, when and as the same are declared by the Company's Board of Directors. During the years ended December 31, 1999, 1998 and 1997, the Company paid approximately $8.1 million, $8.0 million and $7.9 million in cash dividends and distributions, respectively.

In May 1997, the Board of Directors approved a stock repurchase program that allows the Company to repurchase, from time to time, up to 1.6 million shares of common stock in open-market transactions. The timing and number of shares ultimately repurchased will depend upon market conditions and consideration of alternative investments. Pursuant to this program, the Company acquired no shares in 1999 and 545,800 shares of its stock through open-market trades during the year ended December 31, 1998. Shares were acquired in 1998 at a total cost of $6.9 million, or $12.65 per share on a weighted average cost basis. For the year ended December 31, 1997, the

Company acquired 654,900 shares of its common stock in open-market transactions for an aggregate cost of $10.5 million, or $16.04 per share on a weighted average cost basis.

Uncertainty of Forward-Looking Statements and Information

This Form 10-K contains various forward-looking statements, within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, and information that are based on management's beliefs as well as assumptions made by and information currently available to management. When used in this document, words such as "anticipate", "estimate", "project", “forecast” and "expect" reflect forward-looking statements. Although the Company believes that the expectations reflected in such forward-looking statements are reasonable; it can give no assurance that such expectations will prove to have been correct. Such statements are subject to certain risks, uncertainties and assumptions. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those anticipated, estimated, projected or expected. Among the key risk factors that may have a direct bearing on Dynegy's results of operations and financial condition are:

- Competitive practices in the industries in which Dynegy competes;
- Fluctuations in commodity prices for natural gas, electricity, natural gas liquids, crude oil or coal;
- Fluctuations in energy commodity prices which could not or have not been properly hedged or that are inconsistent with Dynegy's open position in its energy marketing activities;
- Operational and systems risks;
- Environmental liabilities which are not covered by indemnity or insurance;
- Software, hardware or third-party failures resulting from Year 2000 issues;
- General economic and capital market conditions, including fluctuations in interest rates; and
- The impact of current and future laws and governmental regulations (particularly environmental regulations) affecting the energy industry in general, and Dynegy's operations in particular.

In addition, as it relates to the proposed Illinova combination, there can be no assurance that:

- We have correctly identified and assessed all of the factors affecting Illinova’s or Dynegy’s businesses;
- The available information with respect to these factors on which we have based our analysis is complete or correct;
- Our analysis is correct; or
- Our strategies, which are based in part on this analysis, will be successful.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The financial statements and financial statement schedule of the Company are set forth at pages F-1 through F-36 inclusive, found at the end of this report.

Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

PART III

Item 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Certain of the information required by this Item 10 will be contained in the definitive Proxy Statement of the Company for its 2000 Annual Meeting of Stockholders (the "Proxy Statement") under the headings "Proposal 1 -- Election of Directors" and “Executive Compensation -- Section 16(a) Beneficial Ownership Reporting Compliance” and is incorporated herein by reference. The Proxy Statement will be filed with the Securities and Exchange Commission not later than 120 days after December 31, 1999. Reference is also made to the information appearing in Part I of this Annual Report on Form 10-K under the caption "Item 1A. Executive Officers."

Item 11. EXECUTIVE COMPENSATION

Information with respect to executive compensation will be contained in the Proxy Statement under the heading "Executive Compensation" and is incorporated herein by reference.

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Information regarding ownership of certain of the Company's outstanding securities will be contained in the Proxy Statement under the heading "Principal Stockholders" and is incorporated herein by reference.

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Information regarding related party transactions will be contained in the Proxy Statement under the headings "Principal Stockholders", "Proposal 1 -- Election of Directors" and "Executive Compensation -- Indebtedness of Management" and "-- Certain Relationships and Related Transactions" and is incorporated herein by reference.

PART IV

Item 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON 8-K

The following documents, which have been filed by the Company with the Securities and Exchange Commission pursuant to the Securities and Exchange Act of 1934, as amended, are by this reference incorporated in and made a part of this statement:

a. Financial Statements -- Consolidated financial statements of the Company and its subsidiaries are incorporated under Item 8. of this Form 10-K.

b. Exhibits -- The following instruments and documents are included as exhibits to this Form 10-K.

Exhibit Number		Description
2.1	-	Agreement and Plan of Merger among Dynegy Inc., Illinova Corporation and certain other parties named therein (15)
2.2	-	Amendment to Agreement and Plan of Merger among Dynegy Inc., Illinova Corporation and other parties named therein (18)
2.3	-	Combination Agreement and Plan of Merger, dated May, 22, 1996, by and between NGC Corporation, Chevron U.S.A. Inc. and Midstream Combination Corp.(7)
2.4	-	Amendment to Combination Agreement, dated as of August 29, 1996, by and among NGC Corporation, Chevron U.S.A. Inc. and Midstream Combination Corp.(5)
2.5	-	Agreement and Plan of Merger by and among Destec Energy, Inc., The Dow Chemical Company, NGC Corporation and NGC Acquisition Corporation II dated as of February 17, 1997. (8)
2.6	-	Asset Purchase Agreement by and between NGC Corporation and The AES Corporation dated as of February 17, 1997. (8)
2.7	-	First Amendment to Asset Purchase Agreement by and between NGC Corporation and The AES Corporation dated June 29, 1997.(9)

Exhibit Number		Description
2.8	-	Asset Purchase Agreement between Destec Energy, Inc. and ECT EOCENE Enterprises, Inc. dated July 1, 1997.(9)
3.1	-	Articles of Incorporation of the Company (18)
3.2	-	Articles of Amendment to the Company's Articles of Incorporation (18)
3.3	-	Articles of Amendment to the Company's Articles of Incorporation (19)
†3.4	-	Amended and Restated Bylaws of Dynegy Inc.
3.5	-	Statement of Resolution Establishing Series of Series A Convertible Preferred Stock filed with the Illinois Secretary of State on February 1, 2000. (19)
4.1	-	Warrant exercisable for 6,228 shares of Common Stock of NGC Corporation registered in the name of J. Otis Winters. (2)
4.2	-	Indenture, dated as of December 11, 1995, by and between NGC Corporation, the Subsidiary Guarantors named therein and the First National Bank of Chicago, as Trustee.(4)
4.3	-	First Supplemental Indenture, dated as of August 31, 1996, by and among NGC Corporation, the Subsidiary Guarantors named therein, and The First National Bank of Chicago, as Trustee, supplementing and amending the Indenture dated as of December 11, 1995. (5)
4.4	-	Second Supplemental Indenture, dated as of October 11, 1996, by and among NGC Corporation, the Subsidiary Guarantors named therein, and The First National Bank of Chicago, as Trustee, supplementing and amending the Indenture dated as of December 11, 1995. (5)
4.5	-	Amended and Restated Credit Agreement dated as of June 27, 1997, among NGC Corporation and The First National Bank of Chicago, Individually and as Agent, The Chase Manhattan Bank and NationsBank of Texas, N.A., Individually and as Co-Agents, and the Lenders Named therein.(9)
4.6	-	First Amendment to Amended and Restated Credit Agreement, dated November 24, 1997, among NGC Corporation and The First National Bank of Chicago, Individually and as Agent, The Chase Manhattan Bank and NationsBank of Texas, N.A., Individually and as Co-Agents for the Lenders named therein. (13)
4.7	-	Second Amendment to Amended and Restated Credit Agreement, dated as of February 20, 1998, among NGC Corporation and The First National Bank of Chicago, Individually and as Agent, The Chase Manhattan Bank and NationsBank of Texas, N.A., Individually and as Co-Agents for the Lenders named therein. (13)
4.8	-	Subordinated Debenture Indenture between NGC Corporation and The First National Bank of Chicago, as Debenture Trustee, dated as of May 28, 1997. (10)
4.9	-	Amended and Restated Declaration of Trust among NGC Corporation, Wilmington Trust Company, as Property Trustee and Delaware Trustee, and the Administrative Trustees named therein, dated as of May 28, 1997. (10)
4.10	-	Series A Capital Securities Guarantee executed by NGC Corporation and The First National Bank of Chicago, as Guarantee Trustee, dated as of May 28, 1997. (10)
4.11	-	Common Securities Guarantee of NGC Corporation dated as of May 28, 1997. (10)

Exhibit Number		Description
4.12	-	Registration Rights Agreement, dated as of May 28, 1997, among NGC Corporation, NGC Corporation Capital Trust I, Lehman Brothers, Salomon Brothers Inc. and Smith Barney Inc. (10)
4.13	-	Second Supplemental Indenture among NGC Corporation, Destec Energy, Inc. and The First National Bank of Chicago, as Trustee, dated as of June 30, 1997, supplementing and amending the Indenture dated as of June 30, 1997. (11)
4.14	-	Fourth Supplemental Indenture among NGC Corporation, Destec Energy, Inc. and The First National Bank of Chicago, as Trustee, dated as of June 30, 1997, supplementing and amending the Indenture dated as of December 11, 1995. (11)
4.15	-	Fifth Supplemental Indenture among NGC Corporation, The Subsidiary Guarantors named therein and The First National Bank of Chicago, as Trustee, dated as of September 30, 1997, supplementing and amending the Indenture dated as of December 11, 1995. (13)
4.16	-	Sixth Supplemental Indenture among NGC Corporation, The Subsidiary Guarantors named therein and The First National Bank of Chicago, as Trustee, dated as of January 5, 1998, supplementing and amending the Indenture dated as of December 11, 1995. (13)
4.17	-	Seventh Supplemental Indenture among NGC Corporation, The Subsidiary Guarantors named therein and The First National Bank of Chicago, as Trustee, dated as of February 20, 1998, supplementing and amending the Indenture dated as of December 11, 1995. (13)
4.18	-	Indenture, dated as of September 26, 1996, restated as of March 23, 1998, to include amendments in the First through Fifth Supplemental Indentures, between NGC Corporation and The First National Bank of Chicago, as Trustee. (13)
4.19	-	Credit Agreement dated as of May 27, 1998, among NGC Corporation and The First National Bank of Chicago, Individually and as Administrative Agent, The Chase Manhattan Bank, Individually and as Syndication agent and NationsBank, N.A., Individually and as Documentation Agent and the Lenders named therein. (12)
4.20	-	364-Day Revolving Credit Agreement dated as of May 27, 1998, among NGC Corporation and The First National Bank of Chicago, Individually and as Administrative Agent, The Chase Manhattan Bank, Individually and as Syndication agent and NationsBank, N.A., Individually and as Documentation Agent and the Lenders named therein. (12)
4.21	-	First Amendment to 364-Day Revolving Credit dated as of May 5, 1999 among Dynegy Inc. and The First National Bank of Chicago, Individually and as Administrative Agent, The Chase Manhattan Bank, Individually and as Syndication Agent, and Citibank N.A., Individually and as Documentation Agent and the Lenders Named therein. (17)
10.1	-	Agreement of Sale and Purchase of Assets, dated as of May 5, 1991, as amended on June 6, 1991 and August 30, 1991, by and between OXY USA Inc. and Trident Energy, Inc. (1)
10.2	-	Master Agreement on Gas Processing, dated as of May 5, 1991, by and between OXY USA Inc. and Trident NGL, Inc.(1)
10.3	-	Dynegy Inc. Amended and Restated 1991 Stock Option Plan. (16)
10.4	-	Dynegy Inc. 1998 U.K. Stock Option Plan (16)
10.5	-	Dynegy Inc. Amended and Restated Employee Equity Option Plan. (16)

Exhibit Number		Description
†10.6	-	Dynegy Inc. 1999 Long Term Incentive Plan.
†10.7	-	Dynegy 2000 Long Term Incentive Plan.
10.8	-	Employment Agreement dated April 2, 1996 by and between NGC Corporation and Stephen A. Furbacher.(6)
†10.9	-	Employment Agreement, dated as of February 1, 2000, between Charles L. Watson and Dynegy Inc.
†10.10	-	Employment Agreement, effective February 1, 2000, between Stephen W. Bergstrom and Dynegy Inc.
†10.11	-	Employment Agreement, effective February 1, 2000, between John U. Clarke and Dynegy Inc.
†10.12	-	Employment Agreement, effective February 1, 2000, between Kenneth E. Randolph and Dynegy Inc.
10.13	-	Employment Agreement, dated as of July 1, 1997, by and between Dan Ryser and NGC Corporation.
10.14	-	Lease Agreement entered into on June 12, 1996 between Metropolitan Life Insurance Company and Metropolitan Tower Realty Company, Inc., as landlord, and NGC Corporation, as tenant. (6)
10.15	-	First Amendment to Lease Agreement entered into on June 12, 1996 between Metropolitan Life Insurance Company and Metropolitan Tower Realty Company, Inc., as landlord, and NGC Corporation, as tenant. (6)
10.16	-	Contribution and Assumption Agreement, dated as of August 31, 1996, among Chevron U.S.A. Inc., Chevron Pipe Line Company, Chevron Chemical Company and Midstream Combination Corp. (5)
10.17	-	Scope of Business Agreement, dated May 22, 1996 between Chevron Corporation and NGC Corporation. (6)
10.18	-	Master Alliance Agreement, dated as of September 1, 1996, among Chevron U.S.A. Inc., Chevron Chemical Company, Chevron Pipe Line Company, and other Chevron U.S.A. Inc. affiliates, NGC Corporation, Natural Gas Clearinghouse, Warren Petroleum Company, Limited Partnership, Electric Clearinghouse, Inc. and other NGC Corporation affiliates. (5)
* 10.19	-	Natural Gas Purchase and Sale Agreement, dated as of August 30, 1996, among Chevron U.S.A. Inc. and Natural Gas Clearinghouse. (5)
* 10.20	-	Master Natural Gas Processing Agreement, dated as of September 1, 1996, among Chevron U.S.A. Inc. and Warren Petroleum Company, Limited Partnership. (5)
* 10.21	-	Master Natural Gas Liquids Purchase Agreement, dated as of September 1, 1996, among Warren Petroleum Company, Limited Partnership and Chevron U.S.A. Inc. (5)
* 10.22	-	Gas Supply and Service Agreement, dated as of September 1, 1996, among Chevron Products Company and Natural Gas Clearinghouse. (5)
10.23	-	Master Power Service Agreement, dated as of May 16, 1996, among Electric Clearinghouse,

Exhibit Number		Description
		Inc. and Chevron U.S.A. Production Company. (6)
10.24	-	Master Power Service Agreement, dated as of May 16, 1996, among Electric Clearinghouse, Inc. and Chevron Chemical Company. (6)
10.25	-	Master Power Service Agreement, dated as of May 16, 1996, among Electric Clearinghouse, Inc. and Chevron Products Company. (6)
* 10.26	-	Feedstock Sale and Refinery Product Purchase Agreements, dated as of September 1, 1996, among Chevron Products Company and Warren Petroleum Company, Limited Partnership.(5)
* 10.27	-	Refinery Product Sale Agreement (Hawaii), dated as of September 1, 1996, among Warren Petroleum Company, Limited Partnership and Chevron Products Company. (5)
* 10.28	-	Feedstock Sale and Refinery Product Master Services Agreement, dated as of September 1, 1996, among Chevron Products Company and Warren Petroleum Company, Limited Partnership. (5)
* 10.29	-	CCC Product Sale and Purchase Agreement dated as of September 1, 1996, among Warren Petroleum Company, Limited Partnership and Chevron Chemical Company. (5)
* 10.30	-	CCC/WPC Services Agreement, dated as of September 1, 1996, among Chevron Chemical Company and Warren Petroleum Company, Limited Partnership. (5)
* 10.31	-	Operating Agreement, dated as of September 1, 1996, among Warren Petroleum Company, Limited Partnership and Chevron Pipe Line Company. (5)
10.32	-	Galena Park Services Agreement, dated as of September 1, 1996, among Chevron Products Company and Midstream Combination Corp. (5)
* 10.33	-	Venice Complex Operating Agreement, dated as of September 1, 1996, among Chevron U.S.A. Inc. and Warren Petroleum Company, Limited Partnership. (6)
* 10.34	-	Time Charter, dated as of August 31, 1996, by and between Midstream Barge Company, L.L.C. and Warren Petroleum Company, Limited Partnership. (5)
* 10.35	-	Limited Liability Company Agreement of Midstream Barge Company, L.L.C., dated as of August 31, 1996, by and between Chevron U.S.A. Inc. and Warren Petroleum Company, Limited Partnership. (5)
10.36	-	Subscription Agreement between Energy Convergence Holding Company and Chevron U.S.A. Inc (15)
10.37	-	Stock Purchase Agreement between Energy Convergence Holding Company and British Gas Atlantic Holdings BV and related Guaranty by British Gas Overseas Holdings Limited (15)
10.38	-	Voting Agreement between Illinova and BG Holdings, Inc. (15)
10.39	-	Voting Agreement between Illinova and NOVA Gas Services (U.S.) Inc. (15)
10.40	-	Voting Agreement between Illinova and Chevron U.S.A. Inc. (15)
10.41	-	Shareholder Agreement of Energy Convergence Holding Company with Chevron U.S.A. Inc. (15)

Exhibit Number		Description
10.42	-	Registration Rights Agreement (NOVA Gas Services (U.S.) Inc. and British Gas Atlantic Holdings BV) (15)
10.43	-	First Amended and Restated Limited Partnership Agreement of the West Texas LPG Pipeline Limited Partnership (17)
10.44	-	Amended and Restated Operating Agreement of the West Texas LPG Pipeline Limited Partnership and Chevron Pipeline Company (17)
10.45	-	Dynegy Inc. Severance Pay Plan. (16)
10.46	-	Registration Rights Agreement (Chevron U.S.A. Inc) (15)
10.47	-	First Supplemental Plan to the Dynegy Inc. Severance Pay Plan (17)
10.48	-	Amendment No. 1 to the First Supplemental Plan to the Dynegy Inc. Severance Pay Plan (17)
10.49	-	Second Supplemental Plan to the Dynegy Inc. Severance Pay Plan (17)
10.50	-	Third Supplemental Plan to the Dynegy Inc. Severance Pay Plan (17)
10.51	-	Fourth Supplemental Plan to the Dynegy Inc. Severance Pay Plan (17)
10.52	-	Dynegy Midstream Services, Limited Partnership Supplemental Severance Pay Plan (17)
10.53	-	NGC Profit Sharing/401(k) Savings Plan. (16)
10.54	-	First Amendment to NGC Profit Sharing/401(k) Savings Plan. (16)
10.55	-	Second Amendment to NGC Profit Sharing/401(k) Savings Plan. (16)
10.56	-	Third Amendment to Dynegy Inc. Profit Sharing/401(k) Savings Plan. (17)
†10.57	-	Fourth Amendment to Dynegy Inc. Profit Sharing/401(k) Savings Plan.
†10.58	-	Fifth Amendment to Dynegy Inc. Profit Sharing/401(k) Savings Plan.
†10.59	-	Sixth Amendment to Dynegy Inc. Profit Sharing/401(k) Savings Plan.
†10.60	-	Seventh Amendment to Dynegy Inc. Profit Sharing/401(k) Savings Plan.
† 12.1	-	Computation of Ratio of Earnings to Fixed Charges.
† 22.1	-	Subsidiaries of the Registrant.
† 23.1	-	Consent of Arthur Andersen LLP.
† 27.1	-	Financial Data Schedule.

† Filed herewith

* Exhibit omits certain information which the Company has filed separately with the Commission pursuant to a confidential treatment request pursuant to Rule 406 promulgated under the Securities Act of 1933, as amended.

(1) Incorporated by reference to exhibits to the Registration Statement of Trident NGL, Inc. on Form S-1, Registration No. 33-43871.
(2) Incorporated by reference to exhibits to the Quarterly Report on Form 10-Q for the Quarterly Period Ended September 30, 1993 of Trident NGL Holding, Inc., Commission File No. 1-11156.
(3) Incorporated by reference to exhibits to the Registration Statement of Trident NGL Holding, Inc. on Form S 4, Registration No. 33-88907.
(4) Incorporated by reference to the Registration Statement of NGC Corporation on Form S-3, Registration No. 33-97368.
(5) Incorporated by reference to exhibits to the Quarterly Report on Form 10-Q for the Quarterly Period Ended September 30, 1996, of NGC Corporation, Commission File No. 1-11156.
(6) Incorporated by reference to exhibits to the Registration Statement of Midstream Combination Corp. on Form S-4, Registration No. 333-09419
(7) Incorporated by reference to exhibits to the Current Report on Form 8-K of NGC Corporation, dated May 22, 1996, Commission File No. 1-11156.
(8) Incorporated by reference to exhibits to the Annual Report on Form 10-K for the Fiscal Year Ended December 31, 1996, of NGC Corporation, Commission File No. 1-11156
(9) Incorporated by reference to exhibits to the Current Report on Form 8-K of NGC Corporation, Commission File No. 1-11156, dated June 27, 1997.
(10) Incorporated by reference to exhibits to the Quarterly Report on Form 10-Q for the Quarterly Period Ended June 30, 1997, Commission File No. 1-11156.
(11) Incorporated by reference to exhibits to the Quarterly Report on Form 10-Q for the Quarterly Period Ended September 30, 1997, Commission File No. 1-11156
(12) Incorporated by reference to exhibits to the Quarterly Report on Form 10-Q for the Quarterly Period Ended June 30, 1998, Commission File No. 1-11156.
(13) Incorporated by reference to exhibits to the Annual Report on Form 10-K for the Fiscal Year Ended December 31, 1997, of NGC Corporation, Commission File No. 1-11156.
(14) Incorporated by reference to exhibits to the Quarterly Report on Form 10-Q for the Quarterly Period ended September 30, 1998, Commission File No. 1-11156.
(15) Incorporated by reference to exhibits to the Current Report on Form 8-K of Dynegy Inc. dated June 14, 1999.
(16) Incorporated by reference to exhibits to the Annual Report in Form 10-K of the Fiscal Year Ended December 31, 1998, of Dynegy Inc., Commission File No. 1-11156.
(17) Incorporated by reference to exhibits to the Quarterly Report on Form 10-Q for the Quarterly Period Ended June 30, 1999, Commission File No. 1-11156.
(18) Incorporated by reference to exhibits to Amendment No. 1 to the Registration Statement on Form S-4 of Energy Convergence Holding Company filed with the Securities and Exchange Commission on September 7,1999.
(19) Incorporated by reference to exhibits to Registration Statement on Form 8-A of Dynegy Inc.

(b) Reports on Form 8-K of Dynegy Inc..

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dynegy Inc.

Date: February 24, 2000	By: /s/ C. L. Watson C. L. Watson, Chairman of the Board, Chief Executive Officer and Director

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Date: February 24, 2000	By: /s/ C. L. Watson C. L. Watson, Chairman of the Board, Chief Executive Officer and Director (Principal Executive Officer)
Date: February 24, 2000	By: /s/ John U. Clarke John U. Clarke, Executive Vice President, Chief Financial Officer (Principal Financial Officer) and Advisory Director
Date: February 24, 2000	By: /s/ Bradley P. Farnsworth Bradley P. Farnsworth, Senior Vice President and Controller (Principal Accounting Officer)
Date: February 24, 2000	By: /s/ Stephen W. Bergstrom Stephen W. Bergstrom, President and Chief Operating Officer of Dynegy Inc. and Director
Date: February 24, 2000	By: /s/ Charles E. Bayless Charles E. Bayless, Director
Date: February 24, 2000	By: /s/ J. Joe Adorjan J. Joe Adorjan, Director
Date: February 24, 2000	By: /s/ Joe J. Stewart Joe J. Stewart, Director

Date: February 24, 2000	By:	/s/ Darald W. Callahan Darald W. Callahan, Director
Date: February 24, 2000	By:	/s/ Patricia A. Woertz Patricia A. Woertz, Director
Date: February 24, 2000	By:	/s/ R.H. Matzke R.H. Matzke, Director
Date: February 24, 2000	By:	/s/ John D. Zeglis John D. Zeglis, Director
Date: February 24, 2000	By:	/s/ Daniel L. Dienstbier Daniel L. Dienstbier, Director
Date: February 24, 2000	By:	/s/ J. Otis Winters J. Otis Winters, Director

DYNEGY INC.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors and Stockholders of Dynegy Inc.:

We have audited the accompanying consolidated balance sheets of Dynegy Inc. (an Illinois corporation) and subsidiaries as of December 31, 1999 and 1998, and the related consolidated statements of operations, changes in stockholders' equity and cash flows for each of the three years in the period ended December 31, 1999. These financial statements and the schedule referred to below are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Dynegy Inc. and subsidiaries as of December 31, 1999 and 1998, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1999, in conformity with accounting principles generally accepted in the United States.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The information included in Schedule I is presented for the purposes of complying with the Securities and Exchange Commission's rules and is not a required part of the basic financial statements. This schedule has been subjected to the auditing procedures applied in our audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

ARTHUR ANDERSEN LLP

Houston, Texas
February 28, 2000

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

	December 31, 1999	December 31, 1998
ASSETS		
Current Assets		
Cash and cash equivalents	$ 45,230	$ 28,367
Accounts receivable, net	1,992,450	1,563,558
Accounts receivable, affiliates	48,966	60,180
Inventories	271,884	149,901
Assets from risk-management activities	379,833	219,105
Prepayments and other assets	66,717	96,130
	2,805,080	2,117,241
Property, Plant and Equipment	2,575,100	2,446,878
Less: accumulated depreciation	(557,219)	(514,771)
	2,017,881	1,932,107
Other Assets		
Investments in unconsolidated affiliates	627,335	502,613
Assets from risk-management activities	452,913	135,100
Other assets	621,962	577,176
	$ 6,525,171	$ 5,264,237
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts payable	$ 1,667,199	$ 1,370,902
Accounts payable, affiliates	161,500	113,827
Accrued liabilities and other	184,013	155,227
Liabilities from risk-management activities	334,080	251,213
Notes payable and current portion of long-term debt	191,731	135,154
	2,538,523	2,026,323
Long-Term Debt	1,299,333	953,001
Other Liabilities		
Non-Recourse Debt	34,593	93,889
Liabilities from risk-management activities	321,252	40,747
Deferred income taxes	335,190	317,537
Other long-term liabilities	486,798	504,677
	5,015,689	3,936,174
Company Obligated Preferred Securities of Subsidiary Trust	200,000	200,000
Commitments and Contingencies (Note 9)		
Stockholders' Equity		
Preferred stock, $.01 par value, 50,000,000 shares authorized; 8,000,000 shares designated as Series A Participating Preferred Stock, 7,815,363 shares issued and outstanding at December 31, 1999 and 1998, respectively	75,418	75,418
Common stock, $.01 par value, 400,000,000 shares authorized; 157,499,001 shares issued at December 31, 1999 and 153,298,220 shares issued at December 31, 1998	1,575	1,533
Additional paid-in capital	973,000	935,183
Retained earnings	277,074	133,340
Less: treasury stock, at cost: 1,200,700 shares at December 31, 1999 and 1,200,700 shares at December 31, 1998	(17,585)	(17,411)
	1,309,482	1,128,063
	$ 6,525,171	$ 5,264,237

See Notes to Consolidated Financial Statements.

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

	Year Ended December 31,		
	1999	1998	1997
Revenues	$ 15,429,976	$ 14,257,997	$ 13,378,380
Cost of sales	14,886,101	13,829,310	12,993,086
Operating margin	543,875	428,687	385,294
Depreciation and amortization	129,458	113,202	104,391
Impairment, abandonment and other charges	---	9,644	275,000
General and administrative expenses	200,717	185,708	149,344
Operating income (loss)	213,700	120,133	(143,441)
Equity in earnings of unconsolidated affiliates	79,854	91,038	58,959
Other income	73,287	46,821	28,113
Interest expense	(78,164)	(74,992)	(63,455)
Other expenses	(45,519)	(7,677)	(20,230)
Minority interest in income of a subsidiary	(16,632)	(16,632)	(9,841)
Income (loss) before income taxes	226,526	158,691	(149,895)
Income tax provision (benefit)	74,677	50,338	(62,210)
Net income (loss) from continuing operations before cumulative effect of accounting change	151,849	108,353	(87,685)
Cumulative effect of change in accounting principle (net of income tax benefit of $7,913)	---	---	(14,800)
NET INCOME (LOSS)	$ 151,849	$ 108,353	$ (102,485)
Net Income Per Share:			
Net income (loss) from continuing operations	$ 151,849	$ 108,353	$ (87,685)
Cumulative effect of change in accounting principle (net of income tax benefit of $7,913)	---	---	(14,800)
Less: preferred stock dividends	(391)	(391)	(391)
Net income (loss) applicable to common stockholders	$ 151,458	$ 107,962	$ (102,876)
Basic earnings (loss) per share	$ 0.98	$ 0.71	$ (0.68)
Diluted earnings per share	$ 0.91	$ 0.66	$ n/a
Basic shares outstanding	154,198	151,619	150,653
Diluted shares outstanding	166,975	164,605	167,009

See Notes to Consolidated Financial Statements.

DYNEGY INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Year Ended December 31, 1999	1998	1997
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income (loss)	$ 151,849	$ 108,353	$ (102,485)
Items not affecting cash flows from operating activities:			
Depreciation, amortization, impairment and abandonment	108,325	102,577	378,916
Equity in earnings of affiliates, net of cash distributions	(13,754)	(6,477)	(4,073)
Risk management activities	(115,138)	(7,422)	(8,757)
Deferred income taxes	63,167	52,308	(86,424)
Amortization of bond premium	---	(2,572)	(6,768)
Other, including gains on sale of assets	(33,972)	(22,540)	1,249
Change in assets and liabilities resulting from operating activities:			
Accounts receivable	(463,479)	51,046	(35,845)
Inventories	(106,201)	(17,380)	86,077
Prepayments and other assets	53,761	(30,605)	(20,686)
Accounts payable	348,077	44,113	(22,601)
Accrued liabilities	37,001	(27,699)	14,064
Other, net	(20,797)	7,078	85,922
Net cash provided by operating activities	8,839	250,780	278,589
CASH FLOWS FROM INVESTING ACTIVITIES			
Capital expenditures	(364,559)	(298,738)	(220,003)
Investment in unconsolidated affiliates	(83,963)	(78,096)	(27,708)
Business acquisitions, net of cash acquired	---	(2,644)	(715,589)
Proceeds from asset sales	80,594	45,044	452,565
Other, net	49,264	39,352	---
Net cash used in investing activities	(318,664)	(295,082)	(510,735)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from long-term borrowings	397,488	212,259	2,218,500
Repayments of long-term borrowings	(43,849)	(493,277)	(2,198,275)
Net cash flow from commercial paper and money market lines of credit	(42,161)	350,758	---
Proceeds from sale of capital stock, options and warrants	21,855	3,863	5,147
Issuance of company obligated preferred securities of a subsidiary trust, net	---	---	198,043
Treasury stock acquisitions	(174)	(6,905)	(10,506)
Dividends and other distributions, net	(8,115)	(7,988)	(7,925)
Other, net	1,644	(9,088)	---
Net cash provided by financing activities	326,688	49,622	204,984
Net increase (decrease) in cash and cash equivalents	16,863	5,320	(27,162)
Cash and cash equivalents, beginning of year	28,367	23,047	50,209
Cash and cash equivalents, end of year	$ 45,230	$ 28,367	$ 23,047

See Notes to Consolidated Financial Statements.

DYNEGY INC.
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(in thousands)

	Series A Preferred		Common Stock		Additional Paid-In	Retained	Treasury Stock	
	Shares	Amount	Shares	Amount	Capital	Earnings	Shares	Amount
Balance at December 31, 1996	7,815	$ 75,418	149,847	$ 1,498	$ 896,432	$ 143,385	---	$ ---
Net loss	---	---	---	---	---	(102,485)	---	---
Options exercised	---	---	1,541	15	11,577	---	---	---
Dividends and other Distributions	---	---	---	---	---	(7,925)	---	---
401(k) plan and profit sharing stock issuances	---	---	385	5	7,401	---		
Options granted	---	---	---	---	4,044	---	---	---
Treasury stock acquisitions	---	---	---	---	---	---	(655)	(10,506)
Other	---	---	24	---	266	---	---	---
Balance at December 31, 1997	7,815	75,418	151,797	1,518	919,720	32,975	(655)	(10,506)
Net income	---	---	---	---	---	108,353	---	---
Options exercised	---	---	1,032	10	3,808	---	---	---
Dividends and other Distributions	---	---	---	---	---	(7,988)	---	---
401(k) plan and profit sharing stock issuances	---	---	457	5	6,822	---	---	---
Options granted	---	---	---	---	4,675	---	---	---
Treasury stock acquisitions	---	---	---	---	---	---	(546)	(6,905)
Other	---	---	12	---	158	---	---	---
Balance at December 31, 1998	7,815	75,418	153,298	1,533	935,183	133,340	(1,201)	(17,411)
Net income	---	---	---	---	---	151,849	---	---
Options exercised	---	---	3,523	35	21,992	---	---	---
Dividends and other Distributions	---	---	---	---	---	(8,115)	---	---
401(k) plan and profit sharing stock issuances	---	---	670	7	9,869	---	---	---
Options granted	---	---	---	---	6,028	---	---	---
Treasury stock acquisitions	---	---	---	---	---	---		(174)
Other	---	---	8	---	(72)	---	---	---
Balance at December 31, 1999	7,815	$ 75,418	157,499	$ 1,575	$ 973,000	$ 277,074	(1,201)	$ (17,585)

See Notes to Consolidated Financial Statements.

DYNEGY INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 -- ACCOUNTING POLICIES

Dynegy Inc. ("Dynegy" or the "Company") is a holding company that conducts substantially all of its business through its subsidiaries. The Company is a leading provider of energy products and services in North America, the United Kingdom and continental Europe. Products marketed by the Company's wholesale marketing operations include natural gas, electricity, coal, emissions, natural gas liquids, crude oil, liquid petroleum gas and related services. The Company's wholesale marketing operations are supported by ownership or control of an extensive asset base and transportation network that includes unregulated power generation, gas and liquids storage capacity, gas, power and liquids transportation capacity and gas gathering, processing and fractionation assets.

The Company is a holding company that conducts substantially all of its business through its subsidiaries. From inception of operations in 1984 until 1990, Natural Gas Clearinghouse ("Clearinghouse") limited its activities primarily to natural gas marketing. Starting in 1990, Clearinghouse expanded its core business operations through acquisitions and strategic alliances resulting in the formation of a midstream energy asset business and establishing energy marketing operations in both Canada and the United Kingdom. The Company initiated electric power marketing operations in February 1994. Effective March 1, 1995, Clearinghouse and Trident NGL Holding, Inc. ("Holding"), a fully integrated natural gas liquids company, merged ("Trident Combination") and the combined entity was renamed NGC Corporation ("NGC"). On August 31, 1996, NGC completed a strategic combination with Chevron U.S.A. Inc. and certain Chevron affiliates (collectively "Chevron") whereby substantially all of Chevron's midstream assets merged with NGC ("Chevron Combination"). Effective July 1, 1997, NGC acquired Destec Energy, Inc. ("Destec Acquisition"), a leading independent power producer. During 1998, the Company changed its name to Dynegy Inc. On June 14, 1999, Dynegy and Illinova Corp. ("Illinova") announced the execution of definitive agreements for the merger of Illinova and Dynegy. The Illinova acquisition was closed on February 1, 2000 (see Note 17). Concurrent with the closing, Dynegy Inc. changed its name to Dynegy Holding, Inc. and Illinova was renamed Dynegy Inc.

The accounting policies of Dynegy conform to generally accepted accounting principles. The more significant of such accounting policies are described below. The preparation of the consolidated financial statements in conformity with generally accepted accounting principles requires management to develop estimates and make assumptions that affect reported financial position and results of operations and that impact the nature and extent of disclosure, if any, of contingent assets and liabilities. Actual results could differ from those estimates.

Principles of Consolidation. The accompanying consolidated financial statements include the accounts of the Company and its majority-owned subsidiaries after elimination of intercompany accounts and transactions. Investments in affiliates in which the Company has a significant ownership interest, generally 20 percent to 50 percent, are accounted for by the equity method. Other investments are carried at cost. Certain reclassifications have been made to prior-period amounts to conform with current-period financial statement classifications.

Cash and Cash Equivalents. Cash and cash equivalents consist of all demand deposits and funds invested in short-term investments with original maturities of three months or less. At December 31, 1999, approximately $7 million of cash and cash equivalents was restricted.

Concentration of Credit Risk. Dynegy provides multiple energy commodity solutions principally to customers in the electric and gas distribution industries and to entities engaged in industrial and petrochemical businesses. These industry concentrations have the potential to impact the Company's overall exposure to credit risk, either positively or negatively, in that the customer base may be similarly affected by changes in economic, industry or other conditions. Receivables are generally not collateralized; however, Dynegy believes the credit risk posed by industry concentration is offset by the diversification and creditworthiness of the Company's customer base.

Inventories. Inventories consisting primarily of natural gas in storage of $165.1 million and $78.2 million, natural gas liquids of $66.2 million and $23.4 million, and crude oil of $10.7 million and $25.2 million at December 31, 1999 and 1998, respectively, are valued at the lower of weighted average cost or at market. Materials and supplies inventory of $29.9 million and $23.1 million at December 31, 1999 and 1998, respectively, is carried at the lower of cost or market using the specific-identification method.

Property, Plant and Equipment. Property, plant and equipment consisting principally of gas gathering, processing, fractionation, terminaling and storage facilities, natural gas transmission lines, pipelines, power generating facilities and supporting infrastructure is recorded at cost. Expenditures for major replacements and renewals are capitalized while expenditures for maintenance, repairs and minor renewals to maintain facilities in operating condition are expensed. Depreciation is provided using the straight-line method over the estimated economic service lives of the assets, ranging from three to 30 years. Composite depreciation rates are applied to functional groups of property having similar economic characteristics. Gains and losses are not recognized for retirements of property, plant and equipment subject to composite depreciation rates ("composite rate") until the asset group subject to the composite rate is retired. The Company reviews the carrying value of its long-lived assets in accordance with provisions of Financial Accounting Standard No. 121, "Accounting for the Impairment of Long-Lived Assets."

Environmental Costs and Other Contingencies. Environmental costs relating to current operations are expensed or capitalized, as appropriate, depending on whether such costs provide future economic benefit. Liabilities are recorded when environmental assessment indicates that remedial efforts are probable and the costs can be reasonably estimated. Measurement of liabilities is based on currently enacted laws and regulations, existing technology and site-specific costs. Such liabilities may be recognized on a discounted basis if the amount and timing of anticipated expenditures for a site are fixed or reliably determinable; otherwise, such liabilities are recognized on an undiscounted basis. Environmental liabilities in connection with assets that are sold or closed are realized upon such sale or closure, to the extent they are probable, can be estimated and have not previously been reserved. In assessing environmental liabilities, no offset is made for potential insurance recoveries. Recognition of any joint and several liability is based upon the Company's best estimate of its final pro rata share of such liability.

Liabilities for other contingencies are recognized upon identification of an exposure, which when fully analyzed indicates that it is both probable that an asset has been impaired or that a liability has been incurred and that such loss amount can be reasonably estimated. Costs to remedy such contingencies or other exposures are charged to a reserve, if one exists, or otherwise to current operations.

Goodwill and Other Intangible Assets. Intangible assets, principally goodwill, are generally amortized by the straight-line method over an estimated useful life of up to 30 years. At December 31, 1999 and 1998, unamortized goodwill was classified as an other long-term asset aggregating \$364.7 million and \$392.3 million, respectively.

Revenue Recognition. Revenues for product sales and gas processing and marketing services are recognized when title passes to the customer or when the service is performed. Fractionation and transportation revenues are recognized based on volumes received in accordance with contractual terms. Revenues derived from power generation are recognized upon output, product delivery or satisfaction of specific targets, all as specified by contractual terms. Fees derived from engineering and construction contracts and development and other activities received from joint ventures in which Dynegy holds an equity interest are deferred to the extent of Dynegy's ownership interest and amortized on a straight-line basis over appropriate periods, which vary according to the nature of the service provided and the ventures' operations.

Substantially all of the operations of the Company's world-wide gas marketing, power marketing, and crude marketing operations are accounted for under a mark-to-market accounting methodology. Under mark-to-market accounting, fixed-price forwards, swaps, options, futures and other financial instruments with third parties are reflected at fair market value, net of reserves, with resulting unrealized gains and losses recorded as assets and liabilities from risk management activities in the consolidated balance sheets. The accrual method of accounting is used for accounting for NGL marketing activities.

The Company routinely enters into financial instrument contracts to hedge purchase and sale commitments, fuel requirements and inventories in its natural gas liquids, crude oil, electricity and coal businesses in order to minimize the risk of market fluctuations. Dynegy also monitors its exposure to fluctuations in interest rates and foreign currency exchange rates and may execute swaps, forward-exchange contracts or other financial instruments to manage these exposures. Financial instruments that are utilized in the Company's trading operations are considered to be trading and accounted for accordingly. Gains and losses from hedging transactions are recognized in income and are reflected as cash flows from operating activities in the periods for which the underlying commodity, interest rate or foreign currency transaction was hedged. If the necessary correlation to the commodity, interest rate or foreign currency transaction being hedged ceases to exist, the Company ceases to account for the contract as a hedge and recognizes a gain or loss to the extent the contract results have not been offset by the effects of price or interest rate changes on the hedged item since inception of the hedge. If the underlying being hedged by the commodity, interest rate or foreign currency transaction is disposed of or otherwise terminated, the gain or loss associated with such contract(s) is no longer deferred and is recognized in the period the underlying is eliminated.

Income Taxes. The Company files a consolidated United States federal income tax return and, for financial reporting purposes, provides income taxes for the difference in the tax and financial reporting bases of its assets and liabilities in accordance with Statement of Financial Accounting Standards ("SFAS") No. 109, "Accounting for Income Taxes."

Earnings Per Share. Basic earnings per share represents the amount of earnings for the period available to each share of common stock outstanding during the period. Diluted earnings per share represents the amount of earnings for the period available to each share of common stock outstanding during the period plus each share that would have been outstanding assuming the issuance of common shares for all dilutive potential common shares outstanding during the period. Differences between basic and diluted shares outstanding in all periods are attributed to the Series A Preferred Stock, options outstanding and a warrant.

Foreign Currency Translations. For subsidiaries whose functional currency is other than U.S. dollar, assets and liabilities are translated at year-end rates of exchange and revenues and expenses are translated at average exchange rates prevailing during the year. For each of the three years in the period ended December 31, 1999, items of other comprehensive income were immaterial to the Company's operating results.

Note 2 -- RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

Dynegy's operating results are impacted by commodity price, interest rate and foreign exchange rate fluctuations. The Company routinely enters into financial instrument contracts to hedge purchase and sale commitments, fuel requirements and inventories in its natural gas, natural gas liquids, crude oil, electricity and coal businesses in order to minimize the risk of market fluctuations. However, as a result of marketplace liquidity and other factors, the Company may, at times, be unable to hedge certain identified market risks. Further, the Company may, at times, have a bias in the market, within established guidelines, resulting from the management of its commodity portfolios. Dynegy also monitors its exposure to fluctuations in interest rates and foreign currency exchange rates and may execute swaps, forward-exchange contracts or other financial instruments to manage these exposures.

The Energy Convergence segment includes the integrated component businesses: wholesale gas marketing, wholesale power marketing and power generation. Operating margins earned by wholesale gas and power marketing, exclusive of risk-management activities, are relatively insensitive to commodity price fluctuations since most of the purchase and sales contracts do not contain fixed-price provisions. Generally, prices contained in these contracts are tied to a current spot or index price and, therefore, adjust directionally with changes in overall market conditions. However, market price fluctuations for natural gas and electricity can have a significant impact on the operating margin derived from risk-management activities in these businesses. Dynegy generally attempts to balance its fixed-price physical and financial purchase and sales commitments in terms of contract volumes, and the timing of performance and delivery obligations. To the extent a net open position exists, fluctuating commodity market prices can impact Dynegy's financial position or results of operations, either favorably or unfavorably. The net open positions are actively managed, and the impact of changing prices on the Company's financial condition at a point in time is not necessarily indicative of the impact of price movements throughout the year. Historically, fuel costs, principally natural gas, represented the primary variable cost impacting the financial performance of the Company's investment in power generating facilities. Operating margins at these facilities were relatively insensitive to commodity price fluctuations since most purchase and sales contracts contained variable power sales contract features tied to a current spot or index natural gas price, allowing revenues to adjust directionally with changes in natural gas prices. However, the Company's investment strategy, which emphasizes growth of merchant generation capacity, is altering the makeup of its generation asset portfolio. The growth of merchant generation capacity as a percentage of total available capacity increases the Company's exposure to commodity price risk. The financial performance and cash flow derived from merchant generation capacity is impacted, either favorably or unfavorably, by changes in and the relationship between natural gas and electricity prices.

Operating margins associated with the Midstream segment's natural gas gathering, processing and fractionation activities are very sensitive to changes in natural gas liquids prices, principally as a result of contractual terms under which natural gas is processed and products are sold by these businesses and the availability of inlet volumes. In addition, certain of the Midstream Businesses' processing plant assets are impacted by changes in, and the relationship between, natural gas and natural gas liquids prices which, in turn influences the volumes of gas processed. Commodity price fluctuations also impact the operating margins derived from the Midstream segment's natural gas liquids and crude oil marketing businesses.

Dynegy's commercial groups manage, on a portfolio basis, the market risks inherent in their transactions, subject to parameters established by the Dynegy Board of Directors. Market risks are monitored by a risk control group that operates independently from the commercial units that create or actively manage these risk exposures to ensure compliance with Dynegy's risk management policies. Risk measurement is also practiced against the Dynegy portfolios with stress testing and scenario analysis.

Accounting for Risk Management Activities. Effective with the adoption of Emerging Issues Task Force Issue No. 98-10, "Accounting for Energy Trading and Risk Management Activities" ("EITF 98-10") on January 1, 1999, substantially all of the operations of the Company's world-wide gas marketing, power marketing, and crude marketing operations are accounted for under a mark-to-market accounting methodology. Under mark-to-market accounting, fixed-price forwards, swaps, options, futures and other financial instruments with third parties are reflected at fair market value, net of reserves, with resulting unrealized gains and losses recorded as assets and liabilities from risk management activities in the consolidated balance sheets. These assets and liabilities are affected by the actual timing of settlements related to these contracts and current-period changes resulting primarily from newly originated transactions and the impact of price movements. These changes are recognized as revenues in the consolidated statements of operations in the period in which the change occurs. Market prices used to value outstanding financial instruments reflect management's consideration of, among other things, closing exchange and over-the-counter quotations, the time value of money and volatility factors underlying the commitments. In certain of these markets, long-term contract commitments may extend beyond the period in which market quotations for such contracts are available. The lack of long-term pricing liquidity requires the use of mathematical models to value these commitments under the accounting method employed. These mathematical models utilize historical market data to forecast future elongated pricing curves, which are used to value the commitments that reside outside of the liquid market quotations. Realized cash returns on these commitments may vary, either positively or negatively, from the results estimated through application of forecasted pricing curves generated through application of the mathematical model. Dynegy believes that its mathematical models utilize state-of-the-art technology, pertinent industry data and prudent discounting in order to forecast certain elongated pricing curves. These market prices are adjusted to reflect the potential impact of liquidating Dynegy's position in an orderly manner over a reasonable period of time under present market conditions.

Quantitative and Qualitative Market Risk Disclosures. Dynegy measures entity-wide market risk in its financial trading and risk-management portfolios using value at risk. The quantification of market risk using value at risk provides a consistent measure of risk across diverse energy markets and products with different risk factors in order to set the overall corporate risk tolerance, to determine risk targets, and to set position limits. The use of this methodology requires a number of key assumptions including the selection of a confidence level and the holding period to liquidation. Dynegy relies on value at risk to determine the maximum potential reduction in the trading portfolio value allowed within a given probability over a defined period. Because of limitations to value at risk, Dynegy uses other means to monitor market risk in the trading portfolios. In addition to value at risk, Dynegy performs regular stress and scenario analysis to measure extreme losses due to exceptional events. The value at risk and stress testing results are reviewed to determine the maximum allowable reduction in the total equity of the commodity portfolios. Additional measures are used to determine the treatment of risks outside the value at risk methodologies, such as market volatility, liquidity, event and correlation risk.

Credit and Market Reserves. In connection with the market valuation of its energy commodity contracts, the Company maintains certain reserves for a number of risks associated with these future commitments. Among others, these include reserves for credit risks based on the financial condition of counterparties, reserves for product location ("basis") differentials and consideration of the time value of money for long-term contracts. Counterparties in its trading portfolio consist principally of financial institutions, major energy companies and local distribution companies. The creditworthiness of these counterparties may impact overall exposure to credit risk, either positively or negatively; however, with regard to its counterparties Dynegy maintains credit policies that management believes minimize overall credit risk. Determination of the credit quality of its counterparties is based upon a number of factors, including credit ratings, financial condition, project economics and collateral requirements. When applicable, the Company employs standardized agreements that allow for the netting of positive and negative exposures associated with a single counterparty. Based on these policies, its current exposures and its credit reserves, Dynegy does not anticipate a material adverse effect on its financial position or results of operations as a result of counterparty nonperformance. The following table displays the mark-to-market portfolio value of Dynegy's energy commodity risk management transactions at December 31, 1999:

	Investment Grade Credit Quality	Below Investment Grade Credit Quality	Total
		($ in thousands)	
Utilities and power generators	$ 112,383	$ (2,033)	$ 110,350
Financial institutions	37,173	---	37,173
Oil and gas producers	21,594	5,142	26,736
Industrial companies	2,167	5,849	8,016
Other	419	16	435
Value of fixed-price transactions before reserves	$ 173,736	$ 8,974	182,710
Reserves			(38,177)
Net fixed-price value			$ 144,533

At December 31, 1999, the term of Dynegy's risk management portfolio extends to 2007 and the average remaining life of an individual transaction was 3 months.

Comprehensive Change in Accounting Principles. Effective January 1, 1999, the Company adopted the provisions of EITF 98-10 pursuant to the implementation requirements stated therein. The effect of adoption of the provisions of EITF 98-10 was to alter the Company's comprehensive method of accounting for energy-related contracts, as defined in that statement, resulting in changes to the accounting for certain commodity activity principally in the gas marketing operations in the United Kingdom and power and crude oil trading operations world-wide. The cumulative effect of this change in accounting principle was not material to the estimated annual 1999 results of operations. The pro forma effect on prior periods of the adoption of the provisions of EITF 98-10 was not determinable.

The Company continues to analyze the effects of adoption of the rules promulgated by Financial Accounting Standard No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("Statement No. 133"). Provisions in Statement No. 133 will affect the accounting and disclosure of contractual arrangements and operations of the Company. The Financial Accounting Standards Board recently deferred implementation of the provisions of Statement No. 133 to fiscal periods beginning after June 15, 2000. Dynegy intends to adopt the provisions of Statement No. 133 within the timeframe and in accordance with the requirements provided by that statement.

Fair Value of Financial Instruments. The following disclosure of the estimated fair value of financial instruments is made in accordance with the requirements of SFAS No. 107, "Disclosures About Fair Value of Financial Instruments." The estimated fair-value amounts have been determined by the Company using available market information and selected valuation methodologies. Considerable judgment is required in interpreting market data to develop the estimates of fair value. The use of different market assumptions or valuation methodologies could have a material effect on the estimated fair-value amounts.

The carrying values of current assets and liabilities approximate fair values due to the short-term maturities of these instruments. The carrying amounts and fair values of the Company's other financial instruments were:

	December 31,			
	1999		1998	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	($ in thousands)			
Commercial Paper	$ 456,482	$ 456,482	$ 518,643	$ 518,643
Money market lines of credit	40,000	40,000	20,000	20,000
Canadian Credit Agreement	40,000	40,000	40,000	40,000
6.75% Senior Notes, due 2005	150,000	145,000	150,000	152,000
7.625% Senior Debentures, due 2026	175,000	163,000	175,000	179,000
7.125% Senior Debentures, due 2018	175,000	157,000	175,000	172,000
6.875% Senior Notes, due 2002	200,000	197,000	---	---
7.45% Senior Notes, due 2006	200,000	196,000	---	---
Non-Recourse Debt	89,175	89,175	103,126	103,126
Preferred Securities of a Subsidiary Trust	200,000	191,000	200,000	204,000
Interest rate risk-management contracts	---	(2,761)	---	(8,474)
Foreign currency risk-management contracts	2,685	2,545	4,418	5,491
Commodity risk-management contracts	97,185	94,406	(29,222)	(30,977)

The financial statement carrying amounts of the Company's credit agreement, variable-rate debt and power generation notes were assumed to approximate fair value. The fair values of the Company's other long-term indebtedness, including the Preferred Securities of a Subsidiary Trust , were based on quoted market prices by financial institutions that actively trade these debt securities. The fair value of the Company's cost basis investments was not estimated as the investments were considered immaterial. The fair value of interest rate, foreign currency and commodity risk-management contracts were based upon the estimated consideration that would be received to terminate those contracts in a gain position and the estimated cost that would be incurred to terminate those contracts in a loss position. The interest rate swap contracts, foreign currency forward exchange contracts and commodity swap and option agreements extend for periods of up to 11, 3 and 8 years, respectively. The absolute notional contract amounts associated with the commodity risk-management, interest rate and forward exchange contracts, respectively, were as follows:

	December 31,		
	1999	1998	1997
Natural Gas (Trillion Cubic Feet)	5.702	4.179	2.558
Electricity (Million Megawatt Hours)	42.949	1.835	2.244
Natural Gas Liquids (Million Barrels)	19.902	6.397	4.355
Crude Oil (Million Barrels)	35.554	18.800	14.920
Interest Rate Swaps (in thousands of US Dollars)	$ 36,524	$ 69,332	$ 180,000
Fixed Interest Rate Paid on Swaps (Percent)	8.210	8.067	6.603
U.K. Pound Sterling (in thousands of US Dollars)	$ 85,812	$ 69,254	$ 74,638
Average U.K. Pound Sterling Contract Rate (in US Dollars)	$ 1.6191	$ 1.6143	$ 1.5948
Canadian Dollar (in thousands of US Dollars)	$ 288,898	$ 268,307	$ 37,041
Average Canadian Dollar Contract Rate (in US Dollars)	$ 0.6775	$ 0.6710	$ 0.7240

Cash-flow requirements for these commodity risk-management, interest rate and foreign exchange contracts were estimated based upon market prices in effect at December 31, 1999. Cash-flow requirements were as follows:

	2000	2001	2002	2003	2004	Beyond
			($ in thousands)			
Future estimated net inflows (outflows) based on year end market prices/rates	$ 33,893	$ 13,735	$ 13,958	$ 13,711	$ 12,447	$ 6,446

Note 3 -- CASH FLOW INFORMATION

Detail of supplemental disclosures of cash flow and non-cash investing and financing information was:

	Year Ended December 31,		
	1999	1998	1997
		($ in thousands)	
Interest paid (net of amount capitalized)	$ 80,393	$ 83,376	$ 60,323
Taxes paid (net of refunds)	$ 1,927	$ (8,000)	$ 8,043
Detail of businesses acquired:			
Current assets and other	$ ---	$ 5,144	$ 547,505
Fair value of non-current assets	---	101,630	503,789
Liabilities assumed, including deferred taxes	---	(104,130)	(268,092)
Capital stock issued and options exercised	---	---	---
Cash balance acquired	---	---	(67,613)
Cash paid, net of cash acquired	$ ---	$ 2,644	$ 715,589

Note 4 -- PROPERTY, PLANT AND EQUIPMENT

Investments in property, plant and equipment consisted of:

	December 31,	
	1999	1998
	($ in thousands)	
Energy Convergence Segment and Other	$ 638,181	$ 407,945
Midstream Segment:		
Natural gas processing	1,210,713	1,241,658
Fractionation	176,961	185,198
Liquids marketing	141,397	139,328
Natural gas gathering and transmission	353,966	429,631
Crude oil	53,882	43,118
	2,575,100	2,446,878
Less: accumulated depreciation	(557,219)	(514,771)
	$ 2,017,881	$ 1,932,107

Interest capitalized related to costs of projects in process of development totaled $16.7 million, $7.6 million and $8.8 million for each of the three years in the period ended December 31, 1999.

In the second quarter of 1998 and the fourth quarter of 1999, the Company purchased the outstanding partnership interests held by third parties in three separate limited partnerships, each formed for the purpose of owning and operating a discrete power generation facility in the State of California. As of the effective date of each transaction, the Company began consolidating the aggregate assets, liabilities and results of operations associated with these projects. In January 2000, these partnership interests were sold as a condition precedent to the Illinova acquisition.

Note 5 -- UNCONSOLIDATED AFFILIATES

The equity method of accounting is used for investments in certain partnerships and for investments in companies in which Dynegy has a voting interest between 20 percent and 50 percent. Such investments include:

Accord Energy Limited ("Accord"). Accord was formed in 1994 to market energy resources in the United Kingdom and Europe. Prior to 1997, Dynegy owned a 49 percent limited partner interest in Accord. In January 1997, such interest was converted to a 25 percent participating preferred stock interest.

NICOR Energy, L.L.C. ("NICOR"). NICOR is a retail energy alliance formed with NICOR Energy Management Services, a subsidiary of NICOR Inc., to provide energy services to industrial, commercial and residential customers in the Midwest. Dynegy owns a 50 percent interest in this Delaware limited liability company. At December 31, 1999, the unamortized excess of the Company's investment in this joint venture over its equity in the underlying net assets of the affiliate approximated $2 million.

SouthStar Energy Services L.L.C. ("SouthStar"). SouthStar is a retail energy alliance formed with AGL Resources Inc. and Piedmont Natural Gas Company. The company offers a combination of unregulated energy products and services to industrial, commercial and residential customers in the Southeast. Dynegy owns a 20 percent interest in this Delaware limited liability company.

Power Generation Partnerships. Dynegy owns interests in fourteen joint ventures, each formed to build, own and operate cogeneration facilities. The Company's interests in these joint ventures range from eight to 50 percent. Each partnership interest is accounted for under the equity method. Construction of the cogeneration facilities owned by each of the joint ventures was project financed and the obligations of the joint ventures are non-recourse to the Company. At December 31, 1999, the unamortized excess of the Company's investment in these joint ventures over its equity in the underlying net assets of the affiliates approximated $155 million. This amount is being amortized on the straight-line method over the estimated economic service lives of the underlying assets. In January 2000, seven of these partnership interests were sold as a condition precedent to the Illinova acquisition.

Quicktrade L.L.C. ("Quicktrade"). Quicktrade, a Delaware limited liability company, was formed to develop, implement and operate an electronic trading system. Dynegy owned a 65.5 percent interest in this LLC during 1998 and the LLC was consolidated in the accompanying financial statements during 1998. During 1996 and 1997, the Company owned varying interests in Quicktrade and accounted for its interest under the equity method for the majority of those years. Effective January 1, 1999, the Company sold its interest in Quicktrade.

Gulf Coast Fractionators ("GCF"). GCF is a Texas limited partnership that owns and operates a natural gas liquids fractionation facility located in Mont Belvieu, Texas. Dynegy owns a 38.75 percent limited partner interest in GCF. At December 31, 1999, the unamortized excess of the Company's investment in GCF over its equity in the underlying net assets of the affiliate approximated $15 million. This amount is being amortized on the straight-line method over the estimated economic service life of the GCF assets.

West Texas LPG Pipeline Partnership ("West Texas Partnership"). The West Texas Partnership, a Texas limited partnership, holds all of the assets comprising the West Texas Pipeline, an interstate natural gas liquids pipeline. Dynegy acquired a 49 percent interest in the West Texas Partnership as part of the Chevron Combination. Effective May 1, 1999, Dynegy's interest in the West Texas Partnership was reduced to 39.2 percent, upon admittance of Mid-America Pipeline Company ("MAPL"), a subsidiary of Williams into the partnership. At December 31, 1999, the unamortized excess of the Company's investment in the West Texas Partnership over its equity in the underlying net assets of the affiliate approximated $25 million. This amount is being amortized on the straight-line method over the estimated economic service life of the underlying assets.

Venice Energy Services Company, L.L.C. ("VESCO"). VESCO is a Delaware limited liability company that owns and operates a natural gas processing, extraction, fractionation and storage facility located in Plaquemines Parish, Louisiana. Dynegy is operator of the facility and originally acquired a 37 percent interest in Venice Gas Processing Company ("Venice") effective November 1, 1996. In 1997, Venice reorganized as a limited liability company and, in September 1997, the VESCO members agreed to expand ownership in VESCO to include an affiliate of Shell Midstream Enterprises, a subsidiary of Shell Oil Company ("Shell"), effective September 1, 1997, in exchange for Shell's commitment of certain offshore reserves to VESCO. The transaction reduced Dynegy's interest in VESCO from 37 percent to approximately 32 percent, as of the effective date. Koch Energy Services Company ("Koch") acquired an interest in VESCO during 1998 pursuant to its contribution of a cryogenic gas-processing unit to VESCO. The transaction reduced Dynegy's interest in VESCO to approximately 23 percent. Dynegy operates the facility and has commercial responsibility for product distribution and sales. At December 31, 1999, the unamortized excess of the Company's investment in this joint venture over its equity in the underlying net assets of the affiliate approximated $10 million.

Waskom Gas Processing Company ("Waskom"). Waskom is a Texas general partnership that owns and operates a natural gas processing, extraction and fractionation facility located in Henderson County, Texas. Dynegy owns a 33.33 percent in Waskom. Dynegy operates the facility and has commercial responsibility for product distribution and sales.

Barge Co. Barge Co., a Delaware limited liability company, owns pressurized LPG barges used in transporting LPGs principally in the Gulf of Mexico. Dynegy owns a 25 percent interest in Barge Co. At December 31, 1999, the unamortized excess of the Company's investment in Barge Co. over its equity in the underlying net assets of the affiliate approximated $9 million. This amount is being amortized on the straight-line method over the estimated economic service lives of the underlying assets.

Aggregate equity method investment at December 31, 1999, 1998 and 1997, was $618.6 million, $498.5 million and $466.4 million, respectively. Dividends received on these investments during each of the three years in the period ended December 31, 1999, totaled $66.1 million, $85 million and $54.9 million, respectively. Summarized aggregate financial information for these investments and Dynegy's equity share thereof was:

	December 31,					
	1999		1998		1997	
	Total	Equity Share	Total	Equity Share	Total	Equity Share
	($ in thousands)					
Current assets (1)(2)	$ 317,731	$ 110,094	$ 324,462	$ 131,169	$ 283,787	$ 112,895
Non-current assets (1)(2)	1,973,318	786,636	1,983,731	803,333	1,830,106	736,667
Current liabilities (1)(2)	296,009	98,179	292,481	124,016	202,754	86,476
Non-current liabilities (1)(2)	1,050,740	420,842	1,160,639	485,673	1,249,874	521,691
Operating margin (1)(2)(3)	366,675	135,352	397,391	159,288	209,877	86,154
Net income (1)(2)(3)	134,836	55,376	157,054	68,706	83,601	33,799

(1) The financial data for all periods presented is exclusive of amounts attributable to the Company's investment in Accord as disclosure data was unavailable for these periods. Dynegy's share of Accord earnings for each of the three years in the period ended December 31, 1999, totaled $21.0 million, $21.8 million and $25.9 million, respectively.

(2) The financial data for all periods presented is exclusive of amounts attributable to the Company's investment in NCL (see Note 11) as such information was not comparable period-to-period, as a result of the NCL restructuring. Dynegy sold its interest in NCL effective April 1, 1997. Dynegy's share of NCL's loss for the three months ended March 31, 1997, totaled $892,000.

(3) Equity earnings derived from investments acquired in the Destec acquisition accrue to Dynegy commencing July 1, 1997.

The cost method of accounting is generally used to account for investment in partnerships or companies in which Dynegy has a voting interest of less than 20 percent. At December 31, 1999, the Company had five cost basis investments: Indeck North American Power Fund, L.P., Indeck North American Power Partners, L.P. (collectively "Indeck"), Altra Energy Technologies, Inc., Canadian Midstream Services, Ltd. and Compton Petroleum Corporation. Indeck is engaged in the acquisition and operation of electric power generating facilities. Altra provides business-to-business e-commerce products and services to the energy market. Canadian Midstream is a private company that acquires businesses engaged in gas processing and associated gas gathering systems. Compton Petroleum is located in Canada and is an independent exploration and production company. Dynegy's aggregate investment in these entities totaled $8.7 million and $4.1 million at December 31, 1999 and 1998, respectively, and Dynegy received an aggregate $0.4 million, $0.5 million and $0.5 million of dividends from Indeck during each of the three years in the period ended December 31, 1999. The Indeck investments totalling $4.2 million were sold in February 2000.

Note 6 -- DEBT

Debt consisted of:

	December 31,	
	1999	1998
	($ in thousands)	
Commercial Paper	$ 456,482	$ 518,643
Money market lines of credit	40,000	20,000
Canadian Credit Agreement	40,000	40,000
6.75% Senior Notes, due 2005	150,000	150,000
7.625% Senior Debentures, due 2026	175,000	175,000
7.125% Senior Debentures, due 2018	175,000	175,000
6.875% Senior Notes, due 2002	200,000	---
7.45% Senior Notes, due 2006	200,000	---
Non-Recourse Debt	89,175	103,126
Other, non-interest bearing	---	275
	1,525,657	1,182,044
Less: long-term debt due within one year	191,731	135,154
	$ 1,333,926	$ 1,046,890

Commercial Paper and Money Market Lines of Credit. The Company utilizes commercial paper proceeds and borrowings under uncommitted money market lines of credit for general corporate purposes, including short-term working capital requirements. The commercial paper program is for amounts up to $800 million, as supported by existing credit agreements. Weighted average interest rates on amounts outstanding under the commercial paper program were 6.2 percent, and 6.1 percent at December 31, 1999 and 1998, respectively. Amounts outstanding under the uncommitted money market lines of credit bore interest at an average rate of 6.1 percent at December 31, 1999. The Company classifies outstanding commercial paper and borrowings under money market lines of credit as long-term debt to the extent of availability under existing committed credit facilities, as management's intent is to maintain these obligations for longer than one year, subject to an overall reduction in corporate debt levels.

Credit Agreements. In May 1998, Dynegy refinanced its then existing revolving credit agreement with a $400 million, five-year revolving credit agreement that matures May 27, 2003, and a $400 million, 364-day revolving credit agreement originally maturing in May 1999 and renewed through May 2000 (the "Credit Agreements"). The Credit Agreements provide funding for letters of credit, working capital, capital expenditures and general corporate purposes, including commercial paper support. The Credit Agreements also require payment of various costs and fees, including an annual fee of 0.10 percent of the committed amount under the Credit Agreements. Generally, borrowings under the Credit Agreements bear interest at a Eurodollar rate plus a margin that is determined based on the Company's unsecured senior debt rating. At December 31, 1999, such margin was 0.30 percent. Financial covenants in the Credit Agreements are limited to a debt to capitalization test. Letters of credit under the Credit Agreements aggregated approximately $36.1 million at December 31, 1999.

After consideration of the outstanding commercial paper, the unused borrowing capacity under the Credit Agreements approximated $267.4 million at December 31, 1999.

Canadian Credit Agreement. In November 1998, an indirect wholly owned Canadian subsidiary of the Company entered into a $60 million, two-year revolving credit facility, which matures on November 24, 2000 (the "Canadian Credit Agreement"). This agreement provides funding for general corporate purposes. The Canadian Credit Agreement requires payment of various costs and fees, including an annual fee of 0.25 percent of the committed amount under the agreement. Generally, borrowings under this agreement bear interest at a Eurodollar rate plus a margin that is determined based on the Company's unsecured senior debt rating. At December 31, 1999, such margin was 0.40 percent. The Canadian subsidiary's obligations under the Canadian Credit Agreement are fully and unconditionally guaranteed by the Company. At December 31, 1999, outstanding amounts under the facility totaled $40.0 million, at an average interest rate of 6.66 percent.

6.875% Senior Notes Due 2002. In July 1999, Dynegy sold $200 million of 6.875 percent Senior Notes due July 15, 2002. These notes were issued at a price of 99.890 percent, which after deducting underwriting discounts and commissions, resulted in net proceeds to the Company of approximately $199 million. The net proceeds from the sale were used to repay a portion of the outstanding indebtedness under the commercial paper program. Interest on these notes is payable semiannually on January 15 and July 15 of each year. The notes are redeemable only at maturity. At issuance, the notes were priced based on the then existing yield for 3-year U.S. Treasury Notes plus a spread based principally on the Company's credit rating.

6.75% Senior Notes Due 2005. In December 1995, Dynegy sold $150 million of 6.75 percent Senior Notes due December 15, 2005. These notes were issued at a price of 99.984 percent, which, after deducting underwriting discounts and commissions, resulted in net proceeds to the Company of approximately $149 million. Proceeds from the sale were used to repay a portion of the outstanding indebtedness under the then existing revolving credit agreement. Interest on the notes is payable semiannually on June 15 and December 15 of each year. At issuance, the notes were priced based on the then existing yield for 10-year U.S. Treasury Notes ("10-Year Base Treasury Rate") plus a spread based principally on the Company's credit rating. Prior to issuing these notes, the Company entered into two separate transactions with two separate financial institutions, the effect of which was to lock in the 10-Year Base Treasury Rate at approximately 6.2 percent on the full $150 million face value of this issuance.

7.45% Senior Notes Due 2006. In July 1999, Dynegy sold $200 million of 7.45 percent Senior Notes due July 15, 2006. These notes were issued at a price of 99.929 percent, which after deducting underwriting discounts and commissions, resulted in net proceeds to the Company of approximately $198.6 million. The net proceeds from the sale were used to repay a portion of outstanding indebtedness under the commercial paper program. Interest on the notes is payable semiannually on January 15 and July 15 of each year. These notes are redeemable, at the option of the Company, in whole or in part from time to time, at a formula based redemption price as defined in the associated indenture. At issuance, these notes were priced based on a benchmark Treasury of similar terms plus a spread principally based on the Company's credit rating.

7.625% Senior Debentures Due 2026. In October 1996, Dynegy sold $175 million of 7.625 percent Senior Debentures due October 15, 2026. These debentures were issued at a price of 99.522 percent, which, after deducting underwriting discounts and commissions, resulted in net proceeds to the Company of approximately $173 million. The net proceeds were used to repay a portion of the outstanding indebtedness under the then existing revolving credit agreement. Interest on the debentures is payable semiannually on April 15 and October 15 of each year. These debentures are redeemable, at the option of the Company, in whole or in part from time to time, at a formula based redemption price as defined in the associated indenture. At issuance, the debentures were priced based on the then existing yield for 30-year U.S. Treasury Notes ("30-Year Base Treasury Rate") plus a spread based principally on the Company's credit rating. Prior to issuing the debentures, the Company entered into a transaction, the effect of which was to lock in the 30-Year Base Treasury Rate at approximately 7.0 percent on $150 million of the $175 million face value of this issuance.

7.125% Senior Debentures Due 2018. In May 1998, Dynegy sold $175 million of 7.125 percent Senior Debentures due May 15, 2018. These debentures were issued at a price of 99.654 percent, which, after deducting underwriting discounts and commissions, resulted in net proceeds of approximately $173 million. Proceeds from the sale were used to retire short-term debt incurred in connection with the redemption of certain high-cost debt acquired in an acquisition. Interest on the debentures is payable semiannually on May 15 and November 15 of each year. These debentures are redeemable, at the option of the Company, in whole or in part from time to time, at a formula based redemption price as defined in the associated indenture. At issuance, the debentures were priced based on the then existing 30-Year Base Treasury Rate plus a spread based principally on the Company's credit rating. Prior to issuing these debentures, the Company entered into a series of transactions, the effect of which was to lock in the 30-Year Base Treasury Rate at approximately 6.0 percent on $148 million of the $175 million face value of this issuance.

Non-Recourse Debt. Included in the December 31, 1999 consolidated long-term debt balance was $89.2 million representing the aggregate principal balance outstanding under three separate notes. These notes are project specific debt with recourse only to three identified power generation projects. Each of the three notes represents a fifteen-year term loan obligation payable in semi-annual installments of principal plus accrued interest. Each note bears interest at a base rate plus a margin, as defined in each agreement. Interest rate swaps effectively fix the base rate on $63.3 million of the indebtedness at a weighted average rate of 8.085 percent. These notes are related to the Qualifying Facilities that were sold in February 2000.

Aggregate maturities of all long-term indebtedness are: 2000 - $191.7 million; 2001 - $2.6 million; 2002 – $202.6 million; 2003 – $402.1 million; 2004 – $3.0 million; 2005 and beyond - $723.7 million.

Note 7 -- INCOME TAXES

The Company is subject to U.S. federal, foreign and state income taxes on its operations. Components of income tax expense (benefit) were:

	Year Ended December 31,		
	1999	1998	1997
		($ in thousands)	
Current tax expense (benefit):			
Domestic	$ ---	$ (608)	$ 13,230
Foreign	11,510	(1,362)	3,071
Deferred tax expense (benefit):			
Domestic	56,558	44,565	(81,306)
Foreign	6,609	7,743	2,795
Income tax provision (benefit)	$ 74,677	$ 50,338	$ (62,210)

Components of income (loss) before income taxes were as follows:

	Year Ended December 31,		
	1999	1998	1997
		($ in thousands)	
Income (loss) before income taxes:			
Domestic	$ 165,606	$ 133,867	$ (180,127)
Foreign	60,920	24,824	30,232
	$ 226,526	$ 158,691	$ (149,895)

Deferred income taxes are provided for the temporary differences between the tax basis of Dynegy's assets and liabilities and their reported financial statement amounts. Significant components of deferred tax liabilities and assets were:

	December 31, 1999	December 31, 1998
	($ in thousands)	
Deferred tax assets:		
Loss carryforward	$ 149,321	$ 132,445
Tax credits	11,893	10,798
	161,214	143,243
Valuation allowance	---	---
	161,214	143,243
Deferred tax liabilities:		
Items associated with capitalized costs	496,404	460,780
Net deferred tax liability	$ 335,190	$ 317,537

Realization of the aggregate deferred tax asset is dependent on the Company's ability to generate taxable earnings in the future. There was no valuation allowance established at December 31, 1999 or 1998, as management believes the aggregate deferred asset is more likely than not to be fully realized in the future.

Income tax provision (benefit) for the years ended December 31, 1999, 1998 and 1997, was equivalent to effective rates of 33 percent, 32 percent and (41) percent, respectively. Differences between taxes computed at the U.S. federal statutory rate and the Company's reported income tax provision (benefit) were:

	Year Ended December 31, 1999	1998	1997
		($ in thousands)	
Expected tax at U.S. statutory rate	$ 79,284	$ 55,444	$ (52,463)
State taxes	3,285	2,564	(3,676)
Foreign tax benefit	(3,203)	(2,300)	(5,415)
Basis differentials and other	(4,689)	(5,370)	(656)
Income tax provision (benefit)	$ 74,677	$ 50,338	$ (62,210)

At December 31, 1999, the Company had approximately $404 million of regular tax net operating loss carryforwards. The net operating loss carryforwards expire from 2006 through 2019. Certain provisions of the Internal Revenue Code place an annual limitation on the Company's ability to utilize tax carryforwards existing as of the date of a 1995 business acquisition. Management believes such carryforwards will be fully realized prior to expiration.

Note 8 -- COMPANY OBLIGATED PREFERRED SECURITIES OF A SUBSIDIARY TRUST

In May 1997, NGC Corporation Capital Trust I ("Trust") issued, in a private transaction, $200 million aggregate liquidation amount of 8.316% Subordinated Capital Income Securities ("Trust Securities") representing preferred undivided beneficial interests in the assets of the Trust. The Trust invested the proceeds from the issuance of the Trust Securities in an equivalent amount of 8.316% Subordinated Debentures ("Subordinated Debentures") of the Company. The sole assets of the Trust are the Subordinated Debentures. The Trust Securities are subject to mandatory redemption in whole but not in part on June 1, 2027, upon payment of the Subordinated Debentures at maturity, or in whole but not in part at any time, contemporaneously with the optional prepayment of the Subordinated Debentures, as allowed by the associated indenture. The Subordinated Debentures are redeemable, at the option of the Company, in whole at any time or in part from time to time, at formula-based redemption prices, as defined in the indenture. The Subordinated Debentures represent unsecured obligations of the Company and rank subordinate and junior in right of payment to all Senior Indebtedness to the extent and in the manner set forth in the associated indenture. The Company has irrevocably and unconditionally guaranteed, on a subordinated basis, payment for the benefit of the holders of the Trust Securities the obligations of the Trust to the extent the Trust has funds legally available for distribution to the holders of the Trust Securities, as described in the indenture ("Guarantee"). Distributions on the Trust Securities are payable each June 1 and December 1, coinciding with the interest payment due dates on the Subordinated Debentures, and are classified in the accompanying Statement of Operations as "minority interest in income of a subsidiary." The periodic distributions accruing at an annual rate of 8.316 percent of the aggregate liquidation amount are recorded as minority interest in income of a subsidiary in the Company's consolidated statement of operations. So long as no Debenture Event of Default, as defined, has occurred and continues, the Company has the right to defer the payment of interest on the Subordinated Debentures for any Extension Period elected by the Company, which period cannot extend beyond 10 consecutive semi-annual periods, end on a date other than an Interest Payment Date or extend beyond the Stated Maturity Date. The Trust has executed an exchange offer through which all of the outstanding Trust Securities were exchanged by the holders thereof for registered securities having substantially the same rights and obligations.

Note 9 -- COMMITMENTS AND CONTINGENCIES

Litigation. Through its acquisition of Destec Energy Inc., Dynegy became a party to certain litigation with Pacific Gas and Electric Company ("PG&E") and with the Southern California Gas Company ("SOCAL"). These cases represent pre-acquisition contingencies acquired by the Company and settlement thereof did not have a material adverse effect on the Company's results of operations or financial position. The following describes resolution of these two cases.

In April 1997, PG&E had filed a lawsuit in the Superior Court of the State of California, City and County of San Francisco, against Destec Energy, Inc., Destec Holdings, Inc. and Destec Operating Company (wholly-owned subsidiaries of the Company now known respectively as Dynegy Power Corp., Dynegy Power Holdings, Inc. and Dynegy Operating Company) as well as against San Joaquin CoGen Limited ("San Joaquin") and its general partners (collectively the "Dynegy Defendants"). In the lawsuit, PG&E asserted claims and alleged unspecified damages for fraud, negligent misrepresentation, unfair business practices, breach of contract and breach of the implied covenant of good faith and fair dealing. Subsequent to the acquisition of Destec Energy Inc. by Dynegy, Dynegy and PG&E engaged in settlement discussions, which resulted in the execution of a Termination and Settlement Agreement between PG&E and the Dynegy Defendants on March 9, 1999 (the "PG&E Settlement Agreement"). The PG&E Settlement Agreement provided for, upon the receipt of CPUC approval, a dismissal with prejudice of PG&E's claims against the Dynegy Defendants, a release by PG&E of all claims relative to FERC matters and a termination of the San Joaquin power purchase agreement as of December 31, 1999, whereupon the San Joaquin facility would continue to operate as a merchant plant. Upon termination of the power purchase agreement, Dynegy would repay project debt of approximately $26 million. By Order dated October 7, 1999, the CPUC approved the PG&E Settlement Agreement. The CPUC approval became final on November 8, 1999.

Pursuant to its lawsuit against Dynegy, PG&E had named Libbey-Owens-Ford ("LOF"), San Joaquin's steam host, as an additional defendant in the action in October 1997. It is alleged that San Joaquin was liable to PG&E under the Gas Transportation Agreement or Power Purchase Agreement due to LOF's failure to use sufficient quantities of steam as required to retain its status as a qualifying facility under federal standards. The Dynegy Defendants will seek to recover from LOF losses resulting from the settlement with PG&E.

In March 1995, SOCAL had filed a lawsuit in the Superior Court of the State of California for the County of Los Angeles, against Destec Energy, Inc., Destec Holdings and Destec Gas Services, Inc. (now known respectively as Dynegy Power Corp., Dynegy Holdings, Inc. and Dynegy Gas Services, Inc.), wholly-owned direct and indirect subsidiaries of the Company (collectively, the "Defendants"), as well as against Chalk Cliff Limited and McKittrick Limited (collectively, the "Partnerships"). All general partners of the Partnerships are also named defendants. The lawsuit alleged breach of contract against the Partnerships and their respective general partners, and interference and conspiracy to interfere with contracts against the Defendants. The breach of contract claims arose out of the "transport-or-pay" provisions of the gas transportation service agreements between the Partnerships and SOCAL. SOCAL sought damages from the Partnerships for past damages and anticipatory breach damages in an amount equal to approximately $31 million. Subsequent to the acquisition of Destec Energy Inc.by Dynegy, Dynegy and SOCAL engaged in settlement discussions, which resulted in the execution of a Settlement Agreement between SOCAL and all defendants in the pending litigation on August 25, 1999, (the "SOCAL Settlement Agreement"). The SOCAL Settlement Agreement was appproved by the CPUC and is final. The Settlement Agreement provided for the dismissal of the pending litigation, the termination of underlying gas transmission service contracts, and Dynegy's payment of settlement consideration approximating $31 million. The pending appeals were dismissed and the litigation and the associated foreclosure proceedings have therefore come to an end.

On August 3, 1998, Modesto Irrigation District ("MID") filed a lawsuit against PG&E and Destec in federal court for the Northern District of California, San Francisco division. The lawsuit alleges violation of federal and state antitrust laws and breach of contract against Destec. The allegations are related to a power sale and purchase arrangement in the city of Pittsburg, CA. MID seeks actual damages from PG&E and Destec in amounts not less than $25 million. MID also seeks a trebling of any portion of damages related to its antitrust claims. By order dated February 2, 1999, the federal District Court dismissed MID's state and federal antitrust claims against PG&E and Destec; however, the Court granted MID leave of thirty days to amend its complaint to state an antitrust cause of action. On March 3, 1999, MID filed an amended complaint recasting its federal and state antitrust claims against PG&E and Destec and restating its breach of contract claim against Destec. PG&E and Destec have filed motions to dismiss MID's revised federal and state antitrust claims. The hearing on the motions to dismiss was held in July 1999. On August 20, 1999, the District Court again dismissed MID's antitrust claims against PG&E and Destec, this time without leave to amend the complaint. As a result of the dismissal of the antitrust claims, the District Court also dismissed the pendant state law claims. MID has appealed the District Court's dismissal of its suit to the Ninth Circuit Court of Appeal. Following dismissal of its federal court suit, MID filed suit in California state court asserting its breach of contract claims against Destec and its tortious interference with contract claims against PG&E. Motions to dismiss MID's state court claims are pending and scheduled for hearing in first quarter 2000. Dynegy believes the allegations made by MID are meritless and will continue to vigorously defend MID's claims. In the opinion of management, the amount of ultimate liability with respect to these actions will not have a material adverse effect on the financial position or results of operations of the Company.

On July 30, 1999, The Dow Chemical Company ("Dow") filed a lawsuit in the United States District Court for the District of Delaware against Dynegy Power Corporation ("DPC"), a wholly-owned subsidiary of the Company. Dow sought contribution from DPC in connection with claims against Dow asserted by The AES Corporation ("AES") in a lawsuit filed on November 30, 1998 in the United States District Court for the Southern District of Texas. AES asserts various federal and Texas securities laws claims, and Texas claims for fraud and civil conspiracy, arising out of AES' September 1997 purchase of stock of Destec Engineering, a subsidiary of DPC (at that time Destec Power Corp). Specifically, AES alleges that Destec Power made certain misrepresentations about the expected profits that Destec Engineering would earn in connection with the construction of the Elsta power plant in The Netherlands, and the anticipated completion date of the Elsta plant. AES alleges that Dow is liable because it "controlled" or had the power to control the management of Destec Power. AES's original complaint did not assert any claims against Destec Power or any other Dynegy entity. Dow is vigorously defending against AES' claims. In response to a motion to transfer filed by Dow, the United States District Court for the Southern District of Texas transferred the suit to the United States District Court for Delaware. Following transfer of the litigation, AES added DPC as a defendant, asserting claims similar to the claims asserted against Dow. Dow subsequently dismissed the suit against DPC without prejudice. AES and DPC have reached a settlement of AES's claims against DPC. The settlement is currently before the District Court for approval. If approved by the District Court, the settlement will result in the dismissal of AES's suit against DPC with prejudice. In the opinion of management, the ultimate resolution of this lawsuit will not have a material adverse effect on the Company's financial position.

Complaint Against Illinois Power Company. On November 3, 1999, the U.S. Environmental Protection Agency ("EPA") issued a Notice of Violation ("NOV") against Illinois Power Company ("Illinois Power") and, with the Department of Justice ("DOJ"), filed a Complaint against Illinois Power in the U.S. District Court for the Southern District of Illinois, No. 99C833. Similar notices and lawsuits have been filed against a number of other utilities. Both the NOV and Complaint allege violations of the Clean Air Act and regulations thereunder. More specifically, both allege, based on the same events, that certain equipment repairs, replacements and maintenance activities at Illinois

Power's three Baldwin Station generating units constituted "major modifications" under either or both the Prevention of Significant Deterioration and the New Source Performance Standards regulations. When non-exempt "major modifications" occur, the Clean Air Act and related regulations generally require that generating facilities meet more stringent emissions standards. The DOJ amended its complaint to assert the claims found in the NOV. Illinois Power is filing responsive pleadings in the first quarter 2000.

The regulations under the Clean Air Act provide certain exemptions to the definition of "major modifications," particularly an exemption for routine repair, replacement or maintenance. The Company has analyzed each of the activities covered by the EPA's allegations and believes each activity represents prudent practice regularly performed throughout the utility industry as necessary to maintain the operational efficiency and safety of equipment. As such, the Company believes that each of these activities is covered by the exemption for routine repair, replacement and maintenance and that the EPA is changing, or attempting to change through enforcement actions, the intent and meaning of its regulations.

The Company also believes that, even if some of the activities in question were found not to qualify for the routine exemption, there were no increases either in annual emissions or in the maximum hourly emissions achievable at any of the units caused by any of the activities. The regulations provide an exemption for increased hours of operation or production rate and for increases in emissions resulting from demand growth.

Although none of Illinois Power's other facilities are covered in the Complaint and NOV, the EPA has officially requested information concerning activities at Illinois Power's Vermilion, Wood River and Hennepin Plants. It is possible that the EPA will eventually commence enforcement actions against those plants as well.

The EPA has the authority to seek penalties for the alleged violations in question at the rate of up to $27,500 per day for each violation. The EPA also will be seeking installation of "best available control technology" ("BACT") (or equivalent) at the Baldwin Station and possibly at the other three plants as well.

The Company believes that the EPA's and DOJ's claims are without merit, and that the ultimate resolution of this lawsuit will not have a material adverse effect on the Company's financial position or results of operations.

The Company assumed liability for various claims and litigation in connection with the Illinova acquisition, Chevron Combination, the Trident Combination, the Destec acquisition and in connection with the acquisition of certain gas processing and gathering facilities from Mesa Operating Limited Partnership. The Company believes, based on its review of these matters and consultation with outside legal counsel, that the ultimate resolution of such items will not have a material adverse effect on the Company's financial position or results of operations. Further, the Company is subject to various legal proceedings and claims, which arise in the normal course of business. In the opinion of management, the amount of ultimate liability with respect to these actions will not have a material adverse effect on the financial position or results of operations of the Company.

Commitments. In conducting its operations, the Company routinely enters into long-term commodity purchase and sale commitments, as well as agreements that commit future cash flow to the lease or acquisition of assets used in its businesses. These commitments are typically associated with capital projects, reservation charges associated with firm transmission, transportation and storage capacity, lease agreements for ship charters and other distribution assets and leases for office space, equipment and other similar items. The following describes the more significant commitments outstanding at December 31, 1999.

The Company is engaged in a continuous capital asset expansion program consistent with its business plan and energy convergence strategies. The emphasis of this capital asset program is on the acquisition or construction of strategically located power generation assets. Consistent with this strategy and as a result of the long lead time required by industry manufacturers, a subsidiary of the Company has executed or is currently negotiating purchase orders to acquire in excess of forty state-of-the-art gas-fired turbines, representing a capital commitment of approximately $1.3 billion. Delivery of the manufactured turbines will occur ratably through 2003. Commitments under these purchase orders are generally payable consistent with the delivery schedule. The purchase orders include milestone requirements by the manufacturer and provide Dynegy with the ability to cancel each discrete purchase order commitment in exchange for a fee, which escalates over time. The capital asset program is subject to periodic review and revision, and the actual number of projects and aggregate cost for such projects will be dependent on various factors including available capital resources, market conditions, legislative actions, load growth, changes in materials, supplies and labor costs and the identification of partners in order to spread investment risk.

The Company routinely enters into supply and market contracts for the purchase and sale of electricity, some of which contain fixed capacity payments. Obligations under these supply contracts, which are not already fair valued on the balance sheet at December 31, 1999, totaled $212 million on a discounted basis. Such obligations are generally payable on a ratable basis, the term of which extends through 2011. In return for such fixed capacity payments, Dynegy receives volumes of electricity at agreed prices, which it then may re-market. Based on year-end estimates, the market value of electricity available for sale under these contracts exceeds the cost of such electricity, which amount includes the fixed capacity payments disclosed herein.

In October 1999, the Company announced that it had achieved all of the necessary approvals to begin construction on its Heard County Power Project, a 500-megawatt natural gas-fired, simple-cycle peaking facility located in Franklin in Heard County, Georgia. A Dynegy subsidiary will design and construct the generating facility, as agent for a third party, and Dynegy is obligated to guarantee approximately 90 percent of the actual cost of the project during the construction phase. It is anticipated that Dynegy will subsequently lease the completed facility from that third party for an initial term of five years. Under certain circumstances, the Company maintains an option to purchase the facility from the third party and it may participate in the outright sale of the asset.

A wholly owned subsidiary of the Company leases a power-generating asset under an agreement that is classified as an operating lease. This agreement has aggregate future minimum lease payments of approximately $7.1 million at December 31, 1999.

In 1997, Dynegy received cash from a gas purchaser as an advance payment for future natural gas deliveries over a ten-year period ("Advance Agreement"). As a condition of the Advance Agreement, Dynegy entered into a natural gas swap with a third party under which Dynegy became a fixed-price payor on identical volumes to those to be delivered under the Advance Agreement at prices based on then current market rates. The cash payment was classified as an advance on the balance sheet and is ratably reduced as gas is delivered to the purchaser under the terms of the Advance Agreement. In addition, the purchaser pays a monthly fee to Dynegy associated with delivered volumes. The Advance Agreement contains certain non-performance penalties that impact both parties and as a condition precedent, Dynegy purchased a surety bond in support of its obligations under the Advance Agreement.

Minimum commitments in connection with office space, equipment, reservation charges under purchase and firm transportation contracts, power generating and other leased assets were: 2000 - $71.6 million; 2001 - $47.0 million; 2002 - $26.9 million; 2003 - $13.3 million; and 2004 and beyond - $100.6 million. Rental payments made under the terms of these arrangements totaled - $ 69.0 million in 1999, $126.1 million in 1998 and $85.2 million in 1997.

Note 10 -- CAPITAL STOCK

At December 31, 1999, the Company had authorized capital stock consisting of 450,000,000 shares, of which 50,000,000 shares, par value $0.01 per share, are designated preferred stock and 400,000,000 shares, par value $0.01 per share, are designated common stock.

On the effective date of the Illinova acquisition, Dynegy had authorized capital as follows:

- 300,000,000 shares of Class A common stock, no par value;
- 120,000,000 shares of Class B common stock, no par value;
- 70,000,000 shares of preferred stock, no par value.

Preferred Stock. The Company's preferred stock may be issued from time to time in one or more series, the shares of each series to have such designations and powers, preferences, rights, qualifications, limitations and restrictions thereof as described in the Company's Certificate of Incorporation.

In order to provide for issuance of preferred shares pursuant to the terms of the Chevron Combination, 8,000,000 shares of preferred stock were designated during 1996 as Dynegy Series A Participating Preferred Stock ("Series A Preferred"), of which 7,815,363 shares were issued effective September 1, 1996. These shares remained outstanding at December 31, 1999. As part of the Illinova acquisition, these shares were converted to shares of Class B common stock of Dynegy on a 0.69-for-one exchange ratio.

Pursuant to the terms of the Illinova acquisition, Dynegy established a series of preferred stock, designated as Series A Convertible Preferred Stock, which was issued to British Gas Atlantic and NOVA Corporation in accordance with the exchange ratios provided in the merger documents. On the effective date of the merger, BG and NOVA held an aggregate 6.7 million shares of this Series A Convertible Preferred Stock. Holders of this Series A preferred stock are entitled to receive dividends or distributions totaling $3.00 per share annually if and when declared by the Board of Directors of the Company out of funds legally available therefor. Dividends on the preferred shares are cumulative from the date of issuance and are payable quarterly on the last day of March, June, September and December. This Series A Convertible Preferred Stock carries certain priority, liquidation, redemption, conversion and voting rights not available to the common shareholders.

Common Stock. At December 31, 1999, there were 157,499,001 shares of common stock issued and 1,200,700 shares were held in treasury. During 1999, Dynegy paid quarterly cash dividends on its common stock of $0.0125 per share, or $0.05 per share on an annual basis.

Pursuant to the terms of the Illinova acquisition, Dynegy split its common shares into two classes, Class A and Class B. Generally, holders of Class A and Class B common stock are entitled to one vote per share on all matters to be voted upon by the shareholders. Holders of Class A common stock may cumulate votes in connection with the election of directors. The election of directors and all other matters will be by a majority of shares represented and entitled to vote, except as otherwise provided by law. Holders of Class B common stock vote together with holders of Class A common stock as a single class on every matter acted upon by the shareholders except for the following matters:

- the holders of Class B common stock vote as a separate class for the election of three directors of Dynegy Inc., while the holders of Class A common stock vote as a separate class for the remaining directors;
- any amendment to the special corporate governance rights of Class B common stock, must be approved by a majority of the directors elected by holders of Class B common stock attending a meeting where such amendment is considered and a majority of all Dynegy directors or by a 66 2/3 percent of the outstanding shares of Class B common stock voting as a separate class, and the affirmative vote of a majority of the shares of Class A and Class B common stock, voting together as a single class; and
- any amendment to the provision of the articles of incorporation addressing the voting rights of holders of Class A and Class B common stock requires the approval of 66 2/3 percent of the outstanding shares of Class B common stock voting as a separate class, and the affirmative vote of a majority of the shares of Class A and Class B common stock, voting together as a single class.

Subject to the preferences of the preferred stock, holders of Class A and Class B common stock have equal ratable rights to dividends out of funds legally available for that purpose, when and if dividends are declared by the board of directors. Holders of Class A common stock and Class B common stock are entitled to share ratably, as a single class, in all of the assets of Dynegy available for distribution to holders of shares of common stock upon the liquidation, dissolution or winding up of the affairs of Dynegy, after payment of Dynegy's liabilities and any amounts to holders of preferred stock.

A share of Class B common stock automatically converts into a share of Class A common stock upon the transfer to any person other than an affiliate of Chevron. Additionally, each share of Class B common stock automatically converts into a share of Class A common stock if the holders of all Class B common stock cease to own collectively 15 percent of the outstanding common stock of Dynegy. Conversely, any shares of Class A common stock acquired by Chevron or its affiliates will automatically convert into shares of Class B common stock, so long as Chevron and its affiliates continue to own 15 percent or more of the outstanding voting power of Dynegy.

Holders of Class A and Class B common stock generally are not entitled to preemptive rights, subscription rights, or redemption rights, except that, Chevron, who holds all of the shares of Class B common stock, is entitled to certain preemptive rights under the shareholders agreement. The rights and preferences of holders of Class A common stock are subject to the rights of any series of preferred stock Dynegy may issue.

Beginning in 2000, Holders of Class A and Class B common stock will be entitled to a $0.60 per share dividend if, when and as declared by the Board of Directors of the Company out of funds legally available therefor.

The Company has a stock repurchase program, approved by the Board of Directors, that allows it to repurchase, from time to time, up to 1.6 million shares of common stock (1.1 million shares as adjusted for the Illinova acquisition exchange ratio) in open market transactions. At December 31, 1999, approximately 399,000 shares (276,000 shares as adjusted for the Illinova acquisition exchange ratio) remained available for repurchase under this program.

Stock Warrants. At December 31, 1999, the Company had warrants outstanding that entitle the holder thereof to purchase an aggregate 6,228 shares of common stock at an exercise price of $8.13 per share. The warrants expire in October 2003. Such share and per share value amounts are before application of the exchange ratio pursuant to the Illinova acquisition.

Stock Options. Each option granted is valued at an option price, which ranges from $2.03 per share to the fair market value per share at date of grant. The difference between the option price and the fair market value, if any, of each option on the date of grant is recorded as compensation expense over a vesting period. Options granted at prices below fair market do not become exercisable until the fifth anniversary date of the grant, at which time they become fully exercisable. Options granted at market value vest and become exercisable ratably over a three-year period. The average exercise price of vested options at December 31, 1999 was $8.39. Compensation expense related to options granted totaled $6.0 million, $4.7 million and $4.0 million for the years ended December 31, 1999, 1998 and 1997, respectively. At December 31, 1999, employee stock options aggregating 7.2 million shares were exercisable at prices ranging from $2.03 to $21.63 per share. The Company adopted a new employee stock option plan subsequent to year-end which authorized the issuance of no more than five million common shares. Total options authorized and non-distributed Stock option transactions for 1999, 1998 and 1997 were (shares in thousands) as follows:

	Year Ended December 31,					
	1999		1998		1997	
	Shares	Option Price	Shares	Option Price	Shares	Option Price
Outstanding at beginning of period	18,679	$ 2.03 - 21.63	14,015	$ 2.03 - 21.63	13,920	$ 2.03 - 18.75
Grante d	3,046	2.03 - 22.94	7,319	2.03 - 17.50	2,284	2.03 - 21.63
Exercised	(3,375)	2.03 - 18.88	(995)	2.03 - 9.38	(1,469)	2.03 - 9.38
Canceled or expired	(893)	2.03 - 19.00	(1,568)	2.03 - 19.00	(629)	2.03 - 18.75
Other, contingent share i	(50)	2.03 - 5.66	(92)	2.03 - 5.66	(91)	2.03 - 5.66
Outstanding at end of period	17,407	$ 2.03 - 22.94	18,679	$ 2.03 - 21.63	14,015	$ 2.03 - 21.63
Exercisable at end of period	7,234	$ 2.03 - 21.63	4,394	$ 2.03 - 21.63	2,861	$ 2.03 - 18.75
Weighted average fair value of Options granted during the period At market		$ 10.71		$ 5.77		$ 11.14
Weighted average fair value of Options granted during the period At below market		$ 13.32		$ 7.35		$ 14.63

Pursuant to terms of the Illinova acquisition, certain vesting requirements on outstanding options were accelerated and the option shares and strike prices were subject to the exchange ratios described in the merger documents. Additionally, Dynegy instituted new option plans on the effective date of the merger. At the effective date of the merger, the following shares were exercisable at the designated prices pursuant to Dynegy's option plans.

Exercisable at effective date	8,341	$ 2.94 - 31.35

The fair value of each option grant was estimated on the date of grant using the Black-Scholes option-pricing model, with the following weighted-average assumptions used for grants in 1999, 1998 and 1997: dividends per year of $0.05 per annum for all years; expected volatility of 40.3 percent, 40.1 percent and 42.0 percent, respectively; risk-free interest rate of 6.42 percent, 6.28 percent and 6.28 percent, respectively; and an expected life of 10 years for all periods. The Company accounts for its stock option plan in accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees". Had compensation cost been determined consistent with SFAS No. 123, "Accounting for Stock-Based Compensation" ("SFAS No. 123"), the Company's net income (loss) and per share amounts would have approximated the following pro forma amounts for the years ended December 31, 1999, 1998 and 1997, respectively.

	Years Ended December 31,					
	1999		1998		1997	
	Net Income	Diluted EPS	Net Loss	Loss Per Share	Net Income	Diluted EPS
	($ in thousands, except per share data)					
Pro forma amounts	$ 142,838	$ 0.86	$ 104,578	$ 0.63	$ (108,007)	$ (0.72)

Note 11 -- BUSINESS COMBINATIONS AND SIGNIFICANT RESTRUCTURINGS

The Destec Acquisition. On June 27, 1997, Dynegy acquired Destec Energy, Inc. ("Destec"), an independent power producer, for $1.26 billion, or $21.65 per share of Destec common stock. Dynegy financed the transaction through cash on hand and advances on its credit facilities provided by its existing commercial banks. Concurrent with this acquisition, Dynegy sold Destec's international facilities and operations to The AES Corporation ("AES") for $439 million. Also during 1997, the Company sold certain non-strategic assets acquired in the purchase for aggregate proceeds of $296 million. Proceeds from the AES and non-strategic asset sales were used to retire indebtedness.

The Destec acquisition was accounted for under the purchase method of accounting. Accordingly, the purchase price of approximately $718 million, inclusive of transaction costs and net of cash acquired, was allocated to the Destec assets acquired and liabilities assumed based on their estimated fair values as of June 30, 1997, the effective date of the acquisition for accounting purposes. The results of operations of the acquired Destec assets are consolidated with Dynegy's existing operations beginning July 1, 1997. The following table reflects certain unaudited pro forma information for the year ended December 31, 1997 as if the Destec acquisition had occurred on January 1, 1996 (in thousands, except per share data):

	Year Ended December 31, 1997
Pro forma revenues	$ 13,498,207
Pro forma net loss	(101,175)
Pro forma loss per share	(0.67)

Restructuring of Novagas Clearinghouse, Ltd. In June 1997, the Company and NOVA Corporation ("NOVA") completed the restructuring of the companies' Canadian natural gas operations formerly executed through

Novagas Clearinghouse, Ltd., Novagas Clearinghouse Limited Partnership and Novagas Clearinghouse Pipelines Limited Partnership (collectively "NCL"), a joint venture between Dynegy and NOVA. Pursuant to the agreements, Dynegy Canada Inc. ("DCI"), a wholly owned indirect subsidiary of Dynegy, acquired NCL's natural gas marketing business, excluding the natural gas aggregation business of Pan-Alberta Gas Ltd. ("Pan-Alberta"), from NCL and sold its aggregate 49.9 percent interest in NCL to NOVA Gas International ("NGI"), a subsidiary of NOVA. NOVA assumed full ownership of NCL's gathering and processing business and the operations of Pan-Alberta. The restructuring included amendments to or termination of various agreements between NCL, Dynegy, NOVA and certain affiliates of both Dynegy and NOVA. Dynegy realized a pretax gain on the sale of its interest in NCL of $7.8 million, which is classified as other income in the accompanying consolidated statements of operations for the year ended December 31, 1997. The acquisition by Dynegy of NCL's marketing business was accounted for under the purchase method of accounting. Accordingly, the purchase price of $4.0 million, inclusive of transaction costs, was allocated to the assets acquired and liabilities assumed based on their estimated fair values as of April 1, 1997, the effective date of the acquisition for accounting purposes.

Restructuring of Accord Energy Limited ("Accord"). In early 1997, British Gas completed a restructuring whereby Centrica plc ("Centrica") was demerged from British Gas and British Gas was renamed BG plc ("BG"). Centrica became the Company's joint venture partner in Accord. BG holds the approximate 26 percent stake in Dynegy's common stock formerly held by British Gas. On May 2, 1997, Centrica and the Company completed a restructuring of Accord by converting certain common stock interests in Accord to participating preferred stock interests as of an effective date of January 1, 1997. Centrica and the Company own 75 percent and 25 percent, respectively, of the outstanding participating preferred stock shares of Accord. The participating preferred stock has (a) the right to receive cumulative dividends on a priority basis to other corporate distributions by Accord, and (b) limited voting rights. In addition, Centrica has an option to purchase the Company's participating preferred stock interest at any time after July 1, 2000, at a formula based price, as defined in the agreement. As part of the reorganization, Centrica will operate Accord while Dynegy obtained the right to market natural gas, gas liquids and crude oil in the United Kingdom, which occurs through its wholly owned subsidiary Dynegy UK Limited ("Dynegy UK"). No gain or loss was recognized as a result of this restructuring and Dynegy's investment in Accord continues to be accounted for under the equity method.

Note 12 -- IMPAIRMENT, ABANDONMENT AND OTHER CHARGES

During the fourth quarter of 1997, the Company recognized a $275 million charge principally related to impairment of certain long-lived assets, abandonment of certain operating assets and reserves for obsolescence, contingencies and other obligations. The charge primarily resulted from the completion of a plan of restructuring of the Company's natural gas liquids and crude oil businesses, which includes rationalization and consolidation of assets acquired in both the Trident and Chevron Combinations, and the pursuit of a joint venture partner in order to achieve critical mass in its crude oil marketing business. In addition, a company-wide reorganization of reporting responsibilities and improvements in business processes and computer information systems resulted in the identification during the fourth quarter of 1997 of other obsolete assets and a reduction of employees involved in non-strategic operations.

The charge, which was substantially non-cash in nature, consisted of the following (in thousands):

Abandonment of long-lived operating assets	$ 154,984
Impairment of operating assets and intangibles	79,550
Inventory obsolescence reserve and write-off	10,340
Write-off of other obsolete assets	12,011
Contingency and other obligation reserves	16,750
Severance charge	1,365
	$ 275,000

The fair values of the assets impaired and abandoned were determined using a discounted cash flow methodology. During 1998, Management substantially completed its plan of rationalization, reorganization and abandonment of assets anticipated at the end of 1997. In addition, pursuant to the execution of the restructuring plan, a charge of $9.6 million related to severance charges was recognized in the first quarter of 1998. The severance charge was related to the termination of approximately 200 corporate and field employees. The charge recognized in the first quarter of 1998 approximated the actual severance expenditures.

Also during the fourth quarter of 1997, the Company changed its method for accounting for certain business process re-engineering and information technology transformation costs pursuant to a consensus reached in November 1997 by the EITF. The EITF concluded that all re-engineering costs, including those incurred in connection with a software installation, should be expensed as incurred. The Company had previously capitalized certain re-engineering costs and was amortizing such costs over the estimated useful lives of the projects. The cumulative effect of this change in accounting of $14.8 million, net of tax, represented the one-time charge for the aggregate unamortized re-engineering costs previously capitalized.

Note 13 -- EMPLOYEE COMPENSATION, SAVINGS AND PENSION PLANS

Corporate Incentive Plan. Dynegy maintains a discretionary incentive plan to provide employees competitive and meaningful rewards for reaching corporate and individual objectives. Specific rewards are at the discretion of the Compensation Committee of the Board of Directors ("Compensation Committee").

Profit Sharing/Savings Plan. The Company established the Dynegy Profit Sharing/401(k) Savings Plan ("Plan"), which meets the requirements of Section 401(k) of the Internal Revenue Code, and is a defined contribution plan subject to the provisions of the Employee Retirement Income Security Act of 1974. The Plan and related trust fund are established and maintained for the exclusive benefit of participating employees in the United States and certain expatriates. Similar plans are available to other employees resident in foreign countries subject to the laws of each country. All eligible employees may participate in the plans and employee contributions are generally matched dollar-for-dollar for the first 5 percent of compensation, subject to Company performance. Employees vest in the Company's contributions over various periods. The Company also makes profit sharing contributions to employees' accounts regardless of their individual participation in the Profit Sharing/Savings Plans.

Matching contributions to the Plan and certain discretionary profit sharing contributions are made in Company common stock, other contributions are made in cash. During the years ended December 31, 1999, 1998 and 1997, Dynegy recognized aggregate costs related to these employee compensation plans of $24.9 million, $12.9 million and $9.7 million, respectively.

Pension Plan. Through a business acquisition, the Company acquired a noncontributory defined benefit pension plan and such plan remains in existence at December 31, 1999. The Trident NGL, Inc. Retirement Plan ("Retirement Plan") is a qualified plan under the Internal Revenue Service regulations. The Retirement Plan is closed to new participants. Benefits are based on years of service and final average pay, as defined in the Retirement Plan document. Contributions to the Retirement Plan in 1999 and 1998 represent the minimum amount required by federal law and regulation. The Retirement Plan's funded status and amount recognized in Dynegy's balance sheet at December 31, 1999 and 1998, were:

	December 31,	
	1999	1998
	($ in thousands)	
Projected benefit obligation, beginning of the year	$ 11,755	$ 9,378
Service cost	545	665
Interest cost	718	722
Curtailment	(1,940)	---
Actuarial (gain) loss	(1,102)	1,137
Benefits paid	(216)	(147)
Projected benefit obligation, end of the year	$ 9,760	$ 11,755

Fair value of plan assets, beginning of the year	$ 9,345	$ 8,480
Actual return on plan assets	1,125	615
Employer contributions	41	397
Benefits paid	(216)	(147)
Fair value of plan assets, end of the year	$ 10,295	$ 9,345
Funded status	$ (534)	$ 2,410
Unrecognized net gain from past experience different from that assumed	4,995	3,668
Pension liability	$ 4,461	$ 6,078

Current year pension expense is based on measurements of the projected benefit obligation and the market related value of the Retirement Plan assets as of the end of the year. The projected benefit obligation at December 31, 1999 and 1998, was based on a discount rate of 7.5 and 7.0 percent, and an average long-term rate of compensation growth of 3.5 percent, respectively. The expected long-term rate of return on the Retirement Plan assets was estimated at 8.0 percent in 1999 and 1998.

The components of net pension expense for the Retirement Plan were:

	Years Ended December 31,	
	1999	1998
	($ in thousands)	
Service cost benefits earned during period	$ 545	$ 665
Interest cost on projected benefit obligation	718	722
Expected return on plan assets	(717)	(618)
Amortization of unrecognized gain	(182)	(218)
Net periodic pension cost	$ 364	$ 551

Note 14 -- RELATED PARTY TRANSACTIONS

Transactions between the Company and Chevron result principally from the ancillary agreements entered into as part of the Chevron Combination. Transactions with Chevron and transactions between Dynegy, NOVA and BG result from purchases and sales of natural gas, natural gas liquids and crude oil between subsidiaries of Dynegy and these companies. It is management's opinion that these transactions are executed at prevailing market rates. During the years ended December 31, 1999, 1998 and 1997, the Company recognized in its statement of operations aggregate sales to, and aggregate costs from, these significant shareholders of $1.1 billion and $2.0 billion, $888 million and $1.7 billion, and $788.9 million and $2.4 billion, respectively. Pursuant to the terms of the Illinova acquisition, NOVA and BG reduced their respective stakes in Dynegy to less than 5 percent.

Note 15 -- SEGMENT INFORMATION

The Company has adopted Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information" and has restated its segment disclosures for all reporting periods. Dynegy's operations are divided into two reportable segments: Energy Convergence and Midstream. The Energy Convergence segment is actively engaged in value creation through marketing and trading of natural gas, power and coal and the generation of electricity principally under the name Dynegy Marketing and Trade. The Midstream segment consists of the North American midstream liquids operations, as well as the international liquefied petroleum gas transportation and natural gas liquids marketing operations located in Houston and London, and certain other businesses. The North American midstream liquids operations are actively engaged in the gathering and processing of natural gas and the transportation, fractionation and storage of NGLs. This segment operates principally under the name Dynegy Midstream Services. Generally, Dynegy accounts for intercompany transactions at prevailing market rates. Operating segment information for 1999, 1998 and 1997 is presented below.

DYNEGY INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DYNEGY'S SEGMENT DATA FOR THE YEAR ENDED DECEMBER 31, 1999

	Energy Convergence	Midstream	Elimination	Total
		($ in thousands)		
Unaffiliated revenues:				
Domestic	$ 9,855,757	$ 3,143,085	$ ---	$ 12,998,842
Canadian	1,445,779	9,795	---	1,455,574
United Kingdom	975,560	---	---	975,560
	12,277,096	3,152,880	---	15,429,976
Intersegment revenues				
Domestic	355,340	239,848	(595,188)	---
Canadian	58,663	8,517	(67,180)	---
United Kingdom	---	---	---	---
	414,003	248,365	(662,368)	---
Total revenues	12,691,099	3,401,245	(662,368)	15,429,976
Operating margin	283,594	260,281	---	543,875
Depreciation and amortization	(35,116)	(94,342)	---	(129,458)
Interest expense	(36,433)	(41,731)	---	(78,164)
Interest and other income	57,453	15,834	---	73,287
Equity earnings of unconsolidated affiliates	62,185	17,669	---	79,854
Income tax (provision) benefit	(58,098)	(16,579)	---	(74,677)
Net income from operations	106,631	45,218		151,849
Cumulative effect of change in accounting principle	---	---	---	---
Net income	106,631	45,218	---	151,849
Identifiable assets:				
Domestic	$ 3,465,730	$ 2,549,773	$ ---	$ 6,015,503
Canadian	266,338	68,107	---	334,445
United Kingdom	175,223	---	---	175,223
Investment in unconsolidated affiliates	458,552	168,783	---	627,335
Capital expenditures	356,506	92,016	---	448,522

DYNEGY INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DYNEGY'S SEGMENT DATA FOR THE YEAR ENDED DECEMBER 31, 1998

	Energy Convergence	Midstream	Elimination	Total
		($ in thousands)		
Unaffiliated revenues:				
Domestic	$ 9,149,299	$ 3,307,320	$ ---	$ 12,456,619
Canadian	969,853	209,830	---	1,179,683
United Kingdom	621,695	---	---	621,695
	10,740,847	3,517,150	---	14,257,997
Intersegment revenues				
Domestic	157,492	250,280	(407,772)	---
Canadian	61,223	---	(61,223)	---
United Kingdom	---	---	---	---
	218,715	250,280	(468,995)	---
Total revenues	10,959,562	3,767,430	(468,995)	14,257,997
Operating margin	236,275	192,412	---	428,687
Depreciation and amortization	(29,026)	(84,176)	---	(113,202)
Interest expense	(24,944)	(50,048)	---	(74,992)
Interest and other income	6,763	40,058	---	46,821
Equity earnings of unconsolidated affiliates	75,242	15,796	---	91,038
Income tax (provision) benefit	(52,262)	1,924	---	(50,338)
Net income from operations	90,750	17,603	---	108,353
Net income	90,750	17,603	---	108,353
Identifiable assets:				
Domestic	$ 2,838,367	$ 2,036,795	$ ---	$ 4,875,162
Canadian	257,070	6,947	---	264,017
United Kingdom	125,058	---	---	125,058
Investment in unconsolidated affiliates	343,819	158,794	---	502,613
Capital expenditures	359,516	118,948	---	478,464

DYNEGY'S SEGMENT DATA FOR THE YEAR ENDED DECEMBER 31, 1997

	Energy Convergence	Midstream	Elimination	Total
		($ in thousands)		
Unaffiliated revenues:				
Domestic	$ 8,070,692	$ 4,205,759	$ ---	$ 12,276,451
Canadian	632,411	264,028	---	896,439
United Kingdom	205,490	---	---	205,490
	8,908,593	4,469,787	---	13,378,380
Intersegment revenues				
Domestic	83,944	437,567	(521,511)	---
Canadian	30,580	---	(30,580)	---
United Kingdom	1,314	---	(1,314)	---
	115,838	437,567	(553,405)	---
Total revenues	9,024,431	4,907,354	(553,405)	13,378,380
Operating margin	126,805	258,489	---	385,294
Impairment, abandonment and other charges	(20,228)	(254,772)	---	(275,000)
Depreciation and amortization	(16,425)	(87,966)	---	(104,391)
Interest expense	(12,214)	(51,241)	---	(63,455)
Interest and other income	13,209	14,904	---	28,113
Equity earnings of unconsolidated affiliates	36,241	22,718	---	58,959
Income tax (provision) benefit	(8,710)	70,920	---	62,210
Net income (loss) from operations	24,321	(112,006)	---	(87,685)
Cumulative effect of change in accounting principle	(7,289)	(7,511)	---	(14,800)
Net income (loss)	17,033	(119,518)	---	(102,485)
Identifiable assets:				
Domestic	$ 1,882,965	$ 2,299,312	$ ---	$ 4,182,277
Canadian	239,090	40,900	---	279,990
United Kingdom	54,635	---	---	54,635
Investment in unconsolidated affiliates	310,445	160,032	---	470,477
Capital expenditures	815,271	189,388	---	1,004,659

Note 16 -- QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

The following is a summary of the Company's unaudited quarterly financial information for the years ended December 31, 1999 and 1998.

	Quarter Ended			
	March 1999	June 1999	September 1999	December 1999
	($ in thousands, except per share data)			
Revenues	$ 3,044,973	$ 3,160,757	$ 4,584,929	$ 4,639,317
Operating margin	120,077	125,747	158,814	139,237
Income before income taxes	40,683	41,510	75,434	68,899
Net income	28,071	27,976	50,692	45,110
Net income per share	0.17	0.17	0.30	0.26

	Quarter Ended			
	March 1998	June 1998	September 1998	December 1998
	($ in thousands, except per share data)			
Revenues	$ 3,315,569	$ 3,278,214	$ 4,586,515	$ 3,077,699
Operating margin	96,989	107,915	105,985	117,798
Income (loss) before income taxes	16,411	35,043	63,739	43,498
Net income (loss)	12,339	23,441	43,645	28,928
Net income (loss) per share (1)	0.07	0.14	0.27	0.18

(1) Net income (loss) per share amounts have been restated to conform to the provisions of Statement of Financial Accounting Standards No. 128, "Earnings Per Share."

NOTE 17 - SUBSEQUENT EVENTS

Illinova Acquisition. Dynegy completed its acquisition of Illinova early in the first quarter 2000. The merger of Dynegy and Illinova involved the creation of a new holding company, now known as Dynegy Inc., and two separate but concurrent mergers. In one concurrent merger, a wholly-owned subsidiary of Dynegy Inc. merged with and into Illinova. In the other concurrent merger, a second wholly-owned subsidiary of Dynegy Inc. merged with and into old Dynegy. As a result of these two concurrent mergers, Illinova and old Dynegy continue to exist as wholly-owned subsidiaries of Dynegy Inc., and are referred to as Illinova Holding and Dynegy Holding, respectively. Dynegy accounted for the merger as a purchase of Illinova. This accounting treatment is based on various factors present in the merger, including the majority ownership (and voting control) of Dynegy's shareholders following the merger, the role of Dynegy's management following the merger (including the service of C.L. Watson as Chairman and Chief Executive Officer) and the influence of Chevron because of the size of its ownership interest and its rights under the shareholder agreement, articles of incorporation and bylaws. As a result, the consolidated financial statements of Dynegy after the merger will reflect the assets and liabilities of Dynegy Holding at historical book values and the assets and liabilities of Illinova at allocated fair values. For accounting purposes, the effective date of the merger will be January 1, 2000. This date was selected as a result of the following factors:

- Affirmative consent had been acquired from both shareholder groups prior to January 1, 2000,
- All regulatory consents had been acquired prior to January 1, 2000,
- Material terms of the purchase and sale agreement for the qualifying facilities, a condition precedent to the closing, had been negotiated on or about January 1, 2000, and
- Board, executive, commercial, financial and regulatory oversight of Illinova's operations had transferred to Dynegy on or about January 1, 2000.

In the combination, Dynegy shareholders, other than Chevron U.S.A. Inc. ("Chevron"), NOVA Gas Services (U.S.) Inc. ("NOVA") and BG Holdings, Inc., elected to exchange each Dynegy share for 0.69 of a share of Dynegy Class A common stock, based on a fixed exchange ratio, or elected to receive $16.50 per share in cash consideration, subject to proration. NOVA and BG Holdings, Inc. elected cash and thereby reduced their respective ownership in Dynegy as part of this combination. Therefore, instead of receiving Dynegy Class A common stock in exchange for their respective shares of Dynegy Holding common stock, NOVA and the parent of BG Holdings, Inc. each received a combination of cash, subject to proration, and shares of Dynegy Series A Convertible Preferred Stock. Chevron received shares of Dynegy Class B common stock in exchange for all of its shares of Dynegy Holding common stock and Series A Preferred, respectively. Additionally, as part of the combination, Chevron purchased $200 million of additional Dynegy Class B common stock. Each share of Illinova common stock was converted into one share of Dynegy Class A common stock. Immediately after the combination, former Dynegy shareholders owned approximately 51 percent of the outstanding shares of Dynegy.

Approximately 60 percent of the consideration received by existing Dynegy shareholders was in the form of Dynegy stock and 40 percent was cash. In aggregate, the cash portion of the consideration approximated $1.07 billion. Dynegy financed the cash component of the merger initially with borrowings under a debt facility and the issuance of $200 million of Class B common stock to Chevron. Dynegy anticipates repaying or refinancing a significant portion of the debt facility with proceeds from an offering of equity securities, additional public debt issuances, proceeds from asset sales and cash flow from operations.

Asset Dispositions. In early 2000, the Company entered into agreements to dispose of certain assets for aggregate net proceeds approximating $560 million. In addition, the Company has stated its intent to dispose of its domestic crude oil marketing operations, likely in the first quarter 2000. These transactions result from statutory requirements pursuant to the acquisition of Illinova or for the purpose of eliminating operating assets considered non-strategic or which were under-performing in comparison to other assets in the portfolio. The net proceeds received in these transactions are being used to retire merger-related debt or are being re-deployed into the Company's capital investment program. The financial impact of these transactions in the aggregate is not expected to be material to Dynegy's results of operations or financial position for the year ended December 31, 2000. Further, disposition of these assets is not expected to have a material adverse effect on Dynegy's prospective competitive position in the businesses in which it operates. The assets sold consist of nine cogeneration facilities designated as qualifying facilities under PURPA law and substantially all of the Company's natural gas processing facilities and related infrastructure in the Mid-Continent region.

Schedule I

DYNEGY INC.
CONDENSED BALANCE SHEETS OF REGISTRANT
(in thousands, except share data)

	December 31, 1999	December 31, 1998
ASSETS		
Current Assets		
Cash	$ ---	$ 209,439
Accounts receivable	3,209	500
Intercompany accounts receivable	709,119	446,959
Prepayments and other assets	9,471	6,773
	721,799	663,671
Property, Plant and Equipment	3,246	3,297
Less: accumulated depreciation	(2,825)	(2,587)
	421	710
Other Assets		
Investments in affiliates	1,763,922	1,514,635
Intercompany note receivable	500,590	343,311
Deferred taxes and other assets	30,308	22,225
	$ 3,017,040	$ 2,544,552
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Intercompany accounts payable	$ ---	$ 155,131
Accrued liabilities	126,546	146,100
	126,546	301,231
Long-Term Debt	1,299,333	913,000
Company Obligated Preferred Securities of Subsidiary Trust	200,000	200,000
Other Liabilities	81,679	2,258
	1,707,558	1,416,489
Commitments and Contingencies		
Stockholders' Equity:		
Preferred stock, $0.01 par value, 50,000,000 shares Authorized: 8,000,000 shares designated as Series A Participating Preferred Stock, 7,815,363 shares issued and Outstanding at December 31, 1999 and 1998	75,418	75,418
Common stock, $0.01 par value, 400,000,000 shares Authorized: 157,499,001 shares issued at December 31, 1999, and 153,298,220 shares issued at December 31, 1998	1,575	1,533
Additional paid-in capital	973,000	935,183
Retained earnings	277,074	133,340
Less: treasury stock, at cost: 1,200,700 shares at December 31, 1999 1,200,700 shares at December 31, 1998	(17,585)	(17,411)
	1,309,482	1,128,063
	$ 3,017,040	$ 2,544,552

See Note to Registrant's Financial Statements.

Schedule I

DYNEGY INC.
STATEMENTS OF OPERATIONS OF THE REGISTRANT
FOR EACH OF THE THREE YEARS IN THE PERIOD ENDED DECEMBER 31, 1999
(in thousands)

	1999	1998	1997
Depreciation and amortization	$ (238)	$ (241)	$ (1,292)
Impairment, abandonment and other charges	---	(959)	(3,886)
Operating loss	(238)	(1,200)	(5,178)
Equity in earnings of affiliates	249,287	215,928	(115,108)
Intercompany interest and other income	65,325	13,667	16,928
Interest expense	(82,825)	(68,403)	(45,790)
Other expenses	(5,023)	(1,301)	(747)
Income (loss) before income taxes	226,526	158,691	(149,895)
Income tax provision (benefit)	74,677	50,338	(62,210)
Net income (loss) from continuing operations before cumulative effect of change in accounting	151,849	108,353	(87,685)
Cumulative effect of change in accounting principle (net of income tax benefit of $7,913)	---	---	(14,800)
NET INCOME (LOSS)	$ 151,849	$ 108,353	$ (102,485)

See Note to Registrant's Financial Statements.

Schedule I

DYNEGY INC.
STATEMENTS OF CASH FLOWS OF THE REGISTRANT
FOR EACH OF THE THREE YEARS IN THE PERIOD ENDED DECEMBER 31, 1999
(in thousands)

	1999	1998	1997
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income (loss)	$ 151,849	$ 108,353	$ (102,485)
Items not affecting cash flows from operating activities:			
Depreciation and amortization	238	1,864	9,631
Equity in earnings of affiliates, net of cash distributions	(249,287)	(215,928)	115,108
Deferred taxes	63,167	50,338	(86,424)
Other	---	---	12,344
Change in assets and liabilities resulting from operating activities:			
Accounts receivable	(2,709)	(468)	76
Intercompany transactions	(574,518)	239,586	636,063
Prepayments and other assets	(2,698)	(2,212)	(2,749)
Accrued liabilities	8,939	3,693	1,529
Other, net	25,043	(29,778)	2,493
Net cash (used in) provided by operating activities	(579,976)	155,448	585,586
CASH FLOWS FROM INVESTING ACTIVITIES			
Capital expenditures	---	---	(5,121)
Acquisitions	---	(2,644)	(785,349)
Other	---	---	---
Net cash used in investing activities	---	(2,644)	(790,470)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from long-term borrowings	397,488	212,259	2,218,500
Repayments of long-term borrowings	---	(493,277)	(2,198,000)
Net proceeds from commercial paper and money market lines of credit	(42,161)	350,758	---
Intercompany advances	---	---	---
Proceeds from sale of capital stock, options and warrants	21,855	3,863	203,190
Treasury stock acquisitions	(174)	(6,905)	(10,506)
Capital contributions	---	---	---
Dividends and other distributions	(8,115)	(7,988)	(7,925)
Other financing	1,644	(2,450)	---
Net cash provided by financing activities	370,537	56,260	205,259
Net (decrease) increase in cash and cash equivalents	(209,439)	209,064	375
Cash and cash equivalents, beginning of period	209,439	375	---
Cash and cash equivalents, end of period	$ ---	$ 209,439	$ 375

SUPPLEMENTAL CASH FLOW INFORMATION:

	1999	1998	1997
Interest paid (net of amount capitalized)	$ 97,540	$ 100,589	$ 60,323
Taxes paid (net of refunds)	$ 1,927	$ (8,000)	$ 8,043
Cash dividends paid to parent by consolidated or unconsolidated subsidiaries	$ ---	$ ---	$ ---

See Note to Registrant's Financial Statements.

Schedule I

DYNEGY INC.

NOTE TO REGISTRANT'S FINANCIAL STATEMENTS

Note 1 -- BASIS OF PRESENTATION

Dynegy Inc. ("Dynegy" or the "Company") is a holding company that principally conducts all of its business through its subsidiaries. The Company is the result of a strategic business combination ("Trident Combination") between Natural Gas Clearinghouse and Trident NGL Holding, Inc. ("Holding"), under which Holding was renamed NGC Corporation. Pursuant to the terms of the Trident Combination, Holding was the legally surviving corporation and Clearinghouse was considered the acquiring company for accounting purposes resulting in a new historical cost basis for Holding beginning March 1, 1995, the effective date of the Trident Combination. During 1998, the Company changed its name to Dynegy Inc. in order to reflect its evolution from a natural gas marketing company to an energy services company capable of meeting the growing demands and diverse challenges of the dynamic energy market of the 21st Century.

The accompanying condensed Registrant Financial Statements were prepared pursuant to rules promulgated by the Securities and Exchange Commission. In accordance with these rules, the accompanying statements reflect the financial position, results of operations and cash flows of Dynegy, the holding company of Dynegy Inc., at December 31, 1999 and 1998, and for the years then ended through December 31, 1999, respectively. These statements should be read in conjunction with the Consolidated Statements and notes thereto of Dynegy Inc.

Corporate Profile

Traded under the symbol "DYN" on the New York Stock Exchange, Dynegy Inc. is one of the world's premier energy merchants. Through its leadership position in power generation and marketing, gathering, processing, transportation and distribution of energy, the company provides energy solutions to its customers primarily in North America, the United Kingdom and Europe. Dynegy's principal businesses—energy convergence, midstream natural gas liquids and transmission and distribution—operate through the following subsidiaries:

■ Dynegy Marketing and Trade is the company's power generation and power and natural gas marketing and trading subsidiary. This group focuses on energy convergence—the marketing, trading and arbitrage opportunities that exist among power, natural gas and coal that can be enhanced by the control and optimization of related physical assets. It also is engaged in the marketing of energy products and services to the retail sector through Dynegy Energy Services and its alliances with leading utility companies.

■ Dynegy's natural gas liquids subsidiary, Dynegy Midstream Services, includes North American midstream liquids operations, global natural gas liquids transportation and marketing operations.

■ Dynegy's transmission and distribution subsidiary, Illinois Power, is based in Decatur, Illinois. It serves more than 650,000 natural gas and electric utility customers in a 15,000-square-mile area across Illinois.

Corporate Information

REGISTRAR AND TRANSFER AGENT
ChaseMellon Shareholder Services, L.L.C.
85 Challenger Road
Overpeck Centre
Ridgefield Park, New Jersey 07660-2108
(888) 921-5563
www.chasemellon.com

ANNUAL MEETING
The annual meeting of shareholders will be held May 12, 2000, at 10:00 a.m. at:
Doubletree Hotel at Allen Center
LaSalle Ballroom
400 Dallas Street
Houston, Texas 77002

SHAREHOLDER INFORMATION
Security analysts, portfolio managers and other institutional investors seeking information about the company should contact Investor Relations at (713) 507-6466 or by e-mail at ir@dynegy.com. Media representatives and others seeking general information about the company should contact Corporate Communications at (713) 507-3936.

Additional copies of this report can be obtained by contacting the Investor Relations department or by visiting Dynegy's website at www.dynegy.com.

This report is presented for the general information of the shareholders and not in connection with the sale, offer to sell or solicitation of any offer to buy any securities, nor is it intended as a representation by the company of the value of securities.

STOCK EXCHANGE INFORMATION
Dynegy Inc. common stock is listed on the New York Stock Exchange under the symbol "DYN."

CORPORATE OFFICE
1000 Louisiana
Suite 5800
Houston, Texas 77002-5050
(713) 507-6400

COMMON STOCK PRICES AND DIVIDENDS
New York Stock Exchange composite trading prices for Dynegy common stock and dividends paid during 1999 and 1998 by quarters were:

	Price Range		Dividends
	High	Low	Paid
1999*			
1st Quarter	15	10¼	$ 0.0125
2nd Quarter	20¾	14¼	0.0125
3rd Quarter	24⅜	20¼	0.0125
4th Quarter	24 5/16	20⅜	0.0125
1998*			
1st Quarter	17½	14⅜	$ 0.0125
2nd Quarter	15½	12	0.0125
3rd Quarter	14 7/16	9⅜	0.0125
4th Quarter	15⅜	10 1/16	0.0125

*1999 and 1998 stock prices and dividends are pre-Dynegy-Illinova merger figures. Pursuant to the merger agreement, on February 1, 2000, previous Dynegy shareholders received, in exchange for each share of Dynegy common stock, either 0.69 shares of new company common stock or $16.50 in cash consideration per share; previous Illinova shareholders exchanged their shares for new company common stock on a share-for-share basis.

DYNEGY

1000 Louisiana
Suite 5800
Houston, Texas 77002-5050
www.dynegy.com

DYNEGY

2000 ANNUAL REPORT

PASSION FOR THE CHALLEN

{ it's in everything we do }

Dynegy trades natural gas, power, natural gas liquids, oil, coal, weather derivatives and emission allowances from our energy trading floors in Houston, Texas.

Dynegy Energy Services, Inc.
1000 Louisiana Street, Suite 5800
Houston, Texas 77002
Phone 713.507.6400
www.dynegy.com

DYNEGY

September 21, 2001

Trico Electric Cooperative, Inc.
P.O. Box 35970
Tucson, AZ 85970

Re: A.A.C. R14-2-1603 (E)

To Whom It May Concern:

Pursuant to the above-referenced provision, Dynegy Energy Services, In. (DES) hereby submits notice of its intention to provide electric service in all territories where market is open in the State of Arizona.

This correspondence serves as official notification that DES may, at some point in time, provide service to customers in Trico Electric Cooperative, Inc.'s service area, subsequent to receiving the Certificate of Convenience and Necessity for Competitive Retail Electric Services from Arizona Corporation Commission.

Sincerely,

Jose Rocha
Vice President, Dynegy Energy Services, Inc.

To Our Shareholders

Since Dynegy was established 16 years ago, we have built a reputation for reaching new heights. So, in a year when we recorded increases of 230 percent in net income, 91 percent in operating revenues and 218 percent in shareholder return, and the company was admitted to the Standard & Poor's 500 Index, a mountain climber on the cover of our annual report seemed appropriate.

The photo is not just about our core businesses. It is about our culture, our performance and our future. Dynegy has a passion for the challenge. This is not a self-appointed title, but the way we do business, every day. We are driven by a common vision and a spirit to succeed that come from the nearly 6,000 employees who enjoy satisfying our customers' evolving needs in energy and communications.

Like a climber choosing the perfect hold, we make the right decisions at the right time. In 2000, we significantly advanced the company's competitive position through the closing of the Illinova merger, which added 3,800 megawatts of unregulated generating capacity to our portfolio, and the completion of three greenfield power projects totaling 1,055 megawatts. We concluded the year with an ownership in 39 facilities totaling 13,141 gross megawatts of generating capacity.

We are driven by a common vision and a spirit to succeed that come from the nearly 6,000 employees who enjoy satisfying our customers' evolving needs in energy and communications.

The acquisition of two power plants in the Northeast during the first quarter of 2001 added another 1,700 megawatts to our portfolio. Three new power projects totaling 1,160 megawatts will begin commercial operation by the summer of 2001, ensuring continued growth in our energy convergence business. When combined with our wholesale energy marketing and trading franchise, our merchant generation enables us to do what we do best – create value for our shareholders and customers.

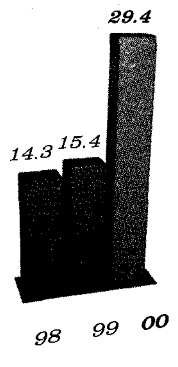
The creation of a global communications business through well-timed acquisitions has positioned Dynegy to capitalize on the increasing demand for broadband and related solutions. Our focus is on maximizing revenue opportunities that utilize our network, including providing value-added wholesale services to our customers. Long term, our core capabilities – the marketing, trading and logistics optimization skill set honed in energy – will enable us to grow and profit as the bandwidth market matures.

In addition, our technology initiatives are delivering results. The efficiencies we are creating through our corporate services and information technology groups are directly impacting our bottom line. Ongoing technology and infrastructure advancements enabled the launch of Dynegy*direct*, the

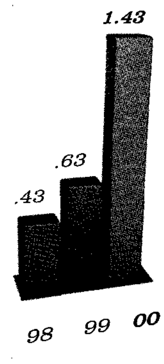
Financial Highlights

($ in millions, except per share amounts)	Year Ended December 31, **2000**	1999	1998
Financial Data			
Operating revenues	**$29,444.9**	$15,430.0	$14,258.0
Dynegy Marketing and Trade financial contribution	**952.0**	345.8	311.5
Dynegy Midstream Services financial contribution	**279.5**	277.9	208.2
Net income	**500.5**	151.8	108.4
Capital expenditures, investments and acquisitions	**2,112.0**	448.5	379.5
Operating income	**741.1**	213.7	120.1
Common Share Data			
Earnings per common share			
Reported	**$1.48**	$0.66	$0.48
Normalized	**1.43**	0.63	0.43
Annual dividend per common share	**0.25**	0.04	0.04
Book value per common share	**11.15**	6.02	5.33
Market price at end of year	**56.06**	17.62	7.93
Common shares outstanding (millions)			
Diluted	**314.6**	230.4	227.2
Basic	**302.0**	212.8	209.2
Capitalization Data			
Total assets	**$21,406.4**	$6,525.2	$5,264.2
Long-term debt	**2,828.0**	1,299.0	953.0
Total capitalization	**7,820.0**	3,102.0	2,511.0
Debt to capitalization	**41%**	54%	51%
Operating Statistics			
Natural gas sales (billion cubic feet per day)			
United States	**7.5**	6.5	5.9
Canada	**2.2**	2.3	2.3
Europe	**1.2**	1.1	0.7
Total	**10.9**	9.9	8.9
Electric power produced and sold (million megawatt hours)	**137.7**	79.3	130.6
Electric power generation (gross million megawatt hours)	**35.7**	21.5	15.9
Natural gas liquids processed (thousand barrels per day)	**96.8**	122.5	122.7
Worldwide natural gas liquids sales (thousand barrels per day)	**564.6**	537.1	483.6
Fractionation throughput (thousand barrels per day)	**224.3**	210.9	192.5

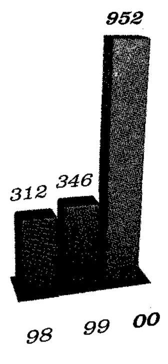
OPERATING REVENUES
(BILLIONS OF DOLLARS)



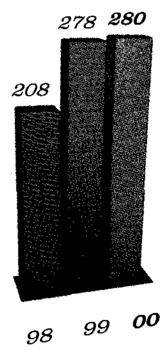
EARNINGS PER COMMON SHARE
(DOLLARS, NORMALIZED)



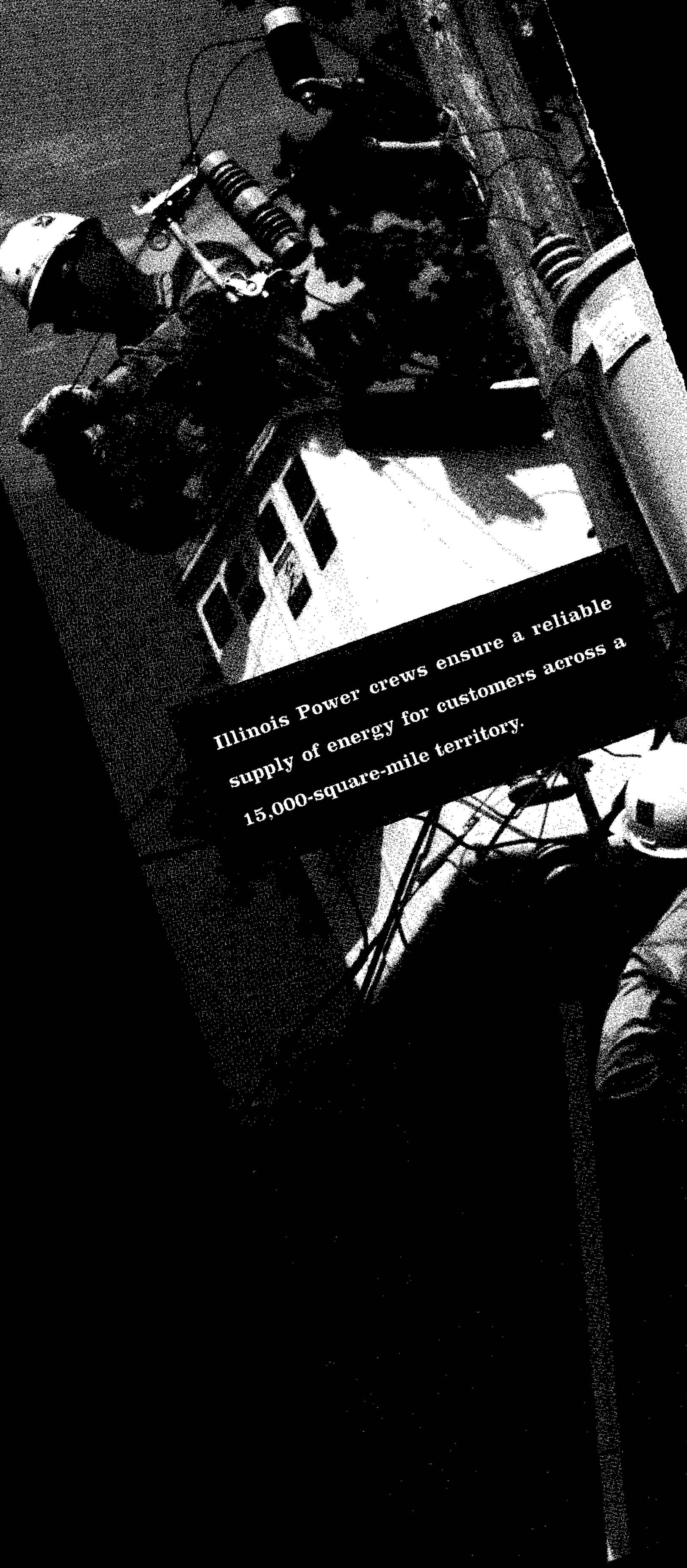
DYNEGY MARKETING AND TRADE FINANCIAL CONTRIBUTION
(MILLIONS OF DOLLARS)



DYNEGY MIDSTREAM SERVICES FINANCIAL CONTRIBUTION
(MILLIONS OF DOLLARS)



This Annual Report includes forward-looking statements within the meaning of the Securities Act. You can identify our forward-looking statements by the words "will," "expects," "intends," "plans," "projects," "believes," "estimates," "should" and similar expressions. For information concerning our forward-looking statements and important factors that could cause our actual results to differ materially from those in such statements, see page 37 of the Form 10-K.



Illinois Power crews ensure a reliable supply of energy for customers across a 15,000-square-mile territory.

Dynegy Midstream Services

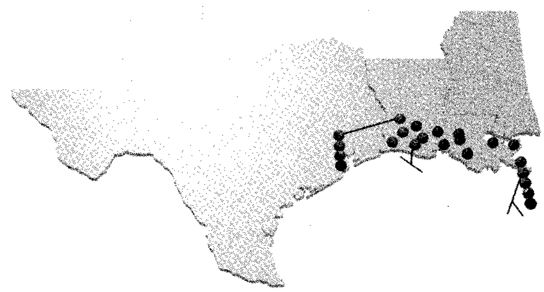
Efficient is a word many companies use to describe their businesses. For Dynegy Midstream Services, it is the way we do business.

2000 was about more than a strong financial performance, highlighted by a 21 percent increase in recurring net income to $55 million. It was about unparalleled efficiency. We completed our asset divestiture strategy, including the sale of our Mid-continent assets and crude oil business. This strategy positioned us to focus on our core strengths in operations, logistics and marketing and trading to maximize the value of our portfolio.

These attributes also enable us to respond rapidly to market conditions, effectively managing commodity price fluctuations and quickly targeting earnings opportunities. Our unique asset combinations allow us to extract margins at every tolling point

Our unique asset combinations allow us to extract margins at every tolling point along the liquids value chain and manage our upstream and downstream business as an integrated function.

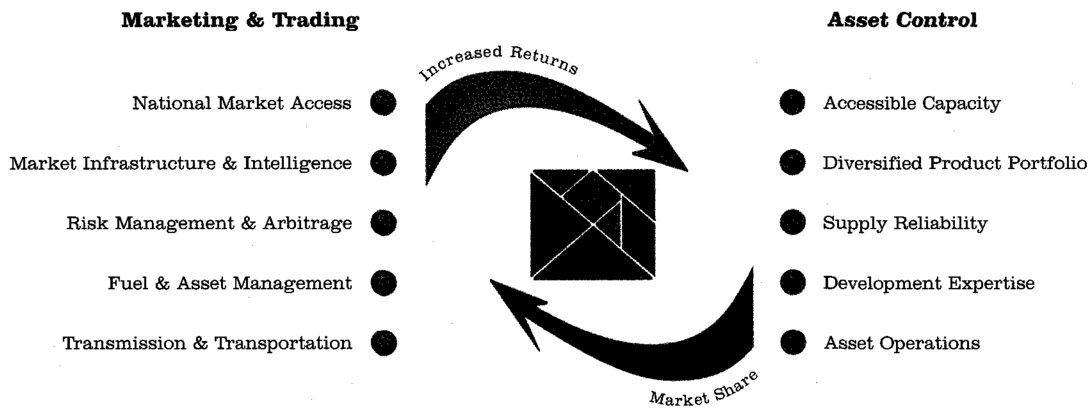
along the liquids value chain and manage our upstream and downstream business as an integrated function. Our marketing and



Gulf of Mexico Infrastructure

Dynegy's midstream portfolio in the Texas and Louisiana Gulf Coast region is strategically positioned to maximize full liquids value chain opportunities across our entire system.

- Operated Gas Plant
- Non-operated Gas Plant
- Fractionator
- Storage
- Terminal
- Dock
- Pipeline



Merchant Leverage Effect

Consistent commercial asset optimization enables Dynegy to increase returns while expanding market share.

Dynegy*direct*, our Internet portal and trading site for energy and communications products. Since its launch in October 2000, Dynegy*direct* has increased our overall volumes, resulting in more than $6 billion in notional transactions.

The best is yet to come for Dynegy Marketing and Trade. We will continue to carefully develop a balanced and diverse asset and trading portfolio, positioning ourselves to capture market opportunities as they occur. Our sophisticated risk management system allows us to mitigate risk in volatile markets. Competitive wholesale power markets in the United States and in Europe – where we will replicate our merchant leverage effect strategy – will continue to drive our growth. And as retail restructuring progresses, we will be called upon to provide electric utilities with management services and support in navigating competitive markets – something Dynegy has been doing well for our customers for 16 years.

We will continue to carefully develop a balanced and diverse asset and trading portfolio, positioning ourselves to capture market opportunities as they occur.

NAVIGATING THE RAPIDS OF THE NANTAHALA RIVER TAKES THE SAME PREPARATION, PLANNING AND PRECISION THAT DYNEGY USED TO BUILD THE 800-MEGAWATT ROCKINGHAM POWER PLANT IN REIDSVILLE, NORTH CAROLINA – THE LARGEST GENERATION FACILITY DEVELOPED BY THE COMPANY IN 2000.

{ one of our best runs yet }

company's electronic commerce portal. Dynegy*direct* dramatically reduces our cost to serve existing customers while expanding our reach and market share. Digital Dynegy, our transformation to a technology-centric, knowledge-based company that is highly connected and leverages the digital community, and our proprietary, cutting-edge trading support systems will further strengthen our leadership position.

Our accomplishments in 2000 set the foundation for growth in 2001 and beyond, and speak volumes about the zeal our employees bring to work each day. Our energy convergence segment continues to be a growth engine for the company. There is no match for the operational effectiveness and organizational efficiencies in our natural gas liquids business. Illinois Power has become a model for all other transmission and distribution companies. We are quantum leaps ahead of our timeline in global communications. Our company has credit strength and a solid financial position that enable us to create opportunities for strategic development. And we are telling the world about our passion for the challenge through a brand campaign that is opening doors to new customer relationships.

We are constantly looking for new and better ways to serve our customers, expand our competitive reach across markets and business lines, and leverage technology advances – all in the name of building shareholder value. As a leading convergence player with an established position in today's hottest commodity markets, we are well-equipped to achieve our financial and operational objectives for the foreseeable future. We will continue to identify and capitalize on the new opportunities being created by a strong energy environment and the convergence of energy with communications and technology. Our collective vision and ability to execute have earned Dynegy a competitive advantage and the confidence to predict earnings growth of more than 30 percent in 2001 and 20 to 25 percent through 2003.

We are constantly looking for new and better ways to serve our customers, expand our competitive reach across markets and business lines, and leverage technology advances – all in the name of building shareholder value.

On behalf of the Board of Directors, senior management and every Dynegy employee, I assure you that we will continue our commitment to delivering the performance you have come to expect from us. Thank you for entrusting us with your investment and your confidence.

Chuck Watson

Chuck Watson
Chairman and Chief Executive Officer
March 21, 2001

trading capabilities help us leverage current market conditions, ensuring we always meet supply commitments to our customers.

Our position in the Gulf of Mexico – an area representing one of the largest domestic liquids growth opportunities – will become even stronger through the continued development of our infrastructure in the region. Our plan is to further link our fractionators with pipelines, allowing us to capture returns and enter into preferred supplier relationships with area producers. Likewise, our Permian Basin and North Texas assets are in strategic production areas where we are positioned as an industry leader.

The foundation we have established in our international liquids marketing, transportation and logistics over the past four years will serve as a platform for significant and profitable growth. We have done more than strengthen our position in emerging markets; the relationships we are building and the value we are providing have expanded our customer base. Dynegy Midstream Services is serving customers in the North Sea, West Africa, the Arabian Gulf and the Pacific Rim.

Dynegy Midstream Services has the right strategy and strengths in place to optimize earnings. We also have the right reputation. We managed market volatility created by supply and demand imbalances in 2000 not just to our shareholders' benefit, but to our customers' as well.

Illinois Power

Illinois Power is more than a model energy delivery company. We are an industry leader.

Strategically, Illinois Power is leading the development of a reliable and competitive transmission marketplace. In September 2000, we were the first utility to announce plans to withdraw from the Midwest Independent System Operator and join the Alliance Regional Transmission Organization. These actions will help eliminate transmission market barriers, thus allowing electricity to move more freely across the transmission system in much of the Midwest and Eastern regions – a significant benefit to customers wishing to access the competitive marketplace.

Regulators and legislators have recognized Illinois Power as the leader among the Illinois utilities in helping natural gas customers weather unprecedented high gas prices during the winter of 2000-2001. Our numerous proactive efforts have been characterized as exemplary and help demonstrate what it means to be a model energy delivery company.

Illinois Power exceeded its financial targets during the year. More broadly, we surpassed every targeted service measure in 2000 while improving reliability and reducing customer service costs.

COMMUNICATIONS

WHETHER IT IS THE ROCKY MOUNTAINS IN COLORADO, HOME OF DYNEGY*CONNECT*, OR THE ALPS IN AUSTRIA, HEADQUARTERS FOR DYNEGY EUROPE COMMUNICATIONS, IT TAKES CONFIDENCE, CREATIVITY AND COURAGE TO TACKLE A BLACK DIAMOND RUN. DYNEGY IS DRAWING UPON THESE QUALITIES AS WE CARVE OUT OUR PRESENCE IN THE GLOBAL COMMUNICATIONS MARKETPLACE.

{ we're blazing new trails }

Dynegy Global Communications

A new kind of convergence is on the horizon, and Dynegy is building a business to capture the opportunities generated by the synergies emerging between energy, communications and technology. In true Dynegy fashion, we are taking an asset-lite, wholesale-driven approach to the communications marketplace.

We believe our entry into communications was the right move at the right time. Time-to-market savings and attractive entry prices allowed Dynegy to launch our platform for a fraction of what others have invested.

Time-to-market savings and attractive entry prices allowed Dynegy to launch our platform for a fraction of what others have invested.

In less than six months, Dynegy's communications segment, Dynegy Global Communications, established a scalable framework for an integrated global network – an asset that propels our vision of liquidity in this market – through two strategic acquisitions.

In September 2000, Dynegy Global Communications purchased Colorado-based Extant, Inc., a U.S. wholesale provider of connectivity and network solutions. With its experienced leadership, solid back-office support and existing partnership with Telstra Corporation Limited, Australia's premier telecommunications and information services company, Extant was the ideal platform from which to grow our communications business. Extant became Dynegy*connect*, L.P., Dynegy Global Communications' North American subsidiary.

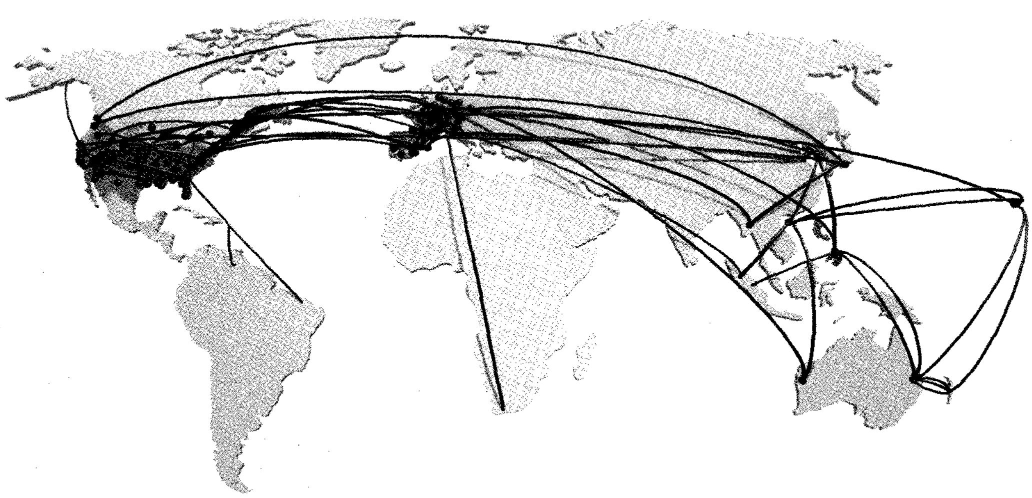
Dynegy*connect* is engaged in developing the first nationwide, optically switched data network that will consist of approximately 16,000 route miles and more than 40 points of presence by the end of 2001. Telstra is a 20 percent owner of Dynegy*connect* and our joint venture relationship gives us access to its extensive Asia-Pacific network.

We established our presence in Europe through the February 2001 acquisition of iaxis Limited, a London-based communications company. Dynegy Europe Communications, Dynegy Global Communications' European subsidiary, owns a Pan-European fiber optic network of approximately 8,750 route miles and state-of-the-art optical equipment and technology deployed at our collocation and hub sites throughout Europe. The network reaches 22 cities in seven countries and links to the United States via a trans-Atlantic connection between New York and London.

With our network in place, we are offering wholesale bandwidth and related services to our customers today. And using our core marketing, trading and logistics optimization skill set, we are taking other key steps to position ourselves in the emerging communications marketplace. These include minimizing capital investment by entering into partnerships, alliances and contracts with industry leaders that augment our expertise. We are deploying the necessary hardware and software to ensure pervasive connectivity throughout our global network, with the goal of providing bandwidth-on-demand around the world. We are also executing our metro strategy, tying multiple metro points of presence and fiber networks together. This strategy is designed to create liquidity and advance our marketing and trading activities. Finally, we are focusing on enabling complex content on our network by building a sales force capable of responding to the evolving needs of our wholesale customers.

With our network in place, we are offering wholesale bandwidth and related services to our customers today.

Through our strategic acquisitions, expertise and drive, we are committed to building shareholder and customer value in our communications business.



Global Communications Network

Dynegy's state-of-the-art fiber optic network provides customers with unparalleled global connectivity solutions.

RUNNING A MILE IS ONE THING. RUNNING A MARATHON IS ANOTHER.

TO FINISH A 26.2-MILE RACE LIKE THE HOUSTON MARATHON REQUIRES A COMBINATION OF PHYSICAL STRENGTH AND PSYCHOLOGICAL PREPARATION. EACH DAY, DYNEGY LEVERAGES THE STRENGTH OF OUR PHYSICAL ASSETS **WITH THE INTELLECTUAL CAPITAL** OF OUR PEOPLE TO DELIVER A HIGHER STANDARD OF PERFORMANCE.

{ we're always striving for our personal best }

Technology

At Dynegy, leveraging technology in the new Internet economy is about more than being connected. It is about creating a technologically enhanced culture where information is effectively utilized to do business faster, better and smarter than anyone else.

The cornerstone of Dynegy's technology platform is Dynegy*direct*, our electronic commerce portal. Dynegy*direct* represents an unprecedented commitment of technology and human capital in our company. It fuses our commodities expertise with the power of technology to transform our customers' desktops into virtual, customized trading floors and information centers. Dynegy*direct* offers real-time access to our energy and communications commodities, better control of markets, customized portfolios and around-the-clock support – all designed to enable our customers, partners and suppliers to make faster, more informed decisions.

Our technology initiatives are positively impacting our bottom line.

But Dynegy*direct* is more than a wholesale trading portal. It provides our people with unequaled market intelligence, equipping them to identify and capture new opportunities. Dynegy*direct* is also becoming our digital window to the world – a highly customized and scalable electronic means of doing business with Dynegy.

Our technology initiatives are positively impacting our bottom line. We have increased revenues and volumes, reduced administrative costs, eliminated brokerage fees, and gained greater insight on how best to meet customers' needs. Even so, we continue to search for opportunities to drive internal efficiency. Our quest to become an even more event-driven, knowledge-based organization led to the creation of Digital Dynegy, a strategic technology focus that provides us with a wider availability of information and enables our commercial organization to leverage technology in new and innovative ways.

Technology will continue to play a vital role in our company's future. It will support the expansion of our broadband business and integration of our products and services for a growing global customer base. Above all else, we will continue to focus on personalizing the digital experience, allowing our customers to transact with us more efficiently.

Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

COMPANY PROFILE

Dynegy Inc. ("Dynegy" or the "Company") is a leading provider of energy and communications solutions to customers in North America, the United Kingdom and Continental Europe. The Company's expertise extends across the entire convergence value chain, from broadband, power generation and wholesale and direct commercial and industrial marketing and trading of power, natural gas, coal, emission allowances, and weather derivatives to transportation, gathering and processing of NGLs. The Company also is involved in the transmission and distribution of electricity and natural gas and provides retail service to electric and gas consumers.

BUSINESS SEGMENTS

Dynegy's operations are reported in four segments: Dynegy Marketing and Trade ("DMT"), Dynegy Midstream Services ("DMS"), Transmission and Distribution and Dynegy Global Communications ("DGC"). DMT is actively engaged in value creation through marketing and trading of natural gas, power, coal and emissions allowances and the generation of electricity. DMS consists of the Company's North American midstream liquids operations, global liquefied petroleum gas transportation and NGL marketing operations. Dynegy's Transmission and Distribution segment includes the operations of IP, a natural gas and electric utility in Illinois. DGC was formed subsequent to the acquisition of Extant on September 29, 2000. DGC contributed most of the assets of the former Extant to a limited partnership called Connect of which it owns an 80 percent general partner interest. In addition to its interest in Connect, DGC will pursue other communications opportunities, such as the recently completed acquisition of iaxis, as it seeks to develop a world-wide bandwidth marketing and trading operation.

BUSINESS RISK – MANAGEMENT ASSESSMENT

Dynegy's operations and periodic returns are impacted by a myriad of factors, some of which may not be fully mitigated by risk-management methods. These risks include, but are not limited to, commodity price, interest rate and foreign exchange rate fluctuations, weather patterns, counterparty risk, operational risks, environmental risks, management estimations, strategic investment decisions, changes in competition and changes in regulation.

The Company is exposed to commodity price variability related to substantially all core marketing and trading businesses. In addition, fuel requirements at its power generation and gas processing facilities introduce additional commodity price risk to the Company. Dynegy routinely utilizes fixed-price forward purchase and sales contracts, futures and option contracts traded on the New York Mercantile Exchange and swaps and options traded in the over-the-counter financial markets to:

- Manage and hedge its fixed-price purchase and sales commitments;
- Provide fixed-price commitments as a service to its customers and suppliers;
- Reduce its exposure to the volatility of cash market prices;
- Protect its investment in storage inventories; and
- Hedge fuel requirements at its gas processing and power generation facilities.

Dynegy generally attempts to balance its fixed-price physical and financial purchase and sale commitments in terms of contract volumes and the timing of performance and delivery obligations. However, the Company may, at times, have a bias in the

($ in thousands)	December 31, 2000	1999	1998	1997	1996
Balance Sheet Data(2):					
Current assets	**$10,150,261**	$2,805,080	$2,117,241	$2,018,780	$1,936,721
Current liabilities	**9,404,995**	2,538,523	2,026,323	1,753,094	1,548,987
Property and equipment, net	**6,707,074**	2,017,881	1,932,107	1,521,576	1,691,379
Total assets	**21,406,438**	6,525,171	5,264,237	4,516,903	4,186,810
Long-term debt	**3,432,500**	1,333,926	1,046,890	1,002,054	988,597
Total equity	**3,597,920**	1,309,482	1,128,063	1,019,125	1,116,733

(1) The Illinova acquisition, which involved the acquisition of Ilinova Corporation effective January 1, 2000, was accounted for in accordance with the purchase method of accounting, and the results of operations attributed to the acquired business are included in the Company's financial statements and operating statistics beginning on the acquisition's effective date. The Destec acquisition, which involved the acquisition of Destec Energy, Inc. effective July 1, 1997, was accounted for in accordance with the purchase method of accounting, and the results of operations attributed to the acquired business are included in the Company's financial statements and operating statistics beginning on the acquisition's effective date. The Chevron combination, which involved the contribution by Chevron of all of its midstream and certain other assets in exchange for Dynegy Common and Participating Preferred Stock and indebtedness was accounted for as an acquisition of assets under the purchase method of accounting, and the results of operations attributed to the acquired assets are included in the Company's financial statements and operating statistics effective September 1, 1996.

(2) The Illinova acquisition, Destec acquisition and Chevron combination were each accounted for under the purchase method of accounting. Accordingly, the purchase price was allocated to the assets acquired and liabilities assumed based on their estimated fair values as of the effective dates of each transaction.

(3) Earnings before interest, taxes, depreciation and amortization ("EBITDA") is presented as a measure of the Company's ability to service its debt and to make capital expenditures. It is not a measure of operating results and is not presented in the Consolidated Financial Statements. The 1997 amount includes the non-cash portion of items associated with the $275 million impairment and abandonment charge.

(4) Includes all value assigned to the assets acquired in various business and asset acquisitions. The 1997 amount is before reduction for value received upon sale of Destec's foreign and non-strategic assets of approximately $735 million.

Item 6. SELECTED FINANCIAL DATA

The selected financial information presented below was derived from, and is qualified by reference to, the Consolidated Financial Statements of the Company, including the Notes thereto, contained elsewhere herein. The selected financial information should be read in conjunction with the Consolidated Financial Statements and related Notes and Management's Discussion and Analysis of Financial Condition and Results of Operations. Earnings (loss) per share ("EPS"), shares outstanding for EPS calculation and cash dividends per common share are adjusted for a two-for-one stock split on August 22, 2000 and, for all periods prior to February 1, 2000, are adjusted for the 0.69-to-one exchange ratio in the Illinova acquisition.

DYNEGY'S SELECTED FINANCIAL DATA

	Year Ended December 31,				
($ in thousands, except per share data)	**2000**	1999	1998	1997	1996
Statement of Operations Data[1]:					
Revenues	**$29,444,876**	$15,429,976	$14,257,997	$13,378,380	$7,260,202
Operating margin	**1,459,085**	543,875	428,687	385,294	369,500
General and administrative expenses	**329,417**	200,717	185,708	149,344	100,032
Depreciation and amortization expense	**388,558**	129,458	113,202	104,391	71,676
Asset impairment, abandonment severance and other charges	**–**	–	9,644	275,000	–
Net income (loss)	**$ 500,509**	$ 151,849	$ 108,353	$ (102,485)	$ 113,322
Earnings (loss) per share (EPS)[3]	**$ 1.48**	$ 0.66	$ 0.48	$ (0.49)	$ 0.60
Shares outstanding for EPS calculation	**314,630**	230,426	227,155	207,901	187,817
Cash dividends per common share	**$ 0.25**	$ 0.04	$ 0.04	$ 0.04	$ 0.04
Cash Flow Data:					
Cash flows from operating activities	**$ 438,074**	$ 8,839	$ 250,780	$ 278,589	$ (30,954)
Cash flows from investment activities	**(1,303,673)**	(318,664)	(295,082)	(510,735)	(111,140)
Cash flows from financing activities	**906,500**	326,688	49,622	204,984	176,037
Other Financial Data:					
EBITDA[3]	**$ 1,430,148**	$ 450,780	$ 363,517	$ 291,899	$ 289,023
Dividends or distributions to partners, net	**(111,904)**	(8,115)	(7,988)	(7,925)	(6,740)
Capital expenditures, acquisitions and investments[4]	**(2,111,755)**	(448,522)	(478,464)	(1,034,026)	(859,047)

would not have a material adverse effect on the use or value of said properties.

Item 3. LEGAL PROCEEDINGS

See Item 8, Financial Statements and Supplementary Data, Note 11, which is incorporated herein by reference.

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matter was submitted to a vote of the Company's security holders during the fourth quarter of 2000.

PART II

Item 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The Company's Class A common stock, no par value per share (the "Class A Common Stock"), is listed and traded on the New York Stock Exchange under the ticker symbol "DYN". The number of stockholders of record of the Class A Common Stock as of March 7, 2001 was 21,968.

The Company's Class B common stock, no par value per share (the "Class B Common Stock" and, together with the Class A Common Stock, the "Common Stock"), is neither listed nor traded on any exchange, and there is no established public trading market for such stock. All of the shares of Class B Common Stock are owned by Chevron U.S.A. Inc.

The following table sets forth the high and low sales prices for the Class A Common Stock for each full quarterly period during the fiscal years ended December 31, 2000 and 1999, respectively, as reported on the New York Stock Exchange Composite Tape, and related dividends paid per share of Common Stock during such periods. Such prices and dividends paid per share of Common Stock prior to August 22, 2000 are adjusted for a two-for-one stock split. Such prices and dividends paid per share of Common Stock prior to February 1, 2000 are adjusted for the 0.69-to-one exchange ratio in the Illinova acquisition.

SUMMARY OF DYNEGY'S COMMON STOCK PRICE AND DIVIDEND PAYMENTS

	High	Low	Dividend
2000:			
Fourth Quarter	**$56.625**	**$43.313**	**$0.075**
Third Quarter	**57.578**	**34.758**	**0.075**
Second Quarter	**39.938**	**27.625**	**0.075**
First Quarter	**31.367**	**17.301**	**0.022**
1999:			
Fourth Quarter	$17.618	$14.764	$0.009
Third Quarter	17.663	14.674	0.009
Second Quarter	15.036	10.326	0.009
First Quarter	10.870	7.428	0.009

During 2000, Dynegy paid quarterly cash dividends on its common stock of $0.022 per share in the first quarter and $0.075 per share for each of the second, third and fourth quarters. Dynegy intends to continue to pay a quarterly cash dividend of $0.075 per common share, subject to the availability of funds legally available therefor and declaration by the Board of Directors.

Mr. McLernon is President and owner of Stealth Network Technologies, Inc., a firm specializing in the sale and installation of concealed antennas and towers used by cellular and PCS companies. Prior to his position at Extant, Mr. McLernon was the founding President of LiTel Communications Inc. also known as LCI International, purchased by Qwest International, Inc., in 1999, the second all fiber network in the U.S. and a premier provider of voice and data services.

Kenneth E. Randolph is General Counsel and Secretary of the Company. He has served in this capacity with Dynegy since July 1987. In addition, he served as a member of the Company's Management Committee from May 1989 through February 1994 and managed the Company's marketing operations in the Western and Northwestern United States from July 1984 through July 1987. Prior to his employment with the Company, Mr. Randolph was associated with the Washington, D.C. office of Akin, Gump, Strauss, Hauer & Feld, L.L.P.

Robert D. Doty, Senior Vice President and Chief Financial Officer, joined the Company in 1991 and has served as the Company's principal financial officer since May 2000. In this capacity, Mr. Doty is responsible for the overall financial strategy and operations of the Company. He is responsible for accounting, finance, investor relations, risk control, treasury and tax. Mr. Doty previously served as Senior Vice President of Finance. Prior to joining the Company, Mr. Doty was employed by Arthur Andersen LLP.

Deborah A. Fiorito is Senior Vice President and Chief Communications Officer of Dynegy Inc. In that role, she is responsible for the Company's branding and advertising, media relations, internal and external communications and community relations functions. Prior to joining Dynegy in 2000, Ms. Fiorito managed public and governmental affairs for Chase Manhattan Bank-Texas and before that, directed media relations and internal communications for Apache Corporation and Mitchell Energy & Development Corp.

Milton L. Scott is Senior Vice President and Chief Administrative Officer. He is responsible for human resources, supply chain management, corporate planning, compliance and internal audit, risk management and insurance, corporate facilities management and corporate security for Dynegy Inc. Before joining the Company in 1999, Mr. Scott was employed by Arthur Andersen LLP for 22 years, where he served as partner-in-charge of the Gulf Coast region technology and communications practice.

R. Blake Young, President, Global Technology of Dynegy Inc., is responsible for technology deployment across Dynegy's core businesses including application systems development and support, technology infrastructure and technology planning and strategy. He is also responsible for Dynegy's e-commerce and e-business initiatives, advancing the application of new technology to Dynegy's businesses and identifying new technology-related alliances and investments. Prior to joining the Company, Mr. Young was with Campbell Soup Company in 1997 and 1998 and served as Chief Information Officer of its U.S. Grocery Division. Mr. Young was also employed by Tenneco Energy for approximately 13 years, where he served as Vice President and Chief Information Officer.

Item 2. PROPERTIES

A description of the Company's properties is included in Item 1, Business, and is incorporated herein by reference.

TITLE TO PROPERTIES

The Company believes it has satisfactory title to its properties in accordance with standards generally accepted in its operating industries, subject to such exceptions which, in the opinion of the Company,

Item 1A. EXECUTIVE OFFICERS

Set forth below are the names and positions of the current executive officers of the Company, together with their ages, position(s) and years of service with the Company.

Name	Age*	Position(s)	Served with the Company Since
C. L. Watson	51	Chairman of the Board, Chief Executive Officer, and a Director of the Company	1985
Stephen W. Bergstrom	43	President, Chief Operating Officer, and a Director of the Company	1986
Lawrence A. McLernon	62	Executive Vice President of Dynegy Inc. and Chairman and Chief Executive Officer, Dynegy Global Communications of the Company	2000
Kenneth E. Randolph	45	General Counsel and Secretary of the Company	1984
Robert D. Doty	43	Senior Vice President and Chief Financial Officer of the Company	1991
Deborah A. Fiorito	51	Senior Vice President and Chief Communications Officer of the Company	2000
Milton L. Scott	44	Senior Vice President and Chief Administrative Officer of the Company	1999
R. Blake Young	42	President, Global Technology of the Company	1998

* As of March 1, 2001

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

C. L. Watson is the Chairman and Chief Executive Officer of Dynegy Inc. He joined the Company as President in 1985 and became Chairman and Chief Executive Officer in 1989. Prior to his employment with the Company, he served as Director of Gas Sales for the Western United States for Conoco Inc. Mr. Watson serves on the board of directors of Baker Hughes Incorporated.

Stephen W. Bergstrom, President and Chief Operating Officer of Dynegy Inc., is responsible for the day-to-day execution of Dynegy's strategy across its operating business units. He is also a member of Dynegy's Board of Directors. Mr. Bergstrom was formerly President and Chief Operating Officer of Dynegy Marketing and Trade and Executive Vice President of Dynegy Inc. After joining the Company in 1986 as Vice President of Gas Supply, Mr. Bergstrom was promoted to Senior Vice President of Gas Marketing and Supply in 1987. Prior to joining the Company, Mr. Bergstrom was Vice President of Gas Supply for Enron Gas Marketing.

Lawrence A. McLernon, Executive Vice President of Dynegy Inc. and Chief Executive Officer, Dynegy Global Communications, is responsible for the execution of Dynegy's international communications strategy. Mr. McLernon previously served as Chairman, President and Chief Executive Officer of Extant, Inc. ("Extant") beginning in 1998, and joined Dynegy Inc. concurrent with the acquisition of Extant effective in 2000. He is also the founding partner and Senior Managing Director of McLernon & Associates, Ltd., a business development, management consulting and financial advisory firm, with emphasis on the telecom, multimedia and high technology industries. Additionally, require that information be organized and maintained about hazardous materials used or produced in the Company's operations. Certain of this information must be provided to employees, state and local government authorities and citizens. The Company believes it is currently in substantial compliance, and expects to continue to comply in all material respects, with these rules and regulations.

OPERATIONAL RISKS AND INSURANCE

Dynegy is subject to all risks inherent in the various businesses in which it operates. These risks include, but are not limited to, explosions, fires and product spillage, which could result in damage to or destruction of operating assets and other property, or could result in personal injury, loss of life or pollution of the environment, as well as curtailment or suspension of operations at the affected facility. Dynegy maintains general public liability, property and business interruption insurance in amounts that it considers to be adequate for such risks. Such insurance is subject to deductibles that the Company considers reasonable and not excessive. The occurrence of a significant event not fully insured or indemnified against, and/or the failure of a party to meet its indemnification obligations, could materially and adversely affect Dynegy's operations and financial condition. Moreover, no assurance can be given that Dynegy will be able to maintain insurance in the future at rates it considers reasonable.

The Company has designated two of its subsidiaries to assist in the management of certain liabilities principally relating to environmental, litigation and credit reserves. Together with the involvement of third parties whose primary consideration will be based on the realization of savings by the Company, the subsidiaries will attempt to find new ways to handle these costs in a more efficient manner.

EMPLOYEES

At December 31, 2000, the Company had approximately 3,260 employees at its administrative offices and approximately 2,518 employees at its operating facilities. Approximately 1,845 employees at Company-operated facilities are subject to collective bargaining agreements with one of the following unions: Paper, Allied-Industrial, Chemical & Workers International Union; International Brotherhood of Electrical Workers; Laborers International Union of North America; United Association of Journeymen Plumbers and Gas Fitters; International Association of Machinists and Aerospace Workers or Communications, Energy and Paperworkers Union. Management considers relations with both union and non-union employees to be satisfactory.

waste constituents at waste treatment, storage or disposal facilities.

The addition of fossil fuel-fired electric generation to Dynegy's portfolio, acquired in the Illinova acquisition, increases Dynegy's exposure to environmental regulation, as well as anticipated increased expenditures for remediation requirements and capital costs associated with Clean Air Act requirements and other federal and state legislation. Although the impact cannot be predicted with certainty, these expenditures are not anticipated to have a material adverse effect on Dynegy's operations or financial condition.

In connection with discrete asset acquisitions and sales, Dynegy may obtain or be required to provide indemnification against certain environmental liabilities. These indemnities are typically limited in scope and time period. To minimize its exposure for such liabilities, environmental audits of the assets Dynegy wishes to acquire are made, either by Dynegy personnel, outside environmental consultants, or a combination of the two. The Company has not heretofore incurred any material environmental liabilities arising from its acquisition or divestiture activities. The incurrence of a material environmental liability, and/or the failure of an indemnitor to meet its indemnification obligations with respect thereto, could have a material adverse effect on Dynegy's operations and financial condition.

Subject to resolution of the complaints filed by the EPA and the Department of Justice ("DOJ") against IP and Dynegy Midwest Generation, which are described in Item 8, Financial Statements and Supplementary Data, Note 11, management believes that it is in substantial compliance with, and is expected to continue to comply in all material respects with, applicable environmental statutes, regulations, orders and rules. Further, to the best of management's knowledge, other than the previously referenced complaints, there are no existing, pending or threatened actions, suits, investigations, inquiries, proceedings or clean-up obligations by any governmental authority or third party relating to any violations of any environmental laws with respect to the Company's assets or pertaining to any indemnification obligations with respect to properties previously owned or operated by the Company, which would have a material adverse effect on the Company's operations and financial condition. Dynegy's aggregate expenditures for compliance with laws and regulations related to the discharge of materials into the environment or otherwise related to the protection of the environment approximated $14.3 million in 2000 compared to approximately $3.6 million in 1999. The increase from the prior year is primarily due to increased ownership and control of generation assets as a result of the Illinova acquisition. Total environmental expenditures for both capital and operating maintenance and administrative costs are estimated to approximate $54 million in 2001.

In addition to environmental regulatory issues, the design, construction, operation and maintenance of the Company's pipeline facilities are subject to the safety regulations established by the Secretary of the Department of Transportation pursuant to the Natural Gas Pipeline Safety Act ("NGPSA"), or by state regulations meeting the requirements of the NGPSA, or to similar statutes, rules and regulations in Canada. The Company believes it is currently in substantial compliance, and expects to continue to comply in all material respects, with these rules and regulations.

The Company's operations are subject to the requirements of the Federal Occupational Safety and Health Act ("OSHA") and other comparable federal, state and provincial statutes. The OSHA hazard communication standard, the EPA community right-to-know regulations under Title III of SARA and similar state statutes

- adopting a shareholder rights plan, "poison pill" or similar device that prevents Chevron from exercising its rights to acquire shares of common stock or from disposing of its shares when required by Dynegy; and
- acquiring, owning or operating a nuclear power facility, other than being a passive investor in a publicly-traded company that owns a nuclear facility.

Generally, the provisions of the shareholder agreement terminate on the date Chevron and its affiliates cease to own shares representing at least 15 percent of the outstanding voting power of Dynegy. At such time all of the shares of Class B common stock held by Chevron would convert to shares of Class A common stock.

ENVIRONMENTAL AND OTHER MATTERS

Dynegy's operations are subject to extensive federal, state and local statutes, rules and regulations governing the discharge of materials into the environment or otherwise relating to environmental protection. Development of projects in international markets creates exposure and obligations to the national, provincial and local laws of each host country, including environmental standards and requirements imposed by these governments. Compliance with these statutes, rules and regulations requires capital and operating expenditures including those related to monitoring, pollution control equipment, emission fees and permitting at various operating facilities and remediation obligations. Failure to comply with these statutes, rules and regulations may result in the assessment of civil and even criminal penalties. The Company's environmental expenditures have not been prohibitive in the past, but are anticipated to increase in the future with the trend toward stricter standards, greater regulation, more extensive permitting requirements and an increase in the number and types of assets operated by the Company subject to environmental regulation. No assurance can be given that future compliance with these environmental statutes, rules and regulations will not have a material adverse effect on the Company's operations or its financial condition.

The vast majority of federal environmental remediation provisions are contained in the Superfund laws – the Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA") and the Superfund Amendments and Reauthorization Act ("SARA") and in the corrective action provisions of the Federal Resource Conservation and Recovery Act ("RCRA"). Typically, the U.S. Environmental Protection Agency ("EPA") acts pursuant to Superfund legislation to remediate facilities that are abandoned or inactive or whose owners are insolvent; however, the legislation may be applied to sites still in operation. Superfund law imposes liability, regardless of fault or the legality of the original conduct, on certain classes of persons that contributed to the release of a "hazardous substance" into the environment. These persons include the current or previous owner and operator of a facility and companies that disposed, or arranged for the disposal, of the hazardous substance found at a facility. CERCLA also authorizes the EPA and, in certain instances, private parties to take actions in response to threats to public health or the environment and to seek recovery for the costs of cleaning up the hazardous substances that have been released and for damages to natural resources from such responsible party. Further, it is not uncommon for neighboring landowners and other third parties to file claims for personal injury and property damage allegedly caused by the hazardous substances released into the environment. RCRA provisions apply to facilities that have been used to manage or are currently managing hazardous waste and which are either still in operation or have recently been closed. As amended, RCRA requires facilities to remedy any releases of hazardous wastes or hazardous resulting ownership interest is in excess of 40 percent.

If Chevron acquires more than 40 percent of Dynegy's voting securities, it must make an offer to acquire all of the outstanding stock of Dynegy. Any offer by Chevron for all of the outstanding stock is subject to an auction process, the details of which are set forth in the shareholder agreement.

Upon consummation of the Illinova acquisition, Chevron received shares of Class B common stock in exchange for the shares of common stock it owned in the former Dynegy and purchased additional shares of Class B common stock for cash. Chevron's ownership of Class B common stock entitles it to designate three members of Dynegy's Board of Directors. The shareholder agreement prohibits Chevron from selling or transferring shares of Class B common stock except in the following transactions:

- in a widely dispersed public offering; or
- a sale to an unaffiliated third party, provided that Dynegy is given the opportunity to purchase, or to find a different buyer to purchase, the shares proposed to be sold by Chevron.

Upon the sale or transfer to any person other than an affiliate of Chevron, the shares of Class B common stock are automatically converted into shares of Class A common stock.

The shareholder agreement further provides that Dynegy may require Chevron and its affiliates to sell all of the shares of Class B common stock under certain circumstances. These rights are triggered if Chevron or its Board designees block – which they are entitled to do under Dynegy's Bylaws – any of the following transactions two times in any 24-month period or three times over any period of time:

- the issuance of new shares of stock where the aggregate consideration to be received exceeds the greater of $1 billion or one-quarter of Dynegy's total market capitalization;
- any merger, consolidation, joint venture, liquidation, dissolution, bankruptcy, acquisition of stock or assets or issuance of common or preferred stock, any of which would result in payment or receipt of consideration having a fair market value exceeding the greater of $1 billion or one-quarter of Dynegy's total market capitalization; or
- any other transaction or series of related transactions having a fair market value exceeding the greater of $1 billion or one-quarter of Dynegy's total market capitalization.

However, upon occurrence of one of these triggering events and in lieu of selling Class B common stock, Chevron may elect to retain the shares of Class B common stock but forfeit its right and the right of its Board designees to block the transaction listed above. A block consists of a vote against a proposed transaction by either (a) all of Chevron's representatives on the Board of Directors present at the meeting where the vote is taken (if the transaction would otherwise be approved by the Board of Directors) or (b) any of the Class B common stock held by Chevron and its affiliates if the transaction otherwise would be approved by at least two-thirds of all other shares entitled to vote on the transaction, excluding shares held by management, directors or subsidiaries of Dynegy.

The shareholder agreement also prohibits Dynegy from taking the following actions:

- issuing any shares of Class B common stock to any person other than Chevron and its affiliates;
- amending any provisions in Dynegy's Articles of Incorporation or Bylaws which, in each case, contain or implement the special rights of holders of Class B common stock, without the consent of the holders of the shares of Class B common stock or the three directors elected by such holders;

utility companies and utility holding companies.

In recent years, several bills have been introduced in Congress that would repeal PUHCA. Repeal or significant modification to PUHCA could affect the Company and the electric utility industry generally. The Company cannot predict the outcome of the repeal efforts or the outlook for additional legislation in 2001.

IP also is subject to regulation by the FERC under the FPA as to transmission rates and certain other matters. The FERC has declared IP exempt from the NGA and related FERC orders, rules and regulations.

IP is further subject to regulation by the State of Illinois and the Illinois Commerce Commission ("ICC"). The Illinois Public Utilities Act was significantly modified in December 1997 by the Electric Service Customer Choice and Rate Relief Law of 1997, or P.A. 90-561, but the ICC still has broad powers of supervision and regulation with respect to rates and charges and various other matters. Under P.A. 90-561, IP must continue to provide bundled retail electric services to all who choose to continue to take service at tariff rates and must provide unbundled electric distribution services to all eligible customers as defined by P.A. 90-561 at rates determined by the ICC.

Among other things, P.A. 90-561 also required IP to participate in an independent system operator, or ISO. To that end, in January 1998, IP, in conjunction with eight other transmission-owning entities, filed with the FERC for all approvals necessary to create and to implement the Midwest Independent Transmission System Operator, Inc. ("MISO"). On September 20, 2000, IP announced its intention to withdraw its participation in the MISO and to become a member of the Alliance Regional Transmission Organization ("Alliance RTO"), pending approval from necessary regulatory bodies including FERC. On October 13, 2000, IP filed a notice of its intent to withdraw from the MISO with FERC. On December 22, 2000, IP signed an agreement to join the Alliance RTO, which was filed with the FERC on January 16, 2001. On February 23, 2001, IP reached a settlement in principle with all parties that allows it to withdraw from the MISO and join the Alliance RTO, effective upon FERC approval of the settlement, which is expected to occur in mid-April 2001. IP has accrued an adequate amount to cover its share of the settlement obligation. While the Company believes that being part of the Alliance RTO would provide IP greater flexibility, cost savings and maintained transmission reliability, the outcome of IP's withdrawal cannot be predicted with certainty.

IP's retail natural gas sales also are regulated by the ICC. Such sales are currently priced under a purchased gas adjustment mechanism under which IP's gas purchase costs are passed through to its customers if such costs are determined prudent.

SHAREHOLDER AGREEMENT

In connection with the Illinova acquisition, Chevron entered into a shareholder agreement with Dynegy governing certain aspects of their relationship, some of which are discussed below.

The shareholder agreement grants Chevron preemptive rights to acquire shares of Dynegy common stock in proportion to its then-existing ownership of Dynegy stock whenever Dynegy issues shares of stock or securities convertible into stock. In addition, Chevron may freely acquire up to 40 percent of the outstanding voting securities of Dynegy. However, should any acquisition by Chevron require Chevron to register under PUHCA, Dynegy has no obligation to take any action to avoid that registration. If Dynegy subsequently redeems or repurchases any shares, Chevron is not required to reduce its ownership interest, even if Chevron's

Dynegy's gas gathering facilities will remain classified as such and, therefore, exempt from FERC or other regulation.

Electricity Marketing Regulation. The Company's electricity marketing operations are regulated by the Federal Power Act ("FPA") and the FERC with respect to rates, terms and conditions of services and certain reporting requirements. Current FERC policies permit marketing and trading entities to market electricity at market-based rates.

In December 1999, the FERC issued Order No. 2000, which addressed a number of issues relating to the regional transmission of electricity. In particular, Order No. 2000 provided for regional transmission organizations ("RTOs") to control the transmission facilities within a particular region. The impact of these new RTOs on the Company's electricity marketing operations cannot be predicted.

Power Generation Regulation. The Company's cogeneration and independent power production operations are subject to regulation by the FERC under PURPA with respect to rates, the procurement and provision of certain services and operating standards. The Company's independent power production operations are subject to regulation under the FPA and the Energy Policy Act of 1992 and have received authority from FERC to sell at market-based rates.

The FPA grants the FERC exclusive ratemaking jurisdiction over wholesale sales of electricity in interstate commerce. Although facilities deemed QFs under PURPA are exempt from ratemaking and certain other provisions of the FPA, non-QF independent power projects and certain power marketing activities are subject to the FPA and the FERC's ratemaking jurisdiction. All of the projects currently owned or operated by Dynegy as QFs under PURPA are exempt from the FPA. Dynegy's independent power projects that are not QFs have, however, been granted market-based rate authority and comply with the FPA requirements governing approval of wholesale rates and subsequent transfers of ownership interests in such projects. In limited markets where Dynegy owns generation facilities, specifically, California and New York, the FERC has from time to time approved temporary price caps on wholesale power sales.

Dynegy's international power generation and transmission projects are subject to various national, provincial and local regulations, worldwide environmental standards and other requirements. The development of international power generation and transmission projects also may entail other multi-national regulatory considerations arising under United States law, including export/import controls, trade laws and other similar legislation.

State Regulatory Reforms. The Company's gas and power marketing and power generation businesses are subject to various regulations from the states in which they operate. Proposed reforms to these regulations are proceeding in several states, including California, the results of which could effect the Company's operations. While the impact of these regulations and reforms on the Company's businesses cannot be predicted with certainty, the Company does not believe that any such matters will have a material adverse effect on the Company's earnings or competitive position.

Illinois Power Company. IP is an electric utility as defined in the Public Utility Holding Company Act of 1935 ("PUHCA"). Its direct parent company, Illinova, and Dynegy are holding companies as defined in PUHCA. However, each of Illinova and Dynegy generally are exempt from regulation under section 3(a)(1) of PUHCA. They remain subject to regulation under PUHCA with respect to the acquisition of certain voting securities of other domestic public supplies for gathering and processing operations, obtaining supplies of raw product for fractionation, marketing of NGLs, crude oil, residue gas, condensate and sulfur and transportation of natural gas, NGLs and crude oil. Competition typically arises as a result of the location and operating efficiency of facilities, the reliability of services and price and delivery capabilities. Dynegy's leadership position in this industry provides unique opportunities to extract value from its investments. The Company believes it has the infrastructure, long-term marketing abilities, financial resources and management experience to enable it to compete effectively.

Dynegy believes its intellectual capital, technological advances, financial condition and access to capital markets will play an increasing role in distinguishing the Company from many of its competitors.

REGULATION

General. The Company is subject to regulation by various federal, state, local and foreign agencies, including the regulations described below. Although significant capital expenditures may be required to comply with these regulations, such compliance has not materially adversely affected the Company's historical earnings or competitive position.

Natural Gas Regulation. The transportation and sale for resale of natural gas in interstate commerce is subject to regulation by the FERC under the Natural Gas Act of 1938, as amended ("NGA"), and, to a lesser extent, the Natural Gas Policy Act of 1978, as amended ("NGPA"). The rates charged by interstate pipelines, including those owned by the Company, for interstate transportation and storage services also are regulated by the FERC.

In the first quarter of 2000, the FERC issued Order No. 637, which introduced several measures to increase competition for interstate pipeline transportation services. Interstate pipelines began implementation of the new regulations in May 2000. Order No. 637 has not adversely affected, and is not expected to adversely affect, the Company's operations.

Certain federal and provincial regulatory authorities require parties to transactions involving natural gas exports to hold export or removal permits. The Company's indirect wholly owned Canadian subsidiary, Dynegy Canada Inc., holds various Canadian and U.S. permits for such purposes. In the United Kingdom, the natural gas business is subject to regulation by the Office of Gas Supply.

Gas Processing. Dynegy's gas processing operations could become subject to FERC regulation under certain circumstances. The FERC has traditionally maintained that a processing plant is not a facility for transportation or sale for resale of natural gas in interstate commerce and, therefore, is not subject to jurisdiction under the NGA. Dynegy believes its gas processing plants are primarily involved in removing NGLs and, therefore, are exempt from FERC jurisdiction. Nevertheless, the FERC has made no specific finding as to Dynegy's gas processing plants. In addition, certain facilities downstream of processing plants are being considered for use in transporting gas between pipelines, which may invoke FERC's jurisdiction. Such jurisdiction likely would apply to the downstream facility as a pipeline, however, and not to the plants themselves.

Gas Gathering. The NGA exempts gas gathering facilities from the jurisdiction of the FERC, while interstate transmission facilities remain subject to FERC jurisdiction. Dynegy believes its gathering facilities and operations meet the current tests used by the FERC to determine nonjurisdictional gathering facility status, although the FERC's articulation and application of such tests have varied over time. No assurance can be given that all of formed a broadband marketing and trading subsidiary to pursue future bandwidth commoditization opportunities. Dynegy believes it entered the communications industry at the right time since the recent decline in the sector enabled it to do so at a relatively low cost. Dynegy will continue to pursue its "asset-lite" network strategy in building its world-wide broadband marketing and trading operation.

COMPETITION

Dynegy faces strong competition relating to the energy industry in the development of new electricity generating plants, the acquisition of existing generating facilities and the marketing and transportation of related commodities. The Company's primary competition is with energy marketing and trading companies as well as entities vying for market share in the deregulating domestic electricity generating and marketing industries. As a result of expanding energy operations in Europe, Dynegy also is experiencing competition in these markets from companies having substantial financial and intellectual resources.

Dynegy competes in its energy marketing and trading businesses with international, national and regional full-service energy providers, merchants, producers and pipelines for sales based on its ability to aggregate competitively priced supplies from a variety of sources and locations and to utilize efficient transportation. Further, Dynegy believes that technological advances in executing transactions will differentiate the competition in the near term. Operationally, Dynegy believes its ability to remain a low-cost merchant and to effectively combine value-added services, competitively priced supplies and price risk-management services will determine its level of success in its marketing and trading operations.

The demand for power may be met by generation capacity based on several competing technologies, such as gas-fired or coal-fired generation and power generating facilities which are often fueled by alternative energy sources including hydro power, synthetic fuels, solar, wind, wood, geothermal, waste heat, solid waste and nuclear sources. The Company's power generation business competes with other non-utility generators, regulated utilities, unregulated subsidiaries of regulated utilities and other energy service companies in the development and operation of energy-producing projects. The trend towards deregulation in the U.S. electric power industry has resulted in a highly competitive market for acquisition or development of domestic power generating facilities. As the nation's regulated utilities seek non-regulated investments and states move toward retail electric competition, these trends can be expected to continue for the foreseeable future.

Dynegy's entrance into the communications industry also subjects Dynegy to new competition with industry participants having substantial financial resources and significant industry expertise. Through the execution of its business plan, Dynegy expects to continue to compete with a substantial number of communications companies, many of which have greater resources and/or focus only on one industry or a niche within a single industry. While Dynegy believes that it will be successful in executing its business plan and in competing for market share with industry participants, failure to compete effectively could have a material adverse effect on Dynegy's profitability.

The Company's NGL marketing businesses face significant competition from a variety of competitors including major integrated oil companies, major pipeline companies and their marketing affiliates and national and local gas gatherers, processors, brokers, marketers and distributors of varying sizes and experience. The principal areas of competition include obtaining gas more than 130,000 tons of capacity, which support its worldwide marketing and trading activities. Two newly built VLGC are committed to charter and scheduled for 2001 and 2002 delivery.

Transmission & Distribution Segment

The transmission and distribution segment consists of IP's operations acquired in the Illinova Corporation ("Illinova") acquisition that closed in early 2000. IP is based in Decatur, Illinois and provides retail electric and natural gas service to residential, commercial and industrial consumers in substantial portions of northern, central and southern Illinois. Electric transmission service also is supplied to numerous utilities, municipalities and power marketing entities.

IP supplies retail electric service to an estimated population of 1.3 million and holds franchises in all of the 311 incorporated municipalities in which it furnishes such service. Retail natural gas service is supplied by IP to a population of approximately 1 million, and IP holds franchises in all of the 266 incorporated municipalities in which it furnishes such service. As of December 31, 2000, based on the number of billable meters, IP served over 587,000 active electric customers and over 412,000 active gas customers. IP's highest system peak hourly demand (native retail load) in 2000 was 3,473 MW on August 31, 2000. IP experienced its 2000 peak-day delivery of 647,004 MMBtu of natural gas on December 21, 2000.

IP has seven underground gas storage fields having a total capacity of approximately 11.5 Bcf and a total deliverability on a peak day of about 312,000 Mcf. IP also has contracts with various natural gas suppliers and producers for 5.1 Bcf of underground storage capacity, having total deliverability on a peak day of 93,000 Mcf. Operation of underground storage permits IP to increase deliverability to its customers during peak load periods by extracting gas which was previously put into storage during the off-peak months.

IP owns an interconnected electric transmission system of approximately 2,800 circuit miles and a distribution system that includes approximately 36,000 circuit miles of overhead and underground lines. Additionally, IP owns 757 miles of gas transmission pipe and 7,486 miles of gas distribution pipe. All of these properties are located in Illinois.

Dynegy Global Communications Segment

Dynegy Global Communications ("DGC") is engaged in pursuing and capturing opportunities in the converging energy and communications marketplace. In applying its convergence strategy, DGC is developing a global state-of-the-art, low-cost network that will enable Dynegy to become a leader in the broadband marketing and trading arena through integration of physical assets with marketing and trading acumen.

Dynegy*connect*, L.P., DGC's North American subsidiary, is developing the first nationwide optically switched data network that will consist of approximately 16,000 route miles and 44 POPs by the fourth quarter of 2001. This joint venture with Telstra Corporation Ltd., Australia's premier telecommunications company and 20 percent owner of Dynegy*connect*, L.P. ("Connect") provides us with access to its extensive Asia-Pacific network.

Dynegy Europe Communications ("DEC") was formed following the acquisition of iaxis Limited ("iaxis"), a previously privately held, London-based communications company. Through the completion of this purchase in the first quarter of 2001, DEC acquired a fiber optic network and state-of-the-art optical equipment and technology deployed at more than 20 strategically located co-location and hub sites throughout Europe. Dynegy also

Dynegy's natural gas processing services are provided at two types of plants, referred to as field and straddle plants. Field plants aggregate volumes from multiple producing wells into quantities that can be economically processed to extract NGLs and to remove water vapor, solids and other contaminants. Straddle plants are situated on mainline natural gas pipelines and allow operators to extract NGLs from a natural gas stream when the market value of NGLs separated from the natural gas stream is higher than the market value of the same unprocessed natural gas.

Fractionation. Liquids removed from natural gas at processing plants are generally in the form of a commingled stream of light liquid hydrocarbons (raw product). The commingled NGLs are separated at fractionation facilities into component products of ethane, propane, normal butane, isobutane and natural gasoline. The Company has ownership interests in three stand-alone fractionation facilities: two in Mont Belvieu, Texas and one in Lake Charles, Louisiana. The Company operates the Louisiana facility and one of the Mont Belvieu facilities. During 2000, these facilities fractionated an aggregate average of 224 thousand gross barrels per day.

NGL Trading and Wholesale Marketing. During 2000, the Company sold approximately 565 thousand barrels per day of NGLs to nearly 800 customers. In 2000, approximately 19 percent of the Company's NGL purchases and approximately 27 percent of NGL sales were made with Chevron or one of its affiliates.

The Company markets its own NGL production and also purchases NGLs from third parties for resale throughout the world. NGL trading sold approximately 363 thousand barrels per day of NGLs in North America in 2000. NGL trading extracts premiums from markets relying on processing and fractionating assets and performs commodity price risk-management activities. In 2000, Wholesale Marketing delivered 100 thousand barrels per day of LPG on average and provided other services to end markets, such as refineries and retailers of NGLs.

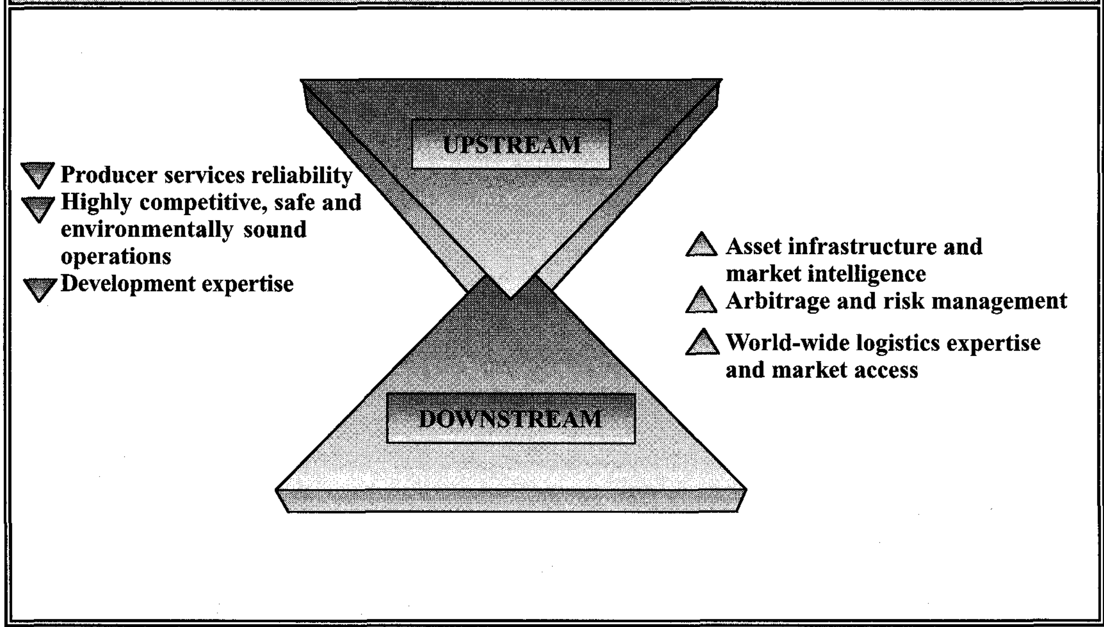
Dynegy also markets and trades LPG worldwide via chartered large-hull ships. In 2000, 102 thousand barrels per day of LPG was marketed and traded by this business. These operations acquire, market and trade product from producing areas in the North Sea, West Africa, Algeria and the Arabian Gulf as well as from the U.S. Gulf Coast region. Dynegy expects continued expansion of this international business through development of facilities in existing producing areas as well as in developing downstream markets.

Transportation Operations. The Company has developed a strategic mix of gas liquids transportation infrastructure that services product delivery needs of its worldwide liquids trading and wholesale marketing businesses. In the U.S., the Company owns over 9,700 miles of gas gathering and gas liquids pipelines, primarily in the Arklatex, Gulf Coast and Permian Basin regions. It also owns or leases approximately 1,700 railcars and owns or leases 72 tank trucks and 29 pressurized barges. These assets are deployed to serve its wholesale distribution terminals, Gulf Coast fractionators, underground storage facilities, pipeline injection terminals, and many of the nation's crude oil refineries. The Company's large-scale marine terminals are located in Texas, Florida and Louisiana, offering importers and wholesalers a variety of methods for transporting products to the marketplace. Dynegy controls over 60 million barrels of underground liquids storage capacity in Texas, Louisiana, and Mississippi, providing customers with the ability to store, trade, buy and sell specification products. The Company charters three VLGC (Very Large Gas Carriers), totaling

During 2000, DMS completed its asset divestiture strategy, which included the sale of all Mid-continent assets and the domestic crude oil marketing and trade business. Additionally, it was announced that the Company's Canadian midstream assets will be sold in the first quarter of 2001.

DMS is now positioned to maximize earnings from its vertically integrated core gas gathering, processing and downstream assets. Similar to DMT's convergence strategy, ownership and control of upstream processing and downstream fractionation, storage and transportation assets provide trading and arbitrage opportunities to DMS' NGL marketing and trading business. DMS' management, people and capital resources are aligned and focused on exploiting growth opportunities in all core areas, including the high-growth Gulf of Mexico region and areas outside North America.

DYNEGY'S MIDSTREAM BUSINESS



The Company is a recognized industry leader in substantially all midstream component businesses, ranging from natural gas processing to marketing NGLs to end users. After concluding the strategic Mid-continent asset sale, Dynegy is the sixth largest processor of natural gas in the United States.

Natural Gas Gathering and Processing. The natural gas processing industry is a major oil and gas industry segment, providing the necessary service of refining raw natural gas into marketable, pipeline quality natural gas and NGLs. The Company owns interests in 26 gas processing plants, including 16 plants it operates, as well as associated and stand-alone natural gas gathering pipeline systems. These assets are primarily located in key producing areas of Louisiana, New Mexico and Texas. During 2000, the Company processed on average 2.1 Bcf/d of natural gas and produced on average 97 thousand barrels per day of NGLs, net to the Company's interest.

Dynegy has the right to process substantially all of Chevron's processable natural gas in those geographic areas where it is economically feasible for Dynegy to provide such service.

these customers. Further, purchases from two suppliers accounted for approximately 29 percent of purchases made by the power plants.

In addition to ownership and operation of generating capacity, the Company may, at times, provide services to affiliate ventures in the areas of project development, engineering, regulatory and environmental affairs, operating and maintenance services, business management and fuel supply.

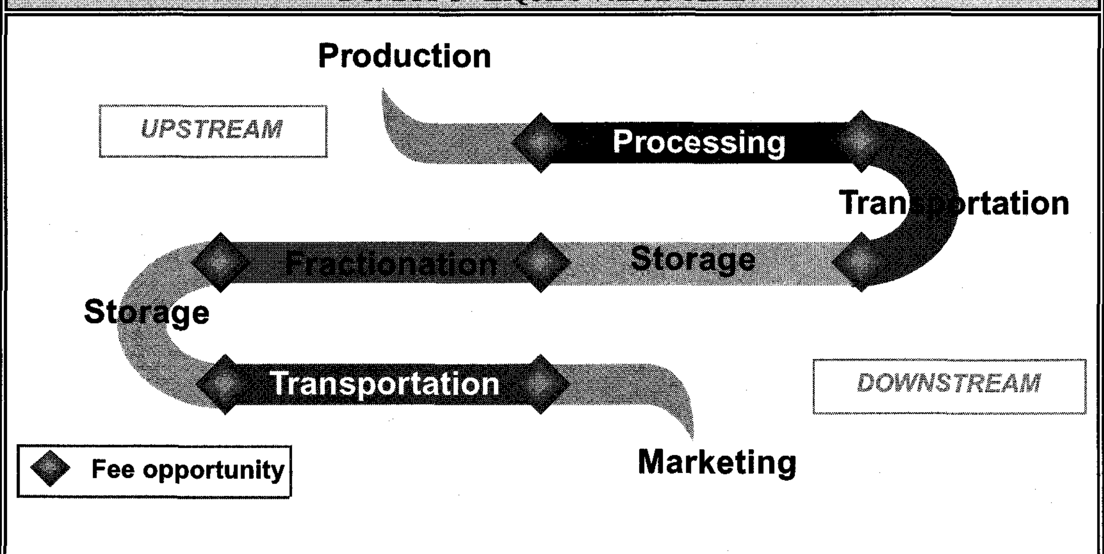
Retail. Deregulation of the retail gas and power markets is evolving to encourage greater competition and access to markets. Dynegy's retail gas and electric strategy is to strengthen key customer relationships by forming a number of regional retail gas and power alliances, which mitigates the large capital investment and financial risks necessitated by other national retail marketing strategies. The combination of Dynegy's low-cost energy supply (gas and power) with a regional utility's large, installed customer base and local name recognition positions each alliance to capture a significant portion of the local gas and power market when those markets fully open to competition.

Dynegy Midstream Services Segment

General. During 2000, Dynegy Midstream Services ("DMS") continued its commitment to operating principles that address cost control, strategic asset management, supply reliability, risk-management and culture. This commitment has led to highly competitive, safe and environmentally sound operations.

This segment consists primarily of the Company's North American midstream liquids operations and global LPG transportation and NGL marketing operations, located primarily in Houston and in London. North American midstream liquids operations are actively engaged in gathering and processing natural gas and transportation, fractionation, storage and marketing of NGLs. Dynegy has captured significant cost and operating efficiencies as well as attractive returns on services provided to the market through the independent ownership and operation of these assets. Dynegy's vertically integrated NGL infrastructure extracts profit throughout the value chain extending from inlet natural gas volumes gathered from the world's producing horizons to marketing NGLs to wholesalers and end users throughout the world.

DYNEGY'S "LIQUIDS VALUE CHAIN"



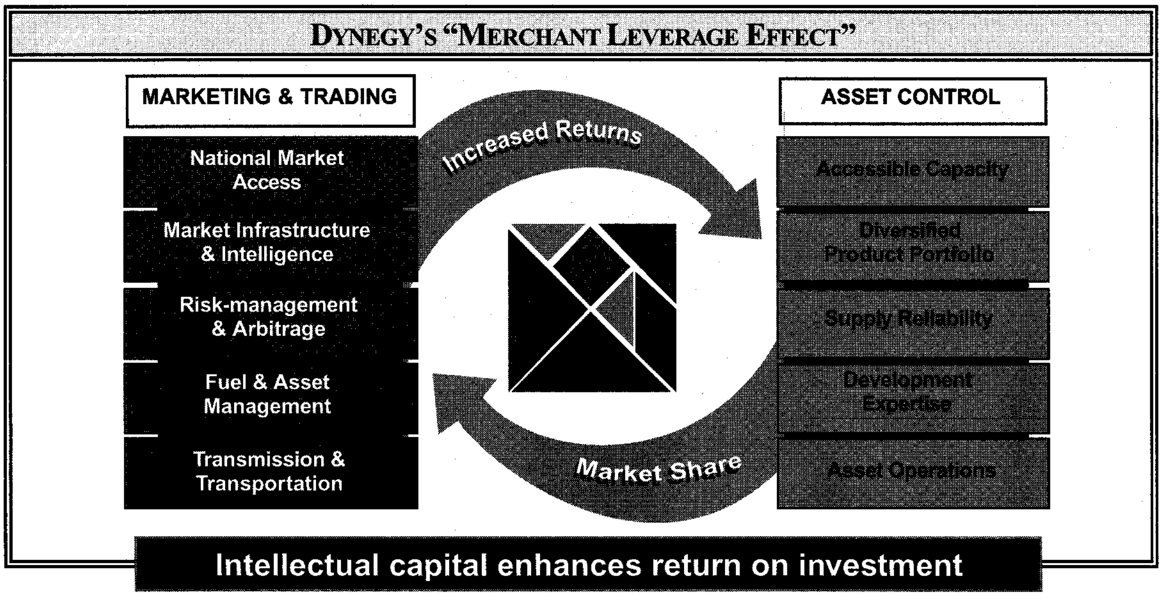
network, along with the scale and geographic reach of its gas marketing efforts, are important to the Company's success as a gas marketer. The Company uses a variety of transportation arrangements to move its customers' volumes, including short-term and long-term firm and interruptible agreements with pipelines and brokered firm contracts with its customers.

Natural Gas Sales. The Company sells natural gas under sales agreements that have varying terms and conditions intended to match seasonal and other changes in demand. The Company's wholesale customer base consists primarily of gas and electric utilities and industrial and commercial end-users and marketers of natural gas. For the year ended December 31, 2000, the Company sold an aggregate average of 10.9 Bcf/d of natural gas.

Natural Gas Storage. Natural gas storage capacity plays an important role in the Company's ability to act as a full-service natural gas marketer by allowing it to manage relatively constant gas supply volumes with uneven demand levels. Through the use of its storage capabilities, the Company offers peak delivery services to satisfy winter heating and summer electric-generating demands. Storage inventories also provide performance security or "backup" service to the Company's customers. The Company, at various times, leases short-term and long-term firm and interruptible storage.

Power. Dynegy markets electricity and power products and services, providing a 24-hour-a-day resource for the sale and purchase of power through access to wholesale markets throughout North America. The Company helps generation customers manage and optimize their fuel supplies, optimize generation assets and capacity utilization and maximize energy conversion and tolling opportunities. In addition, the Company provides market aggregation and sales assistance and risk-management services and strategies. The Company will, at times, contract for transmission capacity over regulated transmission lines in order to facilitate regional movements of power. In 2000, Dynegy sold 109.1 million megawatt-hours of electricity.

At December 31, 2000, Dynegy had interests in power projects in operation, under construction, in development or pending acquisition, having gross capacity of over 16,000 MW of electricity. These power plants are located in California, Florida, Georgia, Illinois, Kentucky, Louisiana, Michigan, Nevada, New York, North Carolina, Texas, Virginia, Washington, Costa Rica, Honduras, Jamaica, Panama and Peru. The Company's generation assets include projects that are Exempt Wholesale Generators ("EWGs") (including "Merchant Plants") or Qualifying Facilities ("QFs"). A Merchant Plant operates independently from designated power purchasers, and as a result, will generate and sell power to the market when electricity sales prices exceed the cost of production. Merchant Plants provide flexibility to the Company in executing its energy convergence strategy. A QF is operated under laws outlined in the Public Utilities Regulatory Policies Act of 1978 ("PURPA"), by the Federal Energy Regulatory Commission ("FERC") and by certain state legislatures, and typically sells the power it generates to a single power purchaser. The combined gross capacity of owned facilities in operation at December 31, 2000 approximated 13,100 MW of electricity and 3.3 million pounds per hour of steam sold to third parties. Approximately 65 percent of these facilities were solely gas-fired plants, with the remaining facilities fueled by coal, wind, heavy fuel oil or some combination thereof. In 2000, there were 29 external customers who bought power generated from the plants owned or controlled by Dynegy. Approximately 80 percent of power generation revenues were received from three of



Dynegy views its gas and power marketing and power generation businesses as an integrated unit. Control of merchant generation, or "Btu Conversion" capacity, when coupled with the Company's national wholesale gas and power marketing franchise, creates a wide range of value-creation opportunities benefiting both the Company and its customers. Dynegy's wholesale marketing and trading franchise adds value to its generation assets by providing national market access, market infrastructure and intelligence, risk-management and arbitrage opportunities, fuel management and procurement expertise and transmission expertise for inputs (gas, coal and fuel oil) and outputs (power). Generation capacity adds value to the Company's wholesale marketing and trading franchise by providing an outlet/ market for gas and coal supplies, a source of reliable power supply and an enhanced ability to structure innovative new products and services for customers.

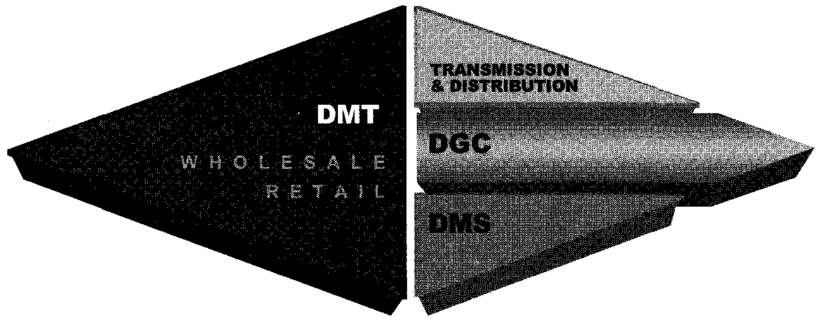
Dynegy will seek to replicate its vision of the domestic convergence businesses throughout Canada, the United Kingdom, Continental Europe and other markets as those markets open up to greater competition. Such convergence is subject to the unique attributes associated with any market deregulation in those areas. The Company maintains energy marketing and trading operations in Canada, the United Kingdom and Continental Europe and is continuing to assess local, regional and national markets, regulatory environments and other factors in order to support and direct future investment.

Natural Gas Purchases. Dynegy has the obligation to purchase at various index prices and the right to market substantially all of the natural gas produced or controlled by Chevron U.S.A. Inc. ("Chevron") in the United States (except Alaska). The Chevron relationship provides the Company with a significant, stable supply of natural gas which, when combined with gas supplies available from its network of other supply sources, allows it to effectively manage gas supplies and reduces the risk of short-term supply shortages during periods of peak demand.

Transportation. The Company arranges for transportation of the natural gas it markets from the supplier receipt point to the delivery point requested by the purchaser. The Company generally retains title to the natural gas from the receipt point to the delivery point and obtains transportation on unaffiliated pipelines. The Company believes that its understanding of the United States' pipeline

SEGMENT DISCUSSION

DYNEGY'S REPORTABLE SEGMENTS*



- $29 Billion Revenues
- $21 Billion Assets
- $18 Billion Equity Market Value
- 5,800 Employees

- 13,100 MW Generation Control
- 11 Bcf/d Natural Gas Sales
- 138 MM MW Produced & Sold
- 565 MBbls/d NGL Sales

* As of and for the year ended December 31, 2000

The Company has four reportable business segments: Dynegy Marketing and Trade, Dynegy Midstream Services, Transmission and Distribution and Dynegy Global Communications. Both the transmission and distribution and communications segments were formed in 2000.

Dynegy Marketing and Trade Segment

General. This segment is actively engaged in value creation through marketing and trading of natural gas, power, coal, emissions allowances and the generation of electricity principally under the name Dynegy Marketing and Trade ("DMT"). Dynegy is pursuing an integrated wholesale energy business approach based on execution of an energy convergence strategy. This strategy exploits the marketing, trading and arbitrage opportunities existing in the natural gas and power markets that are enhanced by the control and optimization of related physical assets. The combination of a portfolio of strategic generation assets and a diverse gas and power marketing franchise allow for extraction of value resulting from arbitrage opportunities occurring across energy products, across geographic regions and over time. The Company refers to this synergistic relationship between merchant generation capacity and energy marketing and trading as the "Merchant Leverage Effect".

PART I

Item 1. BUSINESS

THE COMPANY

Dynegy Inc. ("Dynegy" or the "Company") is a leading provider of energy and communications solutions to customers in North America, the United Kingdom and Continental Europe. The Company's leadership position extends across the entire convergence value chain, from broadband, power generation and wholesale and direct commercial and industrial marketing and trading of power, natural gas, coal, emission allowances and weather derivatives to transportation, gathering and processing of natural gas liquids. The Company also is involved in the transmission and distribution of electricity and natural gas and provides retail service to electric and gas consumers.

Dynegy's strategy involves ownership or control of physical assets, which provide marketing, trading and arbitrage opportunities that occur across commodity products, geographic regions and over time. The Company executes this strategy across substantially all of its businesses.

The principal executive office of the Company is located at 1000 Louisiana, Suite 5800, Houston, Texas 77002, and the telephone number of that office is (713) 507-6400. Dynegy and its affiliates maintain marketing and/or regional offices in Atlanta, Georgia; Aurora, Colorado; Boston, Massachusetts; Calgary, Alberta; Chicago, Illinois; Dallas, Texas; Decatur, Illinois; Elida, Ohio; Hong Kong, China; Hyderabad, India; London, England; Midland, Texas; Milan, Italy; Montreal, Quebec; Oakville, Ontario; Oklahoma City, Oklahoma; Paris, France; Pleasanton, California; Tampa, Florida; Washington D.C.; and Vienna, Austria.

DEFINITIONS

As used in this Form 10-K, the abbreviations listed below are defined as follows:

Bcf	Volume of one billion cubic feet.
Bcf/d	Volume of one billion cubic feet per day.
Btu	British thermal unit – a measure of the amount of heat required to raise the temperature of one pound of water one degree Fahrenheit.
Holdings	Dynegy Holdings Inc., a wholly owned subsidiary of Dynegy Inc.
IP	Illinois Power Company, a wholly owned subsidiary of Dynegy Inc.
LATA	A geographical location established by the Federal Communications Commission for the provision and administration of local telecommunication service. A LATA may encompass one or more area code.
LPG	Liquid petroleum gas.
MBbls/d	Thousands of barrels per day.
Mcf	Thousands of cubic feet.
MMBtu	Millions of Btu.
MMcf/d	Volume of one million cubic feet per day.
MW	Megawatts.
NGLs	Natural gas liquids.
POPs	Point of presence – the physical location within a LATA where a long distance carrier interfaces with the network of the local exchange carrier. The point at which the local exchange carrier terminates subscribers' circuits for long-distance dial-up or leased-line communciations.

DYNEGY INC.
FORM 10-K

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2000

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

For the transition period from __________ to __________

Commission file number: 1-15659

DYNEGY INC.

(Exact name of registrant as specified in its charter)

Illinois (State or other jurisdiction of incorporation or organization)	**74-2928353** (I.R.S. Employer Identification Number)
1000 Louisiana, Suite 5800 **Houston, Texas** (Address of principal executive offices)	**77002** (Zip Code)

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

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

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

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

Title of each class:	*Name of each exchange on which registered:*
None	—

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

Aggregate market value of voting stock held by non-affiliates of the registrant as of March 7, 2001, computed by reference to the closing sale price of the registrant's common stock on the New York Stock Exchange on such date: $12,051,431,963

Number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: Class A common stock, no par value per share, 238,944,006 shares outstanding as of March 7, 2001; Class B common stock, no par value per share, 86,499,914 shares outstanding as of March 7, 2001.

DOCUMENTS INCORPORATED BY REFERENCE. Portions of Parts I, II and IV incorporate the Annual Report to Shareholders for the fiscal year ended December 31, 2000. As to Part III (items 10, 11, 12 and 13), Notice and Proxy Statement for the 2001 Annual Meeting of Shareholders to be filed not later than 120 days after December 31, 2000.

A consistent focus of our community efforts is Habitat for Humanity, a nonprofit organization that builds decent, affordable housing for families in need. Employee volunteers in Houston, Texas and Decatur, Illinois dedicated thousands of hours to the 2000 Work Project, making the dream of owning a home a reality for three families.

Also in 2000, 80 percent of our Houston employees participated in Dynegy's campaign for the United Way of the Texas Gulf Coast. Employee donations and the company's matching gifts totaled more than $2 million, ranking Dynegy first on a per capita basis among companies that raised $1 million or more and among the top five Houston companies in overall contributions. In Decatur, employee and company fundraising efforts earned Illinois Power the United Way of Decatur/Macon County "Campaign of the Year" award.

Dynegy's dedication to the community extends beyond philanthropy and volunteerism to the protection and conservation of our natural resources. For example, Dynegy is conducting one of the largest non-timber company reforestation projects in the United States. At maturity, the project is expected to restore more than 100,000 acres of native forest habitat and associated ecosystems, as well as sequester more than 60 million tons of carbon.

In October 2000, Dynegy also became a charter member of the Environmental Protection Agency's Natural Gas STAR Program. Together, Dynegy and the EPA are identifying cost-effective methods to minimize equipment leaks, reduce methane releases from unit operations, and improve equipment efficiency.

Dynegy's dedication to the community extends beyond philanthropy and volunteerism to the protection and conservation of our natural resources.

These environmental initiatives and dozens more like them are driven by senior management and supported by Dynegy's Environmental, Health and Safety Commitment. We pledge to our shareholders, employees, customers, partners and the public that we will conduct our business in a way that respects the rights of our neighbors and protects the environment and the health and safety of our employees.

Community and Environmental Commitment

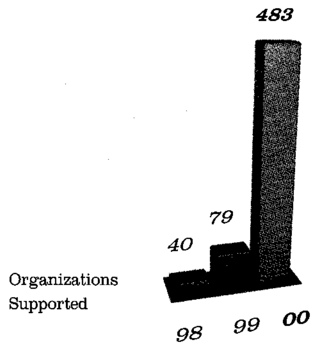
A determination to deliver. A drive for results. A desire to serve. This is how we do business at Dynegy. It is also how we make a positive difference in the communities in which we live and operate.

At the heart of the compassion we show our neighbors is the passion that characterizes our work ethic. Our commitment to the community is centered around Dynegy's core corporate value, ***We Believe in People***. Living in accordance with this value means

Time and money – two resources in short supply for those in need – are what we give back to our communities.

that we place the well-being of our employees, our neighbors and the environment above any operational goal.

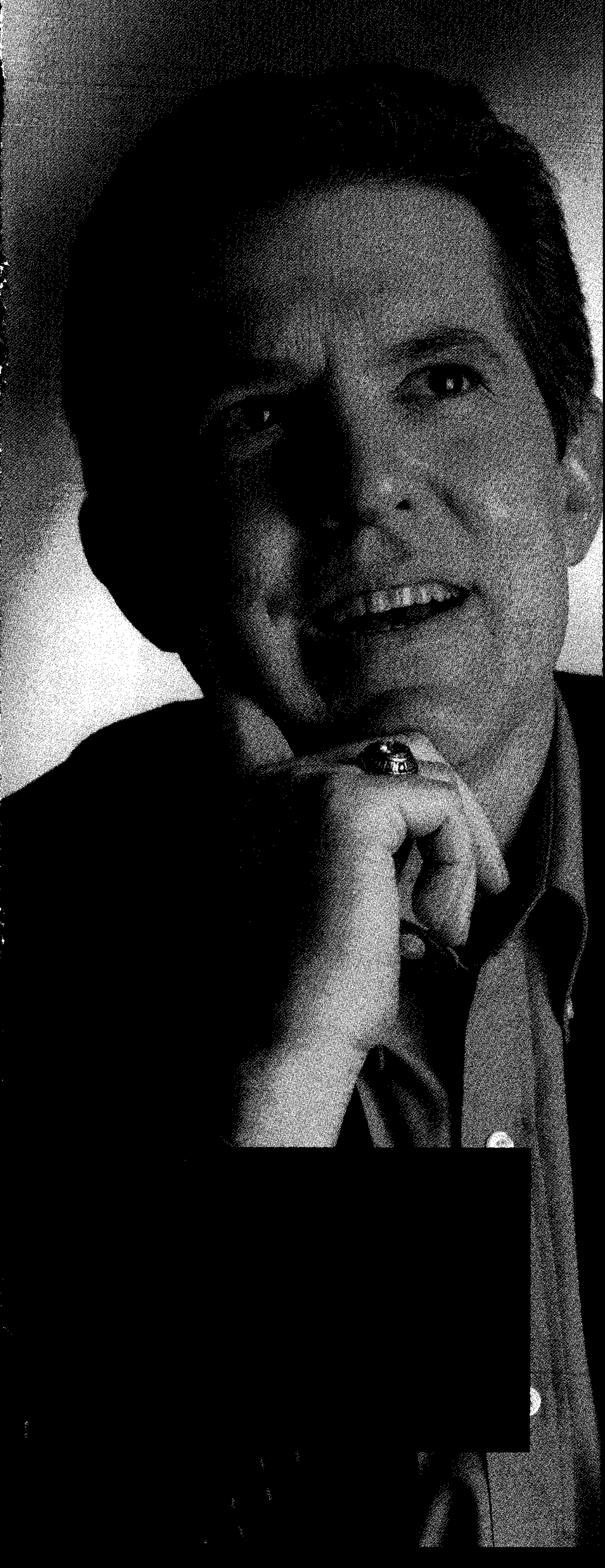
Time and money – two resources in short supply for those in need – are what we give back to our communities. In 2000, we launched Dare to Care, a new initiative that empowers our employees to give their time to the causes and organizations that matter most to them. Through Dare to Care, Dynegy employees are encouraged to take four hours a month of paid time off to volunteer in their communities. The results of this initiative have been outstanding, with a 100 percent increase in volunteerism.



Corporate and Employee Support

A true commitment to the community drives our company and employees to partner with a growing number of organizations each year.

Since 1998, our employees have built houses – like the Scott family's Houston home – with Habitat for Humanity. This year was no different, except we constructed three.



Dynegy Global Communications

This segment was formed at the beginning of the fourth quarter of 2000 and had a $12.3 million net loss for the year resulting from start-up investments associated with the expansion of the Company's global communications business.

This segment reflects the domestic operations acquired in the acquisition of Extant, which was completed on September 29, 2000. The segment also incurred fourth quarter costs associated with start-up activities underway related to the acquisition of iaxis, which closed in the first quarter of 2001. The segment also includes bandwidth trading and marketing operations and communications operations in the Far East, headquartered in Hong Kong.

Operating Cash Flow

Cash flow from operating activities totaled $438 million during the year ended December 31, 2000 compared to $9 million during 1999 and $251 million during 1998. Cash flow from operating activities before changes in working capital totaled $532 million during the year ended December 31, 2000 compared to $160 million during 1999 and $225 million during 1998. Increases in operating cash flow in 2000 primarily reflect higher net income, decreased investment in inventories and higher non-cash expenses such as depreciation and deferred taxes. Also significant to 2000 operating cash flow is the impact of non-cash risk-management activities, which reflect the significant market volatility in the 2000 period as well as successful execution of our global convergence business strategy. The low operating cash flow in 1999 primarily reflected increased investment in inventory and growing trading and marketing operations in 1999 as compared with 1998, as reflected in the non-cash earnings resulting from risk-management activities. Changes in other working capital accounts, which include prepayments, other current assets and accrued liabilities, reflect expenditures or recognition of liabilities for insurance costs, certain deposits, salaries, taxes other than on income, certain deferred revenue accounts and other similar items. Fluctuations in these accounts, period-to-period, reflect changes in the timing of payments or recognition of liabilities and are not directly impacted by seasonal factors.

Capital Expenditures and Investing Activities

Investing activities in 2000 included $1.2 billion related to the acquisitions of Illinova and Extant and $769 million in capital expenditures principally related to construction of power generation assets, improvements of existing facilities related to the transmission and distribution segment and investment associated with infrastructure. Also during 2000, Dynegy made investments in unconsolidated affiliates of $141 million. The aforementioned non-strategic asset dispositions in 2000 principally related to the sale of certain QFs and liquids assets for which the Company received cash inflows of approximately $856 million.

Dynegy financed the cash component of the Illinova acquisition initially with borrowings under a credit facility and commercial paper and the issuance of $200 million of Class B Common Stock to Chevron. On a long-term basis, Dynegy financed the acquisition of Illinova through a combination of sales of common equity, dispositions of certain non-strategic assets, proceeds from a minority interest contribution and from cash flow derived from its operations. Dynegy financed the acquisition of Extant with capacity under existing lines of credit and Class A Common Stock.

During the year ended December 31, 1999, the Company invested a net $319 million principally in power generation assets including a power generation partnershi and additional expenditures related capital improvements at existing faciliti and capital investment associated w technology infrastructure improveme approximated $118 million, $66 million and $85 million, respectively.

Interest expense totaled $251.3 million for the year ended December 31, 2000, compared with $78.2 million and $75.0 million for the comparable 1999 and 1998 periods, respectively. The increase in interest expense in 2000 is attributable to the increased indebtedness resulting from the acquisition of Illinova, both in terms of Illinova indebtedness assumed in the transaction and principal borrowed to effect the transaction. Additionally, interest rates on the variable rate borrowings were higher in 2000 as a result of market movements in such rates. Accumulated distributions associated with trust preferred securities and preferred stock of a wholly owned subsidiary totaled $29.2 million in 2000 and $16.6 million for each of the years ended December 31, 1999 and 1998.

Other income and expenses, net benefited operating results in each of the three years in the period ended December 31, 2000, by $95.1 million, $27.8 million and $39.1 million, respectively. The variability in these amounts principally reflects the pretax effect of certain of the previously disclosed non-recurring items. The remaining net amounts for all three years include other numerous less significant recurring and non-recurring income and expense items, as well as the financial effects of minority shareholder investment in some of our operations.

The Company reported an income tax provision of $260.6 million in 2000, compared to income tax provisions of $74.7 million and $50.3 million in 1999 and 1998, respectively. These amounts reflect effective rates of 34 percent, 33 percent and 32 percent, respectively. In general, differences between the aforementioned effective rates and the statutory rate of 35 percent result primarily from permanent differences attributable to amortization of certain intangibles, permanent differences arising from the effect of certain foreign equity investments and state income taxes. See Item 8, Financial Statements and Supplementary Data, Note 8, which is incorporated herein by reference.

Dynegy Marketing and Trade

DMT reported recurring segment net income of $355.1 million for the year ended December 31, 2000, compared with recurring net income of $100.9 million and $92.5 million for the years ended December 31, 1999 and 1998, respectively. Non-recurring items included in the 2000 segment results include the gains on sale of Accord and the QF interests partially offset by an allocated portion of the Illinova acquisition costs. Included in 1999 segment reported net income is the gain on sale of the Quicktrade investment. Included in 1998 reported segment net income earnings is an allocation of severance costs.

Recurring results of operations during the three-year period were influenced either positively or negatively by:

- New, regionally diverse merchant power generating capacity acquired or placed in service in 2000;
- Weather-influenced seasonal demand variability;
- Significantly increased commodity price volatility in 2000 as compared with the other periods;
- Expansion of gas and power marketing and trading in Continental Europe in late 1999 and 2000;
- Substantially larger base of operations in 2000 resulting principally from the Illinova acquisition causing increased depreciation and overhead expenses;
- Expanded investment in power generation joint ventures;
- Disposition of Accord; and
- Enhanced technology solutions, including Dynegy*direct*.

Total electric power produced and sol during 2000 aggregated 137.7 millio megawatt hours compared to 79.3 millic and 130.6 million megawatt hours duri 1999 and 1998, respectively. The 20

Three Years Ended December 31, 2000

For the year ended December 31, 2000, the Company realized net income of $500.5 million, or $1.48 per diluted share. This compares with $151.8 million, or $0.66 per diluted share, and $108.4 million, or $0.48 per diluted share, in 1999 and 1998, respectively. Recurring net income was $452.4 million, or $1.43 per diluted share, in 2000. This compares to $146.1 million, or $0.63 per diluted share, and $97.5 million, or $0.43 per diluted share, in 1999 and 1998, respectively. Components of recurring net income were as follows:

COMPONENTS OF RECURRING NET INCOME

	2000		1999		1998	
($ in thousands, except per share data)	**Income**	**EPS**	Income	EPS	Income	EPS
Net Income and EPS, as Reported	**$500,509**	**$ 1.48**	$151,849	$ 0.66	$108,353	$ 0.48
Gain on Sale – Accord Energy Limited(1)	**(58,478)**	**(0.18)**	–	–	–	–
Gain on Sale – QFs(2)	**(33,800)**	**(0.11)**	–	–	–	–
Loss on Sale – Crude Business(3)	**9,454**	**0.03**	–	–	–	–
Loss on Sale – Mid-continent Assets(4)	**8,551**	**0.03**	–	–	–	–
Impairment of a Liquids Asset(5)	**16,250**	**0.05**	–	–	–	–
Illinova Acquisition Costs(6)	**9,940**	**0.03**	–	–	–	–
Special Dividend(7)	**–**	**0.10**	–	–	–	–
Gain on Sale – Quicktrade Investment(8)	**–**	**–**	(5,765)	(0.03)	–	–
Gain on Sale – Ozark Pipeline(9)	**–**	**–**	–	–	(17,109)	(0.08)
Severance Charge	**–**	**–**	–	–	6,269	0.03
Recurring Net Income and EPS	**$452,426**	**$ 1.43**	$146,084	$ 0.63	$ 97,513	$ 0.43

(1) The Company sold its 25% participating preferred interest in Accord Energy Limited ("Accord") in the third quarter of 2000.

(2) The Company sold interests in certain QFs, pursuant to statutory requirements related to the Illinova acquisition.

(3) The Company sold its non-strategic domestic crude oil marketing and trade business in the first quarter of 2000.

(4) The Company disposed of its Mid-continent liquids processing assets in the first quarter of 2000 consistent with its liquids asset divestiture strategy.

(5) The impairment reserve is associated with a Canadian gas processing asset. The Company expects to sell this asset in the first quarter of 2001.

(6) Amounts relate to non-capitalizable merger related costs associated with the Illinova acquisition.

(7) The special dividend relates to amounts paid to certain shareholders pursuant to the execution of the Illinova acquisition.

(8) Gain relates to the disposition of a non-strategic investment sold in the first quarter of 1999.

(9) Gain relates to the monetization of a gas pipeline, not considered consistent with the Company's long-term strategy.

Revenues in each of the three years in the period ended December 31, 2000, totaled $29.4 billion, $15.4 billion and $14.3 billion, respectively. Operating cash flows totaled $438 million for the year ended December 31, 2000, compared with $9 million in 1999 and $251 million in 1998.

The 2000 results compare favorably to recurring net income reported in both 199 and 1998, principally reflecting th substantial growth in DMT's operation substantial increased volatility in k commodities impacting trading operatio successful execution of the Compan

RESULTS OF OPERATIONS

The following table reflects certain financial and operating data for the Company's business segments for the years ended December 31, 2000, 1999 and 1998, respectively.

DYNEGY'S FINANCIAL DATA

(In thousands)	Dynegy Marketing & Trade	Dynegy Midstream Services	Transmission and Distribution	Dynegy Global Communications	Total
2000					
Operating Margin	**$ 770,413**	**$ 255,635**	**$ 432,583**	**$ 454**	**$ 1,459,085**
Equity Earnings	**181,589**	**23,823**	**–**	**–**	**205,412**
Financial Contribution	**952,002**	**279,458**	**432,583**	**454**	**1,664,497**
Depreciation and Amortization	**(125,491)**	**(105,090)**	**(155,461)**	**(2,516)**	**(388,558)**
General and Administrative	**(190,263)**	**(61,318)**	**(62,385)**	**(15,451)**	**(329,417)**
Other Items	**140,444**	**(50,755)**	**3,448**	**1,931**	**95,068**
Earnings Before Interest and Taxes(1)	**$ 776,692**	**$ 62,295**	**$ 218,185**	**$ (15,582)**	**$ 1,041,590**
Net Income	**$ 440,170**	**$ 19,458**	**$ 53,145**	**$ (12,264)**	**$ 500,509**
Recurring Net Income(2)	**$ 355,070**	**$ 54,540**	**$ 55,080**	**$ (12,264)**	**$ 452,426**
1999					
Operating Margin	$ 283,594	$ 260,281	$ –	$ –	$ 543,875
Equity Earnings	62,185	17,669	–	–	79,854
Financial Contribution	345,779	277,950	–	–	623,729
Depreciation and Amortization	(35,116)	(94,342)	–	–	(129,458)
General and Administrative	(128,260)	(72,457)	–	–	(200,717)
Other Items	26,068	1,700	–	–	27,768
Earnings Before Interest and Taxes(1)	$ 208,471	$ 112,851	$ –	$ –	$ 321,322
Net Income	$ 106,631	$ 45,218	$ –	$ –	$ 151,849
Recurring Net Income(2)	$ 100,866	$ 45,218	$ –	$ –	$ 146,084
1998					
Operating Margin	$ 236,275	$ 192,412	$ –	$ –	$ 428,687
Equity Earnings	75,242	15,796	–	–	91,038
Financial Contribution	311,517	208,208	–	–	519,725
Depreciation and Amortization	(29,026)	(84,176)	–	–	(113,202)
General and Administrative	(110,543)	(75,165)	–	–	(185,708)
Impairment, Abandonment and Other	(2,723)	(6,921)	–	–	(9,644)
Other Items	4,181	34,963	–	–	39,144
Earnings Before Interest and Taxes(1)	$ 173,406	$ 76,909	$ –	$ –	$ 250,315
Net Income	$ 90,750	$ 17,603	$ –	$ –	$ 108,353
Recurring Net Income(2)	$ 92,520	$ 4,993	$ –	$ –	$ 97,513

(1) EBIT equals pretax earnings before deduction of interest expense.

(2) Recurring Net Income adjusts Net Income for identified non-recurring items described in the following narrative of the three year results.

approximately 1,400 MW of generating capacity. Dynegy also participates in the California markets as a wholesale marketer and trader of gas and power.

Management has closely monitored developments in California in an effort to manage our credit risk in these markets. Through our interest in West Coast Power, we have credit exposure to the ISO and PX, which primarily rely on receipts from California utilities to pay their bills. At February 28, 2001, Dynegy's portion of the receivables owed to West Coast Power by the ISO and PX was approximately $265 million. West Coast Power also sells directly to the DWR and pursuant to other bilateral agreements. In addition to its interest in West Coast Power, Dynegy has direct sales into California. Substantially all of our receivables for such direct sales represent either gas sales made under securitized arrangements or power sales to the DWR. Management is continually assessing Dynegy's exposure relative to its California receivables and has established reserves to reflect market uncertainties.

Since mid-February, West Coast Power has sold a substantial portion of its power either to the DWR or pursuant to commitments to other wholesale parties. On March 6, 2001, Dynegy announced that subsidiaries of West Coast Power had entered into an agreement to sell power to the DWR through 2004. The agreement, which became effective on the date it was announced, provides for sales by West Coast Power's subsidiaries of an aggregate of 1,000 MW through the remainder of 2001 and up to 2,300 MW from January 1, 2002 through 2004.

The FERC has jurisdiction over the sales for resale of electricity in interstate commerce, which includes sales into California wholesale power markets. On December 15, 2000, FERC issued an order that, among other things, applied a "soft" price cap of $150/MW hour to such sales to the PX and ISO. The "soft" cap allowed prices to exceed $150/MW hour when justified by costs. On March 9, 2001, FERC issued an order that presumptively approved prices up to $273/MW hour during January 2001 based on FERC's calculation of the marginal cost of producing power in the least efficient generating unit. The order directed electricity suppliers to either refund a portion of their January sales or justify their prices above this approved price. The order, if finalized, would obligate West Cost Power to refund approximately $22 million in revenues from January. The FERC stated in its order that it would address December 2000 transactions in a separate order. This order implements a departure from standard cost-based ratemaking and is likely to be appealed by both buyers and sellers of power.

West Coast Power's facilities primarily are intended to operate as peaking units. Because of the power shortage in California, these units have been running with much greater frequency and for longer durations than is typically the case. As the summer cooling season approaches, management must monitor the maintenance needs of the West Coast Power facilities, as well as the availability of emission credits which are required to operate the facilities.

The delay in payments to West Coast Power has resulted in a covenant default under West Coast Power's bank credit facility which is non-recourse to Dynegy. West Coast Power has been in active discussions with its lenders and believes that the default will be cured before any adverse action is taken by the lenders. The covenant default by West Coast Power does not adversely impact any other credit facilities or borrowing obligations of Dynegy or its subsidiaries.

Dividend Policy. In 2001, Dynegy intend to pay an annual dividend of $0.30 per share dividend of common stock, subject to liquidity and capital resource requirements. At December 31, 2000, the Company's various credit agreements totaled $2.0 billion. Of this credit capacity, $300 million, $1.4 billion and $300 million was authorized for use by Dynegy, Holdings and IP, respectively. After consideration of outstanding commercial paper and letters of credit, the unused borrowing capacity under the credit agreements at December 31, 2000 approximated $300 million, $1.1 billion and $152 million for Dynegy, Holdings and IP, respectively. As of March 9, 2001, the unused borrowing capacities were $300 million, $400 million and $31 million for Dynegy, Holdings and IP, respectively. The change in Holdings' capacity reflects the closing of the acquisition of generation facilities in the Northeast in January 2001.

Approximately $1.2 billion of shelf availability remains under outstanding registration statements consisting of $470 million at Dynegy Inc. and $750 million at Holdings. The shelf availability may be used for general corporate purposes. Management believes additional financing arrangements can be obtained at reasonable terms, if required.

Pursuant to and as a result of the Illinova acquisition, the Company's capital structure underwent substantial changes during 2000. Dynegy has reconstituted its capital structure to pre-Illinova acquisition levels through a series of transactions, which included over $1 billion of proceeds from offerings of Common Stock, $856 million of proceeds from the disposition of certain non-strategic assets and $850 million of proceeds from the sale of a minority interest in Illinova's unregulated generation assets.

Dynegy sold approximately 22.6 million shares of common equity during 2000. The offerings included approximately 18.4 million shares of Class A Common Stock sold to the public and approximately 4.2 million shares of Class B Common Stock sold to Chevron in private transactions, pursuant to Chevron's existing shareholder rights. Total net proceeds to Dynegy from these sales approximated $858 million. This amount is net of underwriting commissions and expenses of approximately $10.1 million. Additionally, Chevron purchased $200 million of Class B Common Stock concurrent with the acquisition of Illinova. Proceeds from the offerings were used to reduce commercial paper borrowings and to finance the Company's development and acquisition program.

OTHER MATTERS

Recent Acquisitions. In the first quarter of 2001, we completed the acquisition of the Central Hudson power generation facilities in New York. The Central Hudson facilities consist of a combination of base load, intermediate and peaking facilities aggregating 1,700 MW. The facilities are located approximately 50 miles north of New York City. The purchase price for the Central Hudson facilities was $903 million, plus certain working capital adjustments.

Also in the first quarter of 2001, Dynegy finalized the acquisition of iaxis, a London-based communications company, having optical equipment, co-location and hub sites throughout Europe.

Pending Acquisition. Dynegy and NRG Energy, Inc. have agreed to purchase 1,330 MW of power generation facilities from Sierra Pacific Resources, including the 740 MW gas-fired Clark Generating Station and 590 MW of the 605 MW, coal-fired Reid Gardner generating station. These facilities currently serve the growing Las Vegas, Nevada market. The asset purchase price is $634 million, subject to adjustments.

Closing of this transaction is subject to approval by various state and federal regulatory bodies, which primarily include the Public Utility Commission of Nevada, the

- Unexpected delays in industry-wide construction of new capacity;
- Unforeseen supply constraints or bottlenecks resulting from transmission failures or other factors;
- Unforeseen new technologies; and
- Other similar factors.

Dynegy's entire generation portfolio is subject to commodity price risk relating both to the price of electricity sold and the unhedged cost of the fuel used to generate the electricity. Additionally, in executing the Merchant Leverage Effect, the financial performance and cash flow derived from certain generating capacity (e.g., merchant peaking facilities) is impacted annually, either favorably or unfavorably, by changes in and the relationship between the costs of the commodity fueling the facilities and electricity prices, which in turn influences the volume of electricity generated by these assets.

Finally, as Dynegy executes its strategic plan, the risk of earnings volatility may increase due to unanticipated generation capacity exposure. As a result of supply contracts routine in the industry, Dynegy's exposure relating to asset performance resides not only with owned and controlled assets, but also with third-party operated facilities. The volatility of earnings, either favorable or unfavorable, will likely be most profound during periods of peak demand when, and if, regional industry-wide generation capacity fails or is curtailed. The increasing emphasis on the physical generation of electricity as a percentage of Dynegy's overall portfolio and strategy may substantially alter Dynegy's earnings risk profile over time.

Investment in generation assets may increase exposure to environmental and statutory laws and regulations. These exposures could result in increased capital improvement and/or environmental remediation expenditures to comply with governmental requirements. These expenditures could reduce the availability of discretionary capital to be employed in executing Dynegy's strategic plan.

Operating results associated with natural gas gathering, processing and fractionation activities are sensitive to changes in natural gas and NGL prices and the availability of inlet volumes. Unhedged natural gas prices represent a variable cost fuel component in both the natural gas processing and fractionation businesses. Variability in NGL prices may impact revenue derived from the sale of liquids processed by our upstream operations. The impact from changes in NGL prices on these operations results principally from the nature of contractual terms under which natural gas is processed and products are sold. In addition, similar to peaking electricity generating facilities, straddle processing plants are impacted by changes in, and the relationships between, natural gas and NGL prices, which in turn influences the volumes of gas processed at these facilities. Industry-wide fluctuations in straddle plant production creates variability in volumes available for fractionation, which in turn impacts, either favorably or unfavorably, the operating margin derived from our fractionation operations. Unilateral decisions made by producers to shut-in production or otherwise curtail workovers, reduce well maintenance activities and/or delay or cancel drilling activities, as a result of depressed commodity prices or other factors, negatively affects production available to the entire midstream industry. Because such decisions are based upon the pricing environment at any particular time, management cannot predict with precision the impact that such decisions may have on its business. Commodity price volatility may also affect operating margins derived from the Company's NGL marketing business.

Operating results in the transmission and distribution business may be impacted by

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors and Stockholders of Dynegy Inc.:

We have audited the accompanying consolidated balance sheets of Dynegy Inc. (an Illinois corporation) and subsidiaries as of December 31, 2000 and 1999, and the related consolidated statements of operations, changes in stockholders' equity and cash flows for each of the three years in the period ended December 31, 2000. These financial statements and the schedule referred to below are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Dynegy Inc. and subsidiaries as of December 31, 2000 and 1999, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The information included in Schedule I is presented for the purposes of complying with the Securities and Exchange Commission's rules and is not a required part of the basic financial statements. This schedule has been subjected to the auditing procedures applied in our audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

ARTHUR ANDERSEN LLP

Houston, Texas
March 6, 2001

Exhibit Number		Description
4.58	–	Supplemental Indenture dated July 15, 1998, to Mortgage and Deed of Trust dated November 1, 1943 providing for the issuance of $100,000,000 principal amount of 6.25% First Mortgage Bonds.(31)
4.59	–	Supplemental Indenture dated September 15, 1998, to General Mortgage Indenture and Deed of Trust dated November 1, 1992 providing for the issuance of $100,000,000 principal amount of 6.00% New Mortgage Bonds.(31)
4.60	–	Supplemental Indenture dated September 15, 1998, to Mortgage and Deed of Trust dated November 1, 1943 providing for the issuance of $100,000,000 principal amount of 6.00% First Mortgage Bonds.(31)
4.61	–	Supplemental Indenture dated October 1, 1998, to General Mortgage Indenture and Deed of Trust dated November 1, 1992 providing for the transfer of Letter of Credit providers on three series of Pollution Control Bonds totaling $111,770,000.(31)
4.62	–	Supplemental Indenture dated June 15, 1999, to Mortgage and Deed of Trust dated November 1, 1943 providing for the issuance of $250,000,000 principal amount of 7.50% New Mortgage Bonds.(32)
4.63	–	Supplemental Indenture dated June 15, 1999, to General Mortgage Indenture and Deed of Trust dated November 1, 1992 providing for the issuance of 7.50% New Mortgage Bonds.(32)
4.64	–	Supplemental Indenture dated July 15, 1999, to Mortgage and Deed of Trust dated November 1, 1943 providing for the issuance of $35,615,000 principal amount of 5.70% Series U Pollution Control Bonds.(32)
4.65	–	Supplemental Indenture dated July 15, 1999, to General Mortgage Indenture and Deed of Trust dated November 1, 1992 providing for the issuance of $35,615,000 principal amount of 5.70% Series U Pollution Control Bonds.(32)
4.66	–	Supplemental Indenture dated July 15, 1999, to Mortgage and Deed of Trust dated November 1, 1943 providing for the issuance of $84,150,000 principal amount of 7.40% Series V Pollution Control Bonds.(32)
4.67	–	Supplemental Indenture dated July 15, 1999, to General Mortgage Indenture and Deed of Trust dated November 1, 1992 providing for the issuance of $84,150,000 principal amount of 7.40% Series V Pollution Control Bonds.(32)
10.1	–	Dynegy Inc. Amended and Restated 1991 Stock Option Plan.~(10)
10.2	–	Dynegy Inc. 1998 U.K. Stock Option Plan.~(10)
10.3	–	Dynegy Inc. Amended and Restated Employee Equity Option Plan.~(10)
10.4	–	Dynegy Inc. 1999 Long Term Incentive Plan.~(15)
10.5	–	Dynegy Inc. 2000 Long Term Incentive Plan.~(15)
10.6	–	Employment Agreement, dated as of April 2, 1996, between NGC Corporation and Stephen A. Furbacher.~(3)
10.7	–	Employment Agreement, dated as of February 1, 2000, between Charles L. Watson and Dynegy Inc.~(15)
10.8	–	Employment Agreement, effective February 1, 2000, between Stephen W. Bergstrom and Dynegy Inc.~(15)
†10.9	–	Employment Agreement, effective February 1, 2000, between Robert D. Doty, Jr. and Dynegy Inc.~
10.10	–	Employment Agreement, effective February 1, 2000, between Kenneth E. Randolph and Dynegy Inc.~(15)
†10.11	–	Employment Agreement, effective as of February 1, 2000, between R. Blake Young and Dynegy Inc.~

Exhibit Number		Description
4.11	–	Registration Rights Agreement, dated as of May 28, 1997, among NGC Corporation, NGC Corporation Capital Trust I, Lehman Brothers, Salomon Brothers Inc. and Smith Barney Inc.[5]
4.12	–	Second Supplemental Indenture among NGC Corporation, Destec Energy, Inc. and The First National Bank of Chicago, as Trustee, dated as of June 30, 1997, supplementing and amending the Indenture dated as of June 30, 1997.[6]
4.17	–	Indenture, dated as of September 26, 1996, restated as of March 23, 1998, between NGC Corporation and The First National Bank of Chicago, as Trustee.[8]
4.18	–	Credit Agreement dated as of May 27, 1998, among NGC Corporation and The First National Bank of Chicago, Individually and as Administrative Agent, The Chase Manhattan Bank, Individually and as Syndication Agent, and NationsBank, N.A., Individually and as Documentation Agent, and the Lenders named therein.[7]
4.19	–	364-Day Revolving Credit Agreement dated as of May 27, 1998, among NGC Corporation and The First National Bank of Chicago, Individually and as Administrative Agent, The Chase Manhattan Bank, Individually and as Syndication Agent, and NationsBank, N.A., Individually and as Documentation Agent, and the Lenders named therein.[7]
4.20	–	First Amendment to 364-Day Revolving Credit dated as of May 5, 1999 among Dynegy Holdings Inc. and The First National Bank of Chicago, Individually and as Administrative Agent, The Chase Manhattan Bank, Individually and as Syndication Agent, and Citibank N.A., Individually and as Documentation Agent, and the Lenders Named therein.[11]
4.21	–	Indenture dated February 1, 1997, between Illinova Corporation and The First National Bank of Chicago, as Trustee.[17]
4.22	–	Distribution Agreement dated January 16, 1998, and Officers' Certificate and Issuer Order of Illinova Corporation, dated January 16, 1998 (with forms of Fixed Rate note and Floating Rate note attached), delivered pursuant to the terms of the Indenture dated as of February 1, 1997, between Illinova Corporation and The First National Bank of Chicago.[19]
4.23	–	Mortgage and Deed of Trust dated November 1, 1943.[18]
4.24	–	Supplemental Indenture dated July 1, 1991, providing for $84,710,000 principal amount of $7\frac{3}{8}\%$ First Mortgage Bonds due July 1, 2021.[20]
4.25	–	Supplemental Indenture No. 1 dated June 1, 1992.[21]
4.26	–	Supplemental Indenture No. 2 dated June 1, 1992.[21]
4.27	–	Supplemental Indenture No. 1 dated July 1, 1992.[21]
4.28	–	Supplemental Indenture No. 2 dated July 1, 1992.[21]
4.29	–	Supplemental Indenture dated September 1, 1992, providing for $72,000,000 principal amount of $6\frac{1}{2}\%$ First Mortgage Bonds due September 1, 1999.[22]
4.30	–	General Mortgage Indenture and Deed of Trust dated as of November 1, 1992.[23]
4.31	–	Supplemental Indenture dated February 15, 1993, to Mortgage and Deed of Trust dated November 1, 1943.[23]
4.32	–	Supplemental Indenture dated February 15, 1993, to General Mortgage Indenture and Deed of Trust dated November 1, 1992.[23]
4.33	–	Supplemental Indenture No. 1 dated March 15, 1993, to Mortgage and Deed of Trust dated November 1, 1943.[23]
4.34	–	Supplemental Indenture No. 1 dated March 15, 1993, to General Mortgage Indenture and Deed of Trust dated November 1, 1992.[23]
4.35	–	Supplemental Indenture No. 2 dated March 15, 1993, to Mortgage and Deed of Trust dated November 1, 1943.[23]

PART III

Item 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Certain of the information required by this Item 10 will be contained in the definitive Proxy Statement of the Company for its 2001 Annual Meeting of Stockholders (the "Proxy Statement") under the headings "Proposal 1 – Election of Directors" and "Executive Compensation – Section 16(a) Beneficial Ownership Reporting Compliance" and is incorporated herein by reference. The Proxy Statement will be filed with the Securities and Exchange Commission not later than 120 days after December 31, 2000. Reference is also made to the information appearing in Part I of this Annual Report on Form 10-K under the caption "Item 1A. Executive Officers."

Item 11. EXECUTIVE COMPENSATION

Information with respect to executive compensation will be contained in the Proxy Statement under the heading "Executive Compensation" and is incorporated herein by reference.

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Information regarding ownership of certain of the Company's outstanding securities will be contained in the Proxy Statement under the heading "Principal Stockholders" and is incorporated herein by reference.

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Information regarding related party transactions will be contained in the Proxy Statement under the headings "Principal Stockholders," "Proposal 1 – Election of Directors," "Executive Compensation – Indebtedness of Management" and "– Certain Relationships and Related Transactions" and is incorporated herein by reference.

or by known or unknown risks and uncertainties, including the following:

- The timing and extent of changes in commodity prices for energy, particularly natural gas, electricity and NGLs, or communications products or services;
- The timing and extent of deregulation of energy markets in the U.S. and Europe and the rules and regulations adopted on a transitional basis in such markets;
- The condition of the capital markets generally, which will be affected by interest rates, foreign currency fluctuations and general economic conditions, as well as Dynegy's ability to maintain its investment grade credit ratings;
- The effectiveness of Dynegy's risk-management policies and procedures and the ability of Dynegy's trading counterparties to satisfy their financial commitments;
- The liquidity and competitiveness of wholesale trading markets for energy commodities, including the impact of electronic or online trading in these markets;
- Operational factors affecting the start up or ongoing commercial operations of Dynegy's power generation or midstream natural gas facilities, including catastrophic weather related damage, unscheduled outages or repairs, unanticipated changes in fuel costs or availability, the unavailability of gas transportation, the unavailability of electric transmission service or workforce issues;
- Uncertainties regarding the development of, and competition within, the market for broadband services in the U.S. and Europe, including risks relating to competing technologies and standards, regulation, capital costs and the timing and amount of customer demand for high bandwidth applications;
- Cost and other effects of legal and administrative proceedings, settlements, investigations and claims, including environmental liabilities that may not be covered by indemnity or insurance; and
- Other U.S. or European regulatory or legislative developments that affect the demand for energy generally, increase the environmental compliance cost for Dynegy's power generation or midstream gas facilities or impose liabilities on the owners of such facilities.

Many of these factors will be important in determining Dynegy's actual future results. Consequently, no forward-looking statement can be guaranteed. Dynegy's actual future results may vary materially from those expressed or implied in any forward-looking statements.

All of Dynegy's forward-looking statements, whether written or oral, are expressly qualified by these cautionary statements and any other cautionary statements that may accompany such forward-looking statements. In addition, Dynegy disclaims any obligation to update any forward-looking statements to reflect events or circumstances after the date of this report.

Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is exposed to certain market risks indigenous to its industry or inherent in transactions entered into in the normal course of business. In executing risk-management strategies intended to mitigate these market risks, the Company routinely utilizes various types of financial instruments. The absolute notional contract amounts associated with commodity risk-management, interest rate and forward exchange contracts were as follows:

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors and Stockholders of Dynegy Inc.:

We have audited the accompanying consolidated balance sheets of Dynegy Inc. (an Illinois corporation) and subsidiaries as of December 31, 2000 and 1999, and the related consolidated statements of operations, changes in stockholders' equity and cash flows for each of the three years in the period ended December 31, 2000. These financial statements and the schedule referred to below are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Dynegy Inc. and subsidiaries as of December 31, 2000 and 1999, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The information included in Schedule I is presented for the purposes of complying with the Securities and Exchange Commission's rules and is not a required part of the basic financial statements. This schedule has been subjected to the auditing procedures applied in our audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

ARTHUR ANDERSEN LLP

Houston, Texas
March 6, 2001

Date: March 6, 2001	By: /s/ GEORGE L. KIRKLAND George L. Kirkland, Director
Date: March 6, 2001	By: /s/ R.H. MATZKE R.H. Matzke, Director
Date: March 6, 2001	By: /s/ JERRY JOHNSON Jerry Johnson, Director
Date: March 6, 2001	By: /s/ DANIEL L. DIENSTBIER Daniel L. Dienstbier, Director
Date: March 6, 2001	By: /s/ J. OTIS WINTERS J. Otis Winters, Director

(26) Incorporated by reference to exhibits to the Annual Report on Form 10-K for the Fiscal Year Ended December 31, 1993, of Illinova Corporation, Commission File No. 1-3004.
(27) Incorporated by reference to exhibits to the Quarterly Report on Form 10-Q for the Fiscal Quarter Ended September 30, 1994, of Illinova Corporation, Commission File No. 1-3004.
(28) Incorporated by reference to exhibits to the Annual Report on Form 10-K for the Fiscal Year Ended December 31, 1994, of Illinova Corporation, Commission File No. 1-3004.
(29) Incorporated by reference to exhibits to the Quarterly Report on Form 10-Q for the Fiscal Quarter Ended March 31, 1997, of Illinova Corporation, Commission File No. 1-3004.
(30) Incorporated by reference to exhibits to the Annual Report on Form 10-K for the Fiscal Year Ended December 31, 1997, of Illinova Corporation, Commission File No. 1-3004.
(31) Incorporated by reference to exhibits to the Registration Statement on Form S-3, filed January 22, 1999, of Illinova Corporation, Commission File No. 333-71061.
(32) Incorporated by reference to exhibits to the Quarterly Report on Form 10-Q for the Fiscal Quarter Ended June 30, 1999, of Illinova Corporation, Commission File No. 1-3004.
(33) Incorporated by reference to exhibits to the Annual Report on Form 10-K for the Fiscal Year Ended December 31, 1989, of Illinova Corporation, Commission File No. 1-3004.
(34) Incorporated by reference to exhibits to the Quarterly Report on Form 10-Q for the Fiscal Quarter Ended March 31, 1992, of Illinova Corporation, Commission File No. 1-3004.
(35) Incorporated by reference to exhibits to the Annual Report on Form 10-K for the Fiscal Year Ended December 31, 1984, of Illinova Corporation, Commission File No. 1-3004.
(36) Incorporated by reference to exhibits to the Annual Report on Form 10-K for the Fiscal Year Ended December 31, 1990, of Illinova Corporation, Commission File No. 1-3004.

(b) Reports on Form 8-K of Dynegy Inc.

1. During the quarter ended December 31, 2000, the Company filed a Current Report on Form 8-K dated October 2, 2000. Items 5 and 7 were reported and no financial statements were filed.
2. During the quarter ended December 31, 2000, the Company filed a Current Report on Form 8-K dated October 6, 2000. Items 5 and 7 were reported and no financial statements were filed.

Exhibit Number		Description
10.31	–	Shareholder Agreement of Energy Convergence Holding Company with Chevron U.S.A. Inc.[9]
10.32	–	First Amended and Restated Limited Partnership Agreement of the West Texas LPG Pipeline Limited Partnership.[11]
10.33	–	Amended and Restated Operating Agreement of the West Texas LPG Pipeline Limited Partnership and Chevron Pipeline Company.[11]
10.34	–	Dynegy Inc. Severance Pay Plan.~[10]
10.35	–	Registration Rights Agreement (Chevron U.S.A. Inc).[9]
10.36	–	Dynegy Midstream Services, Limited Partnership Supplemental Severance Pay Plan.~[11]
10.37	–	NGC Profit Sharing/401(k) Savings Plan.~[10]
10.38	–	First Amendment to NGC Profit Sharing/401(k) Savings Plan.~[10]
10.39	–	Second Amendment to NGC Profit Sharing/401(k) Savings Plan.~[10]
10.40	–	Third Amendment to Dynegy Inc. Profit Sharing/401(k) Savings Plan.~[11]
10.41	–	Fourth Amendment to Dynegy Inc. Profit Sharing/401(k) Savings Plan.~[15]
10.42	–	Fifth Amendment to Dynegy Inc. Profit Sharing/401(k) Savings Plan.~[15]
10.43	–	Sixth Amendment to Dynegy Inc. Profit Sharing/401(k) Savings Plan.~[15]
10.44	–	Seventh Amendment to Dynegy Inc. Profit Sharing/401(k) Savings Plan.~[15]
10.45	–	Employment Agreement, effective February 1, 2000, between Matthew K. Schatzman and Dynegy Inc.~[16]
10.46	–	Dynegy Inc. Deferred Compensation Plan for Certain Directors.~[16]
10.47	–	Illinova Corporation 1992 Long-Term Incentive Compensation Plan.[34]
10.48	–	Form of Employee Retention Agreement between Illinova Corporation and its elected officers, Illinois Power Company's elected officers, and the Presidents of Illinova Corporation's subsidiaries.[33]
10.49	–	Illinois Power Company Incentive Savings Trust and Illinois Power Company Incentive Savings Plan and Amendment I thereto.[35]
10.50	–	Illinois Power Company Incentive Savings Plan, as amended and restated effective January 1, 1991.[36]
10.51	–	Illinois Power Company Retirement Income Plan for salaried employees as amended and restated effective January 1, 1989, as further amended through January 1, 1994.[28]
10.52	–	Illinois Power Company Retirement Income Plan for employees covered under a collective bargaining agreement as amended and restated effective January 1, 1994.[28]
10.53	–	Illinois Power Company Incentive Savings Plan as amended and restated effective January 1, 1991, as further amended through amendments adopted December 28, 1994.[28]
10.54	–	Illinois Power Company Incentive Savings Plan for employees covered under a collective bargaining agreement as amended and restated effective January 1, 1991, as further amended through amendments adopted December 28, 1994.[28]
10.55	–	Clinton Nuclear Power Station Asset Purchase Agreement by and between Illinois Power Company, as Seller, and AmerGen Energy Company, L.L.C., as Buyer, dated as of June 30, 1999.[32]
†21.1	–	Subsidiaries of the Registrant.
†23.1	–	Consent of Arthur Andersen LLP.

† Filed herewith

DYNEGY INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

interest rates ranging from 4.08% to 7.75%. Certain series are redeemable at the option of IP, in whole or in part, at any time with not less than 30 days and not more than 60 days notice by publication.

Note 10 – MINORITY INTEREST

In June 2000, the Company contributed certain generating assets to a limited liability company in exchange for a managing interest. A third-party investor contributed $850 million in exchange for a non-controlling, preferred interest that entitles it to an adjustable preferred return related to an investment in certain generating facilities. The average rate of return was 7.63% on an annualized basis. The limited liability company is a separate legal entity from Dynegy and has separate assets, liabilities and business plans. Absent certain events, Dynegy has the option to acquire the minority investor's interest in the limited liability company. If Dynegy does not acquire the minority investor's interest before June 2010, the limited liability company will liquidate its assets and dissolve. The limited liability company is a consolidated entity and the third-party investor's interest in the limited liability company is reflected as a minority interest.

Minority interest on the consolidated balance sheet also includes third-party investments in certain other consolidated entities, principally relating to Dynegy Midstream Services ("DMS") operations and Dynegy Global Communications ("DGC"). The net pre-tax results attributed to minority interest holders in consolidated entities are classified in other expenses in the accompanying statements of operations.

Note 11 – COMMITMENTS AND CONTINGENCIES

Legal Proceedings. On August 3, 1998, Modesto Irrigation District ("MID") filed a lawsuit against PG&E and Destec Energy, Inc. ("Destec") in federal court for the Northern District of California, San Francisco division. The lawsuit alleges violation of federal and state antitrust laws and breach of contract against Destec. The allegations are related to a power sale and purchase arrangement in the city of Pittsburg, California. MID seeks actual damages from PG&E and Destec in amounts not less than $25 million. MID also seeks a trebling of any portion of damages related to its antitrust claims. By order dated February 2, 1999, the federal District Court dismissed MID's state and federal antitrust claims against PG&E and Destec; however, the Court granted MID leave of thirty days to amend its complaint to state an antitrust cause of action. On March 3, 1999, MID filed an amended complaint recasting its federal and state antitrust claims again PG&E and Destec and restated its breach of contract claim against Destec. PG&E and Destec filed motions to dismiss MID's revised federal and state antitrust claims and a hearing on the motions to dismiss was held in July 1999. On August 20, 1999, the District Court again dismissed MID's antitrust claims against PG&E and Destec, this time without leave to amend the complaint. As a result of the dismissal of the antitrust claims, the District Court also dismissed the pendant state law claims. MID has appealed the District Court's dismissal of its suit to the Ninth Circuit Court of Appeal. Oral arguments before the Ninth Circuit are scheduled for March 15, 2001. Outside counsel estimates that it could take as long as six months following the commencement of oral arguments before the Ninth Circuit delivers a decision on the case.

DYNEGY INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 8 – INCOME TAXES

The Company is subject to U.S. federal, foreign and state income taxes on its operations. Components of income tax expense (benefit) were as follows:

($ in millions)	Year Ended December 31, 2000	1999	1998
Current tax expense (benefit):			
Domestic	**$ 85**	$ –	$ (1)
Foreign	**25**	12	(1)
Deferred tax expense (benefit):			
Domestic	**158**	56	44
Foreign	**(7)**	7	8
Income tax provision:	**$261**	$75	$50

Components of income before income taxes were as follows:

($ in millions)	Year Ended December 31, 2000	1999	1998
Income before income taxes:			
Domestic	**$726**	$166	$134
Foreign	**36**	61	24
	$762	$227	$158

Deferred income taxes are provided for the temporary differences between the tax basis of Dynegy's assets and liabilities and their reported financial statement amounts. Significant components of deferred tax liabilities and assets were as follows:

($ in millions)	December 31, 2000	1999
Deferred tax assets:		
Loss carryforward	**$ 19**	149
Alternative Minimum Tax ("AMT") and other credits	**218**	12
	237	161
Valuation allowance	**–**	–
	237	161
Deferred tax liabilities:		
Items associated with capitalized costs	**1,663**	496
Net deferred tax liability	**$1,426**	$335

Realization of the aggregate deferred tax asset is dependent on the Company's ability to generate taxable earnings in the future. There was no valuation allowance established at December 31, 2000 or 1999, as management believes the aggregate deferred asset is more likely than not to be fully realized in the future.

Income tax provisions for the years ended December 31, 2000, 1999 and 1998, were equivalent to effective rates of 34 percent,

DYNEGY INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

At December 31, 2000, the Company had cost basis investments in eSpeed, Altra Energy Technologies, Inc., Canenerco, Ltd., Compton Petroleum Corporation, Enertech Capital Partners II L.P., Inc., Sagemaker, Inc., Energy Infrastructure Overseas, Ltd., Media.Net Communications, Inc. and various limited partnerships. Dynegy's aggregate investment in these entities totaled $72 million and $9 million at December 31, 2000 and 1999, respectively.

Note 7 – DEBT

Long-term debt outstanding consisted of the following at December 31:

($ in millions)	2000	1999
Dynegy Holdings Inc.		
Commercial Paper	$ 115	$ 456
Money Market Lines of Credit	–	40
Canadian Credit Agreement	59	40
Senior Notes, 6.75% through 8.125%, due 2002 through 2026	1,200	900
Non-Recourse Debt	–	89
Illinova Corporation		
Senior Notes, 7.125%, due 2004	103	–
Medium Term Notes, 6.15% through 6.46%, due 2001 through 2002	50	–
Illinois Power Company		
Commercial Paper	148	–
New Mortgage Bonds, 5.625% through 7.5%, due 2002 through 2025	674	–
New Mortgage Bonds, 4.5% through 7.4%, due 2024 through 2028 (Pollution control series A, B, U, & V)	175	–
New Mortgage Bonds, Adjustable rate, Series due 2028 through 2032 (Pollution control series M, N, O, P, Q & R)	261	–
Variable Rate Long-Term Debt, due 2017	75	–
Transitional Funding Trust Notes, 5.26% through 5.65%, Due 2001 through 2008	689	–
	$3,549	$1,525
Less: Long-Term Debt due within one year	116	191
Total Long-Term Debt	$3,433	$1,334

Aggregate maturities of the principal amounts of all long-term indebtedness are: 2001 – $116 million; 2002 – $402 million; 2003 – $276 million; 2004 – $186 million; 2005 – $607 million; and beyond – $2 billion.

Commercial Paper, Money Market Lines of Credit and Extendible Floating Rate Loans. The Company utilizes commercial paper proceeds and borrowings under uncommitted money market lines of credit for general corporate purposes, including short-term working capital requirements. The commercial paper programs for Dynegy, Dynegy Holdings Inc. ("DHI") and IP are limited to and fully supported by existing credit agreements. Weighted average interest rates on amounts outstanding under the commercial paper program for DHI were 8.1% and 6.2% at December 31, 2000 and 1999, respectively. The weighted average interest rate on

DYNEGY INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 5 – PROPERTY, PLANT AND EQUIPMENT

Investments in property, plant and equipment consisted of:

($ in millions)	December 31, 2000	1999
Dynegy Marketing and Trade	**$3,505**	$ 638
Dynegy Midstream Services:		
Natural gas processing	**934**	1,211
Fractionation	**198**	177
Liquids marketing	**268**	141
Natural gas gathering and transmission	**193**	354
Crude oil	**9**	54
Transmission and Distribution	**1,906**	–
Dynegy Global Communications	**58**	–
Other	**285**	–
	7,356	2,575
Less: accumulated depreciation	**(649)**	(557)
	$6,707	$2,018

Interest capitalized related to costs of projects in process of development totaled $30.1 million, $16.7 million and $7.6 million for the years ended December 31, 2000, 1999 and 1998, respectively. In 2000, a $25 million impairment reserve was recorded related to Canadian gas processing assets.

Note 6 – INVESTMENT IN UNCONSOLIDATED AFFILIATES

The Company's investments in unconsolidated affiliates, accounted for under the equity method, include:

NICOR Energy, L.L.C. ("NICOR"). NICOR is a retail energy alliance formed with NICOR Energy Management Services, a subsidiary of NICOR Inc., to provide energy services to industrial, commercial and residential customers in the Midwest. Dynegy owns a 50 percent interest in this Delaware limited liability company. At December 31, 2000, the unamortized excess of the Company's investment in this joint venture over its equity in the underlying net assets of the affiliate approximated $2 million.

SouthStar Energy Services L.L.C. ("SouthStar"). SouthStar is a retail energy alliance formed with AGL Resources Inc. and Piedmont Natural Gas Company, which offers a combination of unregulated energy products and services to industrial, commercial and residential customers in the Southeast. Dynegy owns a 20 percent interest in this Delaware limited liability company.

Power Generation Partnerships. Dynegy owns interests in joint ventures, each formed to build, own and operate cogeneration facilities. The Company's interest in each of these joint ventures is 50 percent. Construction of the cogeneration facilities owned by each of the joint ventures was project financed, and the obligations of the joint ventures are non-recourse to the Company. At December 31, 2000, the unamortized excess of the Company's investment in these joint ventures over its equity in the underlying net assets of the affiliates approximated $148 million.

Gulf Coast Fractionators ("GCF"). GCF is a Texas limited partnership that owns and operates a NGL fractionation facility in

DYNEGY INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Value of Financial Instruments." The estimated fair-value amounts have been determined by the Company using available market information and selected valuation methodologies. Considerable judgment is required in interpreting market data to develop the estimates of fair value. The use of different market assumptions or valuation methodologies could have a material effect on the estimated fair-value amounts.

The carrying values of current financial assets and liabilities approximate fair values due to the short-term maturities of these instruments. The carrying amounts and fair values of the Company's other financial instruments were:

	December 31,			
	2000		1999	
($ in millions)	**Carrying Amount**	**Fair Value**	Carrying Amount	Fair Value
Dynegy Holdings Inc.				
Commercial Paper	**$ 115**	**$ 115**	$456	$ 456
Money Market Lines of Credit	**–**	**–**	40	40
Canadian Credit Agreement	**59**	**59**	40	40
Senior Notes, 6.75% through 8.125%, due 2002 through 2026	**1,200**	**1,200**	900	858
Non-Recourse Debt	**–**	**–**	89	89
Preferred Securities of a Subsidiary Trust	**200**	**189**	200	191
Interest Rate Risk-Management Contracts	**–**	**–**	–	(3)
Foreign Currency Risk-Management Contracts	**2**	**2**	3	3
Commodity Risk-Management Contracts	**970**	**958**	97	94
Illinova Corporation				
Senior Notes, 7.125%, due 2004	**103**	**101**	–	–
Medium Term Notes, 6.15% through 6.46%, due 2001 through 2002	**50**	**50**	–	–
Serial Preferred Securities of a Subsidiary	**46**	**27**	–	–
Illinois Power Company				
Commercial Paper	**148**	**148**	–	–
New Mortgage Bonds, 5.625% through 7.5%, due 2002 through 2025	**674**	**671**	–	–
New Mortgage Bonds, 4.5% through 7.4%, due 2024 through 2028 (Pollution control series A, B, U, & V)	**175**	**173**	–	–
New Mortgage Bonds, Adjustable rate, Series due 2028 through 2032 (Pollution control series M, N, O, P, Q & R)	**261**	**262**	–	–
Trust Originated Preferred Securities	**100**	**99**	–	–
Variable Rate Long-Term Debt, due 2017	**75**	**75**	–	–
Transitional Funding Trust Notes, 5.26% through 5.65%, due 2001 through 2008	**689**	**677**	–	–
Dynegy Global Communications				
Investment in warrants	**14**	**14**	–	–

The financial statement carrying amounts of the Company's credit agreement, variable-rate debt and power generation notes were assumed to approximate fair value. The fair values of the Company's other long-term indebtedness, including the Preferred

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measurement is also practiced daily against the Dynegy portfolios with Value at Risk, stress testing and scenario analysis on the commercial profiles.

Accounting for Risk-Management Activities. Substantially all of the operations of the Company's world-wide gas marketing, power marketing, bandwidth marketing and certain liquids marketing operations are accounted for under a mark-to-market accounting methodology. Under mark-to-market accounting, fixed-price forwards, swaps, options, futures and other financial instruments with third parties are reflected at fair market value, net of reserves, with resulting unrealized gains and losses recorded as assets and liabilities from risk-management activities in the consolidated balance sheets. These assets and liabilities are affected by the actual timing of settlements related to these contracts and current-period changes resulting primarily from newly originated transactions and the impact of price movements. These changes are recognized as revenues in the consolidated statements of operations in the period in which the change occurs.

Market prices used to value outstanding financial instruments reflect management's consideration of, among other things, closing exchange and over-the-counter quotations, the time value of money and volatility factors underlying the commitments. In certain of these markets, long-term contract commitments may extend beyond the period in which reliable or any market quotations for such contracts are available. The lack of reliable long-term pricing requires the use of mathematical models to value these commitments. These mathematical models utilize historical market data and other factors to forecast future prices, which are used to value the commitments that reside outside of the liquid market quotations. The application of forecasted pricing curves to contractual commitments may, as with pricing curves derived from quoted market prices, result in realized cash returns on these commitments that vary, either positively or negatively, from the results estimated through application of the mathematical model. Dynegy believes that its mathematical models utilize state-of-the-art technology and pertinent industry data in order to forecast certain pricing curves. However, there can be no assurance that actual cash returns will not vary materially from those estimated through application of such models.

Quantitative and Qualitative Market Risk Disclosures. Dynegy measures entity-wide market risk in its financial trading and risk-management portfolios using Value at Risk. Value at Risk provides a consistent measure of risk across diverse energy markets and products with different risk factors to determine the overall corporate risk tolerance, risk targets and position limits. The use of this methodology requires a number of key assumptions including the selection of a confidence level and the holding period to liquidation. Dynegy relies on Value at Risk to determine the maximum potential reduction in the trading portfolio value allowed within a given probability over a defined period. Because of limitations to Value at Risk, Dynegy uses other means, such as market volatility, liquidity, event and correlation risk, to monitor market risk in its trading portfolios. In addition, Dynegy performs regular stress and scenario analyses to measure extreme losses due to extraordinary events. Value at Risk and stress testing results are reviewed to determine the maximum allowable reduction in the total equity of the commodity portfolios.

Credit and Market Reserves. In connection with the market valuation of its energy commodity contracts, the Company maintains certain reserves for a number of risks associated with these future commitments. Among others, these include reserves for

DYNEGY INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Income Taxes. The Company files a consolidated United States federal income tax return and, for financial reporting purposes, provides income taxes for the difference in the tax and financial reporting bases of its assets and liabilities in accordance with Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes."

Earnings Per Share. Basic earnings per share represents the amount of earnings for the period available to each share of common stock outstanding during the period. Diluted earnings per share represents the amount of earnings for the period available to each share of common stock outstanding during the period plus each share that would have been outstanding assuming the issuance of common shares for all dilutive potential common shares outstanding during the period. Differences between basic and diluted shares outstanding in all periods are attributed to options outstanding and a warrant. Common shares outstanding and the resulting computation of basic and diluted earnings per share for all periods prior to December 31, 1999 have been restated to give effect to the 0.69 fixed exchange ratio contained in the terms of the Illinova acquisition. Also, all common shares outstanding, price per share, dividends per share and earnings per share amounts relating to transactions or periods prior to August 22, 2000 have been restated for the two-for-one stock split effected by means of a stock dividend distributed on August 22, 2000.

Foreign Currency Translations. For subsidiaries whose functional currency is not the U.S. dollar, assets and liabilities are translated at year-end rates of exchange and revenues and expenses are translated at average exchange rates prevailing during the year. Translation adjustments for the asset and liability accounts are included as a separate component of other comprehensive income in stockholders' equity. Currency transaction gains and losses are recorded in income.

Employee Stock Options. The Company applies the provisions of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB No. 25") and related interpretations in accounting for its stock compensation plans. Accordingly, compensation expense is not recognized for stock options unless the options were granted at an exercise price lower than the market value on the grant date. The Company has granted below-market options in the past and continues to recognize compensation expense over the applicable vesting periods. Stock options are not expected to be issued at less than market price in the foreseeable future.

Regulatory Assets. Financial Accounting Standard No. 71, "Accounting for the Effects of Certain Types of Regulation" ("Statement No. 71") allows companies whose service obligations and prices are regulated to maintain balance sheet assets representing costs they expect to recover through inclusion in future rates. Illinois Power Company ("IP"), the Company's wholly owned subsidiary, has regulatory assets recorded in accordance with Statement No. 71. Regulatory assets represent probable future revenues associated with certain costs that are expected to be recovered from customers through the ratemaking process. The significant components of regulatory assets at December 31, 2000 were approximately $385 million and are included in other long-term assets.

Note 3 – RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

The Company is exposed to certain market risks inherent in the Company's financial instruments, which arise from transactions entered into in the normal course of business. The Company routinely enters into financial instrument contracts to hedge

DYNEGY INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

liquids of $135 million and $66 million and coal inventory of $24 million and none at December 31, 2000 and 1999 and crude oil of $11 million at December 31, 1999. Such inventory is valued at the lower of weighted average cost or market. Materials and supplies inventory of $44 million and $30 million at December 31, 2000 and 1999, respectively, is carried at the lower of cost or market using the specific-identification method. The Company also had emission credit certificates of $27 million as of December 31, 2000, which are carried at the lower of cost or market.

Property, Plant and Equipment. Property, plant and equipment consisting principally of gas gathering, processing, fractionation, terminaling and storage facilities, natural gas transmission lines, pipelines, power generating facilities and communications equipment is recorded at cost. Expenditures for major replacements, renewals and major maintenance are capitalized. The Company considers major maintenance to be expenditures incurred on a cyclical basis in order to maintain and prolong the efficient operation of its plants. Expenditures for repairs and minor renewals to maintain facilities in operating condition are expensed. Depreciation is provided using the straight-line method over the estimated economic service lives of the assets, ranging from three to 40 years. Composite depreciation rates are applied to functional groups of property having similar economic characteristics. Gains and losses are not recognized for retirements of property, plant and equipment subject to composite depreciation rates ("composite rate") until the asset group subject to the composite rate is retired. The Company reviews the carrying value of its long-lived assets in accordance with provisions of Financial Accounting Standard No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of."

Environmental Costs and Other Contingencies. Environmental costs relating to current operations are expensed or capitalized, as appropriate, depending on whether such costs provide future economic benefit. Liabilities are recorded when environmental assessment indicates that remedial efforts are probable and the costs can be reasonably estimated. Measurement of liabilities is based on currently enacted laws and regulations, existing technology and site-specific costs. Such liabilities may be recognized on a discounted basis if the amount and timing of anticipated expenditures for a site are fixed or reliably determinable; otherwise, such liabilities are recognized on an undiscounted basis. Environmental liabilities in connection with assets that are sold or closed are realized upon such sale or closure, to the extent they are probable, can be estimated and have not previously been reserved. In assessing environmental liabilities, no offset is made for potential insurance recoveries. Recognition of any joint and several liability is based upon the Company's best estimate of its final pro rata share of such liability.

Liabilities for other contingencies are recognized upon identification of an exposure, which when fully analyzed indicates that it is both probable that an asset has been impaired or that a liability has been incurred and that such loss amount can be reasonably estimated. Costs to remedy such contingencies or other exposures are charged to a reserve, if one exists, or otherwise to current operations. When a range of probable loss exists, the Company accrues the lesser end of the range.

Goodwill and Other Intangible Assets. Intangible assets, principally goodwill, are generally amortized on a straight-line basis over the estimated useful lives of 25 to 40 years. Accumulated amortization of intangible assets was $98 million and $61 million at December 31, 2000 and 1999, respectively. The related amortization expense

DYNEGY INC.
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

	Preferred Stock		Common Stock		Paid In		Retained	Treasury		
(in millions)	Shares	Amount	Shares	Amount	Capital	Other	Earnings	Shares	Amount	Total
December 31, 1997	5	$ 75	209	$ 1	$ 920	–	$ 33	(1)	$ (10)	$ 1,019
Comprehensive income:										
Net income	–	–	–	–	–	–	108	–	–	108
Total comprehensive income										108
Options exercised	–	–	1	–	4	–	–	–	–	4
Dividends and other distributions	–	–	–	–	–	–	(8)	–	–	(8)
401(k) plan and profit sharing stock	–	–	1	–	7	–	–	–	–	7
Options granted	–	–	–	–	4	–	–	–	–	4
Treasury stock	–	–	–	–	–	–	–	(1)	(7)	(7)
Other	–	–	–	–	–	–	–	–	–	–
December 31, 1998	5	75	211	1	935	–	133	(2)	(17)	$ 1,127
Comprehensive income:										
Net income	–	–	–	–	–	–	152	–	–	152
Total comprehensive income										152
Options exercised	–	–	5	–	22	–	–	–	–	22
Dividends and other distributions	–	–	–	–	–	–	(8)	–	–	(8)
401(k) plan and profit sharing stock	–	–	1	–	10	–	–	–	–	10
Options granted	–	–	–	–	6	–	–	–	–	6
December 31, 1999	5	75	217	1	973	–	277	(2)	(17)	1,309
Comprehensive income										
Net income	–	–	–	–	–	–	**501**	–	–	**501**
Other comprehensive income, net of tax	–	–	–	–	–	**(15)**	–	–	–	**(15)**
Total comprehensive income										**486**
Illinova acquisition	**1**	**(75)**	**59**	**1,817**	**(973)**	–	–	**2**	**17**	**786**
Common Stock issued	–	–	**23**	**858**	–	–	–	–	–	**858**
Preferred Stock conversion	**(6)**	–	**12**	–	–	–	–	–	–	–
Extant acquisition	–	–	**2**	**90**	–	–	–	–	–	**90**
Options exercised	–	–	**9**	**157**	–	–	–	–	–	**157**
Dividends and other distributions	–	–	–	–	–	–	**(112)**	–	–	**(112)**
401(k) plan and profit sharing stock	–	–	**1**	**12**	–	–	–	–	–	**12**
Options granted	–	–	–	**15**	–	–	–	–	–	**15**
Treasury stock	–	–	–	–	–	–	–	–	**(3)**	**(3)**
December 31, 2000	–	**$ –**	**323**	**$ 2,950**	**$ –**	**$ (15)**	**$ 666**	–	**$ (3)**	**$ 3,598**

See Notes to Consolidated Financial Statements.

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DYNEGY INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(in millions, except per share data)

	Year Ended December 31, 2000	1999	1998
Revenues	**$29,445**	$15,430	$14,258
Cost of sales	**27,986**	14,886	13,829
Operating margin	**1,459**	544	429
Depreciation and amortization	**389**	129	113
Impairment, abandonment and other charges	–	–	10
General and administrative expenses	**329**	201	186
Operating income	**741**	214	120
Equity in earnings of unconsolidated affiliates	**205**	80	91
Other income	**235**	73	47
Interest expense	**(251)**	(78)	(75)
Other expenses	**(139)**	(45)	(8)
Minority interest in income of subsidiaries	**(29)**	(17)	(17)
Income before income taxes	**762**	227	158
Income tax provision	**261**	75	50
NET INCOME	**$ 501**	$ 152	$ 108
Net Income Per Share:			
Net income	**$ 501**	$ 152	$ 108
Less: preferred stock dividends	**35**	–	–
Net income applicable to common stockholders	**$ 466**	$ 152	$ 108
Basic earnings per share	**$ 1.54**	$ 0.71	$ 0.52
Diluted earnings per share	**$ 1.48**	$ 0.66	$ 0.48
Basic shares outstanding	**302**	213	209
Diluted shares outstanding	**315**	230	227

See Notes to Consolidated Financial Statements.

DYNEGY INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Following dismissal of its federal court suit, MID filed suit in California state court asserting breach of contract and tortuous interference with prospective economic relations claims against Destec and tortuous interference with contract and tortuous interference with prospective economic relations claims against PG&E. Motions to dismiss MID's state court claims were heard by the state court and by order dated April 6, 2000, MID was directed to amend its complaint. MID filed its amended complaint on April 20, 2000, including Dynegy as a defendant. Dynegy filed a motion to dismiss MID's amended complaint against Dynegy, and the Court partially granted Dynegy's motion to dismiss while also granting MID leave to amend its complaint. Before MID filed its amended complaint, MID agreed with PG&E and Dynegy to execute a tolling agreement on all claims and to dismiss the state court case until the federal appeal is decided. After executing the tolling agreement, on October 23, 2000, MID filed in the state court a Request for Dismissal, which the court granted on October 25, 2000. Dynegy believes the allegations made by MID are without merit and will continue to vigorously defend MID's claims. In the opinion of management, the amount of ultimate liability with respect to these actions will not have a material adverse effect on the financial position or results of operations of the Company.

On November 3, 1999, the United States Environmental Protection Agency ("EPA") issued a Notice of Violation ("NOV") against IP and, with the Department of Justice ("DOJ"), filed a complaint against IP in the U.S. District Court for the Southern District of Illinois, No. 99C833. Subsequently, the DOJ and EPA amended the NOV and complaint to include Illinova Power Marketing, Inc. (now know as Dynegy Midwest Generation Inc. ("DMG")) (IP and DMG collectively the "Defendants"). Similar notices and lawsuits have been filed against a number of other utilities. Both the NOV and complaint allege violations of the Clean Air Act and regulations thereunder. More specifically, both allege, based on the same events, that certain equipment repairs, replacements and maintenance activities at the Defendants' three Baldwin Station generating units constituted "major modifications" under either or both the Prevention of Significant Deterioration and the New Source Performance Standards regulations. When non-exempt "major modifications" occur, the Clean Air Act and related regulations generally require that generating facilities meet more stringent emissions standards. The DOJ amended its complaint to assert the claims found in the NOV. The Defendants filed an answer denying all claims and asserting various specific defenses. By order dated April 19, 2000, a trial date of November 2001 was set. The initial trial is limited to liability.

The regulations under the Clean Air Act provide certain exemptions to the definition of "major modifications," particularly an exemption for routine repair, replacement or maintenance. The Company has analyzed each of the activities covered by the EPA's allegations and believes each activity represents prudent practice regularly performed throughout the utility industry as necessary to maintain the operational efficiency and safety of equipment. As such, the Company believes that each of these activities is covered by the exemption for routine repair, replacement and maintenance and that the EPA is changing, or attempting to change, through enforcement actions, the intent and meaning of its regulations. The Company also believes that, even if some of the activities in question were found not to qualify for routine exemption, there were no increases either in annual emissions or in the maximum

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The five class action lawsuits are based on the events occurring in the California power market during the summer of 2000. The complaints allege violations of California's Business and Professions Code, Unfair Trade Practices Act and various other statutes. Specifically, the named plaintiffs allege that the defendants, including the owners of in-state generation and various power marketers, conspired to manipulate the California wholesale power market to the detriment of California consumers. Included among the acts forming the basis of the plaintiffs' claims are the alleged improper sharing of generation outage data, improper withholding of generation capacity and the manipulation of power market bid practices. The plaintiffs seek unspecified treble damages.

The five lawsuits are at preliminary stages. Defendants have yet to file answers and, as noted above, the suits have been removed to Federal Court. The named plaintiffs have filed, or will shortly file, motions to remand the cases back to California state court. The defendants in the five lawsuits have formed various joint defense groups in an effort to coordinate the defense of the claims and to share certain costs of defense. The Company believes the allegations are without merit and will vigorously defend this claim. In the opinion of management, the amount of ultimate liability with respect to this action will not have a material adverse effect on the financial position or results of operations of the Company.

On March 1, 2001, the California Independent System Operator Corporation (CAISO) and California Electricity Oversight Board (EOB) filed a motion with the FERC proposing, among other things, that they be given access to cost information that generators have filed with the FERC and that the FERC keep all sales in California subject to refund. Dynegy will vigorously oppose this action because it believes that there is no basis for giving the State of California, a significant market participant, access to confidential generator information on bids and costs. In addition, Dynegy believes that there is no basis for the FERC to extend refund exposure on a generic, blanket basis, as such an extension would contradict the FERC's carefully crafted refund structure designed to minimize the disincentives that refund exposure creates for suppliers.

Management has closely monitored developments in California in an effort to manage Dynegy's credit risk in these markets. The Company has recorded appropriate reserves for probable losses incurred based on year-end market conditions. Although such reserves may change over time as the market uncertainties are resolved, management believes such changes will not ultimately be material to the Company's consolidated financial position or results of operations.

The Company is subject to various legal proceedings and claims that arise in the normal course of business. Further, in addition to certain disclosures made previously herein, the Company has assumed liability for various claims, assessments and litigation in connection with some of its strategic acquisitions. In the opinion of management, the amount of ultimate liability with respect to these actions will not have a material adverse effect on the financial position or results of operations of the Company.

Purchase Obligations. In conducting its operations, the Company routinely enters into long-term commodity purchase and sale commitments, as well as agreements that commit future cash flow to the lease or acquisition of assets used in its business.

DYNEGY INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

In addition, certain Company subsidiaries are designing and constructing two generating facilities and a telecommunications network, in each case as agent for a third party. Pursuant to these contracts, under certain remote circumstances, the Company is obligated to guarantee up to approximately 90 percent of the actual cost of these facilities during the construction phase. It is anticipated that a subsidiary of the Company will subsequently lease the completed facilities from the relevant third parties for initial terms of four to five years. Under certain circumstances, the Company maintains an option to purchase the relevant facility from the third party, and it may participate in the outright sale of the asset.

Minimum commitments in connection with office space, equipment, plant sites, ships, transportation, storage and other leased assets at December 31, 2000, were as follows: 2001 – $178 million; 2002 $122 million; 2003 – $116 million; 2004 – $113 million and beyond – $268 million.

Aggregate minimum commitments have not been reduced by minimum sublease rentals of approximately $4 million due in the future under noncancelable subleases. Rental payments made under the terms of these arrangements totaled – $142 million in 2000, $69 million in 1999 and $126 million in 1998.

Guarantees. At December 31, 2000, the Company had parental guarantees of debt of approximately $26 million in connection with its power generation projects. The Company also had outstanding letters of credit of approximately $355 million and a standby purchase agreement of $152 million.

Environmental. Dynegy's operations are subject to extensive federal, state and local statutes, rules and regulations governing the discharge of materials into the environment or otherwise relating to environmental protection. Development of projects in international markets creates exposure and obligations to the national, provincial and local laws of each host country, including environmental standards and requirements imposed by these governments. Compliance with these statutes, rules and regulations requires capital and operating expenditures including those related to monitoring, pollution control equipment, emission fees and permitting at various operating facilities and remediation obligations. Failure to comply with these statutes, rules and regulations may result in the assessment of civil and even criminal penalties. The Company's environmental expenditures are anticipated to increase in the future with the trend toward stricter standards, greater regulation, more extensive permitting requirements and an increase in the number and types of assets subject to environmental regulation operated by the Company. No assurance can be given that future compliance with these environmental statutes, rules and regulations will not have a material adverse effect on the Company's operations or its financial condition.

Note 12 – REGULATORY ISSUES

General. The Company is subject to regulation by various federal, state, local and foreign agencies. These rules and regulations affect the industry as a whole; therefore, the Company does not believe that it is affected in a manner significantly different from its competitors.

Illinois Power Company. IP is an electric utility as defined in the Public Utility Holding Company Act of 1935 ("PUHCA"). Its direct parent company, Illinova, and Dynegy are holding companies as defined in PUHCA. However, Illinova and Dynegy

DYNEGY INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

In addition, as part of the Illinova Acquisition, 8,000,000 shares of preferred stock, previously designated as Dynegy Series A Participating Preferred Stock ("Series A Preferred"), were converted to shares of Class B Common Stock on a 0.69-for-one exchange ratio.

Pursuant to the terms of the Illinova acquisition, Dynegy established a series of preferred stock, designated as Series A Convertible Preferred Stock, which was issued to British Gas Atlantic ("BG") and NOVA Corporation ("NOVA") in accordance with the exchange ratios provided in the acquisition documents. On the effective date of the acquisition, BG and NOVA held an aggregate 6.7 million shares of this Series A Convertible Preferred Stock. All of these shares were converted into shares of Class A Common Stock in the second quarter of 2000.

Common Stock. At December 31, 2000, there were 322,721,346 shares of Class A and B Common Stock issued, and 70,000 shares were held in treasury. During 2000, Dynegy paid quarterly cash dividends on its common stock of $.022 per share for the first quarter and $.075 per share for each the second, third, and fourth quarter, or $0.247 per share on an annual basis.

Pursuant to the terms of the Illinova acquisition, Dynegy split its common shares into two classes, Class A and Class B. All of the Class B Common Stock is owned by Chevron. Generally, holders of Class A and Class B Common Stock are entitled to one vote per share on all matters to be voted upon by the shareholders. Holders of Class A Common Stock may cumulate votes in connection with the election of directors. The election of directors and all other matters will be by a majority of shares represented and entitled to vote, except as otherwise provided by law. Holders of Class B Common Stock vote together with holders of Class A Common Stock as a single class on every matter acted upon by the shareholders except for the following matters:

- the holders of Class B Common Stock vote as a separate class for the election of three directors of Dynegy Inc., while the holders of Class A Common Stock vote as a separate class for the remaining directors;
- any amendment to the special corporate governance rights of Class B Common Stock must be approved by a majority of the directors elected by holders of Class B Common Stock and a majority of all Dynegy directors or by a 66⅔ percent of the outstanding shares of Class B Common Stock voting as a separate class, and the affirmative vote of a majority of the shares of Class A and Class B Common Stock, voting together as a single class; and
- any amendment to the provision of the articles of incorporation addressing the voting rights of holders of Class A and Class B Common Stock requires the approval of 66⅔ percent of the outstanding shares of Class B Common Stock voting as a separate class, and the affirmative vote of a majority of the shares of Class A and Class B Common Stock, voting together as a single class.

Subject to the preferences of preferred stock, holders of Class A and Class B Common Stock have equal ratable rights to dividends, when and if dividends are declared by the board of directors. Holders of Class A and Class B Common Stock are entitled to share ratably, as a single class, in all of the assets of Dynegy available for distribution to holders of shares of common stock upon the liquidation, dissolution or winding up of the affairs of Dynegy, after payment of Dynegy's liabilities and any amounts to holders of preferred stock.

DYNEGY INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Stock Options. Each option granted is valued at an option price, which ranges from $1.47 per share to the fair market value per share at date of grant. The difference, if any, between the option price and the fair market value of each option on the date of grant is recorded as compensation expense over the respective vesting period. Options granted at prices below fair market do not become exercisable until the fifth anniversary date of the grant, at which time they become fully exercisable. Options granted at market value vest and become exercisable ratably over a three-year period. The average exercise price of vested options at December 31, 2000 was $7.93. Compensation expense related to options granted totaled $15.4 million, $6.0 million and $4.7 million for the years ended December 31, 2000, 1999 and 1998, respectively. Total options authorized and non-distributed stock option transactions for 2000, 1999, and 1998 were (shares in thousands) as follows:

	Year Ended December 31,					
	2000		1999		1998	
	Shares	**Option Price**	Shares	Option Price	Shares	Option Price
Outstanding at beginning of period	**24,022**	**$1.47 - $16.62**	25,777	$1.47 - $15.67	19,341	$1.47 - $15.67
Granted	**7,197**	**$10.44 - $57.02**	4,203	$1.47 - $16.62	10,100	$1.47 - $12.68
Exercised	**(8,592)**	**$1.47 - $22.21**	(4,658)	$1.47 - $13.68	(1,373)	$1.47 - $ 6.80
Cancelled or expired	**(1,096)**	**$1.47 - $57.02**	(1,232)	$1.47 - $13.77	(2,164)	$1.47 - $13.77
Other, contingent share issuance	-	-	(68)	$1.47 - $ 4.10	(127)	$1.47 - $ 4.10
Outstanding at end of period	**21,531**	**$1.47 - $57.02**	24,022	$1.47 - $16.62	25,777	$1.47 - $15.67
Exercisable at end of period	**12,779**	**$1.47 - $23.83**	9,983	$1.47 - $15.67	6,064	$1.47 - $15.67
Weighted average fair value of options granted during the period at market		**$14.40**		$7.76		$4.18
Weighted average fair value of options granted during the period at below market		**$24.10**		$9.65		$5.33

Options outstanding as of December 31, 2000 (shares in thousands) are summarized below:

	Options Outstanding			Options Exercisable	
Range of Exercise Price	Number of Shares Outstanding	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number of Shares Exercisable	Weighted Average Exercise Prices
$ 1.47 – $ 4.80	9,377	7.3	$ 2.88	5,926	$ 2.41
$ 4.81 – $ 9.80	191	7.1	$ 7.53	191	$ 7.53
$ 9.81 – $12.50	3,067	7.1	$10.28	3,067	$10.28
$12.51 – $16.70	6,976	7.6	$15.74	3,553	$14.99
$16.71 – $23.90	1,020	8.7	$23.10	42	$20.28
$23.91 – $36.90	290	9.4	$31.92	–	–
$36.91 – $44.00	427	9.6	$42.72	–	–
$44.01 – $57.02	183	9.8	$52.28	–	–
$ 1.47 – $57.02	21,531			12,779	

DYNEGY INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Common Stock in exchange for their respective shares of former Dynegy common stock, NOVA and the parent of BG each received a combination of cash, subject to proration, and shares of Dynegy Series A Convertible Preferred Stock. Chevron received 0.69 of a share of Dynegy Class B Common Stock in exchange for each share of former Dynegy common stock and Series A Participating Preferred Stock. Additionally, as part of the combination, Chevron purchased $200 million of additional Dynegy Class B Common Stock. Each share of Illinova Common Stock was converted into one share of Dynegy Class A Common Stock. Immediately after the combination, former Dynegy shareholders owned approximately 51 percent of the outstanding shares of Dynegy.

Approximately 60 percent of the consideration received by existing Dynegy shareholders was in the form of Dynegy stock and 40 percent was cash. In aggregate, the cash portion of the consideration approximated $1.1 billion. Dynegy financed the cash component of the acquisition initially with borrowings under a debt facility and the issuance of $200 million of Class B Common Stock to Chevron. On a long-term basis, Dynegy financed the acquisition of Illinova through a combination of sales of common equity, the disposition of certain non-strategic assets, the refinancing of Illinova's unregulated generation assets and cash flow derived from its operations.

The results of operations of the acquired Illinova assets are consolidated with Dynegy's operations beginning January 1, 2000. The following table reflects certain unaudited pro forma information for the period presented as if the Illinova acquisition had taken place on January 1, 1999 (in millions, except per share data). Unaudited pro forma results for the year ended December 31, 1999 include non-recurring after-tax gains of $41.8 million, or $0.15 per diluted share.

	Year Ended December 31, 1999
Pro forma revenues	$17,655
Pro forma net income	218
Pro forma earnings per share	0.68

On September 29, 2000, Dynegy completed the acquisition of Extant, Inc., a privately held communications solutions company providing centralized clearinghouse services, OSS (Operations Support System) integration and network expansion capabilities to communications service providers. Dynegy's net investment consists of $92 million in cash and 1.8 million shares of Class A common stock. Following the transaction, Dynegy established Dynegy Global Communications, a new segment that, in addition to pursuing other communications opportunities, owns 80 percent of a limited partnership called Dynegy*connect*, L.P. which conducts many of the activities previously conducted by Extant, Inc.

Note 15 - EMPLOYEE COMPENSATION, SAVINGS AND PENSION PLANS

Corporate Incentive Plan. Dynegy maintains a discretionary incentive plan to provide employees competitive and meaningful rewards for reaching corporate and individual objectives. Specific rewards are at the discretion of the Compensation Committee of the Board of Directors ("Compensation Committee").

Profit Sharing/Savings Plan. The Company established the Dynegy Profit Sharing/401(k) Savings Plan ("Plan"), which meets the requirements of Section 401(k) of the Internal Revenue Code, and is a defined contribution plan subject to the provisions of the Employee Retirement

DYNEGY INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

($ in millions)	Pension Benefits 2000	Pension Benefits 1999	Other Benefits 2000	Other Benefits 1999
Funded status	**$ 179**	$ 1	**$ (17)**	$ –
Unrecognized actuarial (gain) loss	**(17)**	(5)	**10**	–
Net amount recognized	**$ 162**	$ (4)	**$ (7)**	$ –
Amounts recognized in the consolidated balance sheets consist of:				
Prepaid benefit cost	**$ 167**	$ –	**$ –**	$ –
Accrued benefit liability	**(5)**	(4)	**(7)**	–
Net amount recognized	**$ 162**	$ (4)	**$ (7)**	$ –
Weighted Average Assumptions:				
Discount rate at December 31	**7.99%**	7.50%	**8.00%**	–
Expected return on plan assets as of January 1	**9.47%**	8.00%	**9.50%**	–
Rate of compensation increase	**4.48%**	3.50%	**4.50%**	–
Medical trend – initial trend	**–**	–	**6.70%**	–
Medical trend – ultimate trend	**–**	–	**5.50%**	–
Medical trend – year of ultimate trend	**–**	–	**2005**	–

The changes in the projected benefit obligation and in plan assets attributable to business combination in 2000 are the result of the acquisition of Illinova.

The components of net periodic benefit cost were:

($ in millions)	Pension Benefits 2000	Pension Benefits 1999	Other Benefits 2000	Other Benefits 1999
Service cost benefits earned during period	**$ 10**	$ 1	**$ 2**	$ –
Interest cost on projected benefit obligation	**33**	1	**7**	–
Expected return on plan assets	**(53)**	(1)	**(7)**	–
Amortization of unrecognized actuarial gain	**(1)**	–	**–**	–
Net periodic benefit cost	**$(11)**	$ 1	**$ 2**	$ –
Additional income due to curtailment	**–**	(2)	**–**	–
Total net periodic benefit cost / (income)	**$(11)**	$ (1)	**$ 2**	$ –

Impact of a 1% increase/decrease in medical trend:

($ in millions)	Increase	Decrease
Aggregate impact on service cost and interest cost	$ 1	$(1)
Impact on accumulated post-retirement benefit obligation	$10	$(9)

Note 16 – RELATED PARTY TRANSACTIONS

Transactions with Chevron result from purchases and sales of natural gas, natural gas liquids and crude oil between subsidiaries of Dynegy and Chevron affiliates. Management believes that these transactions are executed at the prevailing market rates. During the years ended December 31,

DYNEGY INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DYNEGY'S SEGMENT DATA FOR THE YEAR ENDED DECEMBER 31, 2000

($ in millions)	DMT	DMS	Transmission and Distribution	DGC	Elimination	Total
Unaffiliated revenues:						
Domestic	$17,894	$5,160	$1,581	$ 2	$ –	$24,637
Canadian	2,316	1,224	–	–	–	3,540
European & Other	1,268	–	–	–	–	1,268
	21,478	6,384	1,581	2	–	29,445
Intersegment revenues						
Domestic	1,357	940	27	–	(2,324)	–
Canadian	132	14	–	–	(146)	–
European & Other	–	–	–	–	–	–
	1,489	954	27	–	(2,470)	–
Total revenues	22,967	7,338	1,608	2	(2,470)	29,445
Operating margin	770	256	433	–	–	1,459
Depreciation and amortization	(125)	(105)	(156)	(3)	–	(389)
Interest expense	(89)	(30)	(129)	(3)	–	(251)
Other income (expense)	141	(50)	3	2	–	96
Equity earnings of unconsolidated affiliates	181	24	–	–	–	205
Income tax (provision) benefit	(233)	(10)	(24)	6	–	(261)
Net income (loss)	$ 441	$ 19	$ 53	$ (12)	$ –	$ 501
Identifiable assets:						
Domestic	$13,630	$2,156	$3,577	$277	$ –	$19,640
Canadian	750	299	–	–	–	1,049
European & Other	644	–	–	73	–	717
Investment in unconsolidated affiliates	625	174	–	–	–	799
Capital expenditures and investment in unconsolidated affiliates	(623)	(114)	(158)	(15)	–	(910)

DYNEGY INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DYNEGY'S SEGMENT DATA FOR THE YEAR ENDED DECEMBER 31, 1998

($ in millions)	DMT	DMS	Transmission and Distribution	DGC	Elimination	Total
Unaffiliated revenues:						
Domestic	$ 9,149	$3,307	$ –	$ –	$ –	$12,456
Canadian	970	210	–	–	–	1,180
European	622	–	–	–	–	622
	10,741	3,517	–	–	–	14,258
Intersegment revenues						
Domestic	158	250	–	–	(408)	–
Canadian	61	–	–	–	(61)	–
European	–	–	–	–	–	–
	219	250	–	–	(469)	–
Total revenues	10,960	3,767	–	–	(469)	14,258
Operating margin	236	193	–	–	–	429
Depreciation and amortization	(29)	(84)	–	–	–	(113)
Interest expense	(25)	(50)	–	–	–	(75)
Other income (expense)	4	35	–	–	–	39
Equity earnings of unconsolidated affiliates	75	16	–	–	–	91
Income tax (provision) benefit	(52)	2	–	–	–	(50)
Net income	$ 91	$ 17	$ –	$ –	$ –	$ 108
Identifiable assets:						
Domestic	$ 2,838	$2,037	$ –	$ –	$ –	$ 4,875
Canadian	257	7	–	–	–	264
European	125	–	–	–	–	125
Investment in unconsolidated affiliates	344	159	–	–	–	503
Capital expenditures and investments in unconsolidated affiliates	(257)	(119)	–	–	–	(376)

Schedule I

DYNEGY INC.
CONDENSED BALANCE SHEETS OF REGISTRANT

(in millions, except share data)	December 31, 2000	December 31, 1999
ASSETS		
Current Assets		
Accounts receivable	$ –	$ 3
Intercompany accounts receivable	76	709
Prepayments and other assets	–	10
Total Current Assets	76	722
Property, Plant and Equipment	–	3
Less: accumulated depreciation	–	(3)
Property, Plant and Equipment, Net	–	–
Other Assets		
Investments in affiliates	3,691	1,764
Intercompany note receivable	–	501
Deferred taxes and other assets	–	30
Total Assets	$3,767	$3,017
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts payable	$ 42	$ –
Accrued liabilities	(47)	127
Total Current Liabilities	(5)	127
Long-Term Debt	–	1,299
Other Liabilities	174	82
Total Liabilities	169	1,508
Company Obligated Preferred Securities of Subsidiary Trust	–	200
Commitments and Contingencies		
Stockholders' Equity:		
Preferred stock, $0.01 par value, 50,000,000 shares authorized: 8,000,000 shares designated as Series A Participating Preferred Stock, 5,392,600 shares issued and outstanding at December 31, 1999	–	75
Common stock, $0.01 par value, 400,000,000 shares authorized: 217,348,621 shares issued at December 31, 1999	–	1
Class A Common Stock, no par value, 300,000,000 shares authorized; 237,390,802 shares issued and outstanding at December 31, 2000	2,190	–
Class B Common Stock, no par value, 120,000,000 shares authorized; 85,330,544 shares issued and outstanding at December 21, 2000	760	–
Additional paid-in capital	–	973
Accumulated other comprehensive income (loss), net of tax	(15)	–
Retained earnings	666	277
Less: treasury stock, at cost: 70,000 shares at December 31, 2000 and 1,656,966 shares at December 31, 1999	(3)	(17)
Total Stockholders' Equity	3,598	1,309
Total Liabilities and Stockholders' Equity	$3,767	$3,017

See Note to Registrant's Financial Statements.

Schedule I

DYNEGY INC.

STATEMENTS OF CASH FLOWS OF THE REGISTRANT

(in millions)	Year Ended December 31, 2000	1999	1998
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$ 501	$ 152	$ 108
Items not affecting cash flows from operating activities:			
Depreciation and amortization	–	–	2
Equity in earnings of affiliates, net of cash distributions	(774)	(249)	(215)
Deferred taxes	131	63	50
Other	–	–	–
Change in assets and liabilities resulting from operating activities:			
Accounts receivable	3	(3)	(1)
Intercompany transactions	342	(574)	239
Prepayments and other assets	9	(3)	(2)
Accounts payable	42	–	–
Accrued liabilities	(76)	9	4
Other, net	59	25	(30)
Net cash provided by (used in) operating activities	237	(580)	155
CASH FLOWS FROM INVESTING ACTIVITIES			
Capital expenditures	–	–	–
Acquisitions	(1,252)	–	(2)
Other	–	–	–
Net cash used in investing activities	(1,252)	–	(2)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from long-term borrowings	–	397	212
Repayments of long-term borrowings	–	–	(493)
Net proceeds from commercial paper and money market lines of credit	–	(42)	350
Proceeds from sale of capital stock, options and warrants	1,130	22	4
Treasury stock acquisitions	(3)	–	(7)
Dividends and other distributions	(112)	(8)	(8)
Other financing	–	2	(2)
Net cash provided by financing activities	1,015	371	56
Net (decrease) increase in cash and cash equivalents	–	(209)	209
Cash and cash equivalents, beginning of period	–	209	–
Cash and cash equivalents, end of period	$ –	$ –	$ 209
SUPPLEMENTAL CASH FLOW INFORMATION:			
Interest paid (net of amount capitalized)	$ 12	$ 98	$ 101
Taxes paid (net of refunds)	$ 40	$ 2	$ (8)

See Note to Registrant's Financial Statements.

Schedule I

DYNEGY INC.
STATEMENTS OF CASH FLOWS OF THE REGISTRANT

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See Note to Registrant's Financial Statements.

Executive Officers and Board of Directors

Executive Officers

Board of Directors

Corporate Information

Registrar and Transfer Agent

Shareholder Information