

DYNEGY INC.
Form 10-Q
November 01, 2017
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2017

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

For the transition period from _____ to _____

Commission file number: 001-33443

DYNEGY INC.

(Exact name of registrant as specified in its charter)

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

601 Travis, Suite 1400
Houston, Texas 77002
(Address of principal executive offices) (Zip Code)
(713) 507-6400
(Registrant's telephone number, including area code)

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

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

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

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

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

Indicate the number of shares outstanding of our class of common stock, as of the latest practicable date: Common stock, \$0.01 par value per share, 131,378,891 shares outstanding as of October 31, 2017.

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DEFINITIONS

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

ATSI	American Transmission Service, Inc.
CAA	Clean Air Act
CAISO	The California Independent System Operator
CDD	Cooling Degree Days
COMED	Commonwealth Edison
CT	Combustion Turbine
EBITDA	Earnings Before Interest, Taxes, Depreciation and Amortization
EMAAC	Eastern Mid-Atlantic Area Council
EPA	Environmental Protection Agency
ERCOT	Electric Reliability Council of Texas
FCA	Forward Capacity Auction
FERC	Federal Energy Regulatory Commission
FTR	Financial Transmission Rights
HDD	Heating Degree Days
IMA	In-market Asset Availability
IPH	IPH, LLC
ISO	Independent System Operator
ISO-NE	Independent System Operator New England
kW	Kilowatt
LIBOR	London Interbank Offered Rate
MAAC	Mid-Atlantic Area Council
MISO	Midcontinent Independent System Operator, Inc.
MMBtu	One Million British Thermal Units
Moody's	Moody's Investors Service Inc.
MW	Megawatts
MWh	Megawatt Hour
NYISO	New York Independent System Operator
PJM	PJM Interconnection, LLC
PPE	Ponderosa Pine Energy, LLC
PPL	PPL Electric Utilities, Corp.
PRIDE	Producing Results through Innovation by Dynegy Employees
RGGI	Regional Greenhouse Gas Initiative
RTO	Regional Transmission Organization
S&P	Standard & Poor's Ratings Services
SEC	U.S. Securities and Exchange Commission

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PART I. FINANCIAL INFORMATION

Item 1—FINANCIAL STATEMENTS

DYNEGY INC.

CONSOLIDATED BALANCE SHEETS

(unaudited) (in millions, except share data)

	September 30, 2017	December 31, 2016
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 613	\$ 1,776
Restricted cash	—	62
Accounts receivable, net of allowance for doubtful accounts of \$1 and \$1, respectively	478	386
Inventory	429	445
Assets from risk management activities	50	130
Intangible assets	24	38
Prepayments and other current assets	110	150
Total Current Assets	1,704	2,987
Property, plant and equipment, net	8,929	7,121
Investment in unconsolidated affiliate	154	—
Restricted cash	—	2,000
Assets from risk management activities	49	16
Goodwill	772	799
Intangible assets	49	23
Assets held-for-sale	181	—
Other long-term assets	169	107
Total Assets	\$ 12,007	\$ 13,053

See the notes to consolidated financial statements.

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

	September 30, December 31,	
	2017	2016
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable	\$ 288	\$ 332
Accrued interest	154	81
Intangible liabilities	18	21
Accrued taxes	57	45
Accrued liabilities and other current liabilities	136	88
Liabilities from risk management activities	58	97
Asset retirement obligations	57	51
Debt, current portion, net	99	201
Total Current Liabilities	867	916
Liabilities subject to compromise (Note 18)	—	832
Debt, long-term portion, net	8,648	8,778
Liabilities from risk management activities	20	43
Asset retirement obligations	268	236
Deferred income taxes	18	5
Intangible liabilities	36	34
Other long-term liabilities	166	170
Total Liabilities	10,023	11,014
Commitments and Contingencies (Note 13)		
Stockholders' Equity		
Preferred stock, \$0.01 par value, 20,000,000 shares authorized:		
Series A 5.375% mandatory convertible preferred stock, \$0.01 par value; 4,000,000 shares issued and outstanding, respectively	400	400
Common stock, \$0.01 par value, 420,000,000 shares authorized; 142,699,979 shares issued and 131,373,857 shares outstanding at September 30, 2017; 128,626,740 shares issued and 117,300,618 outstanding at December 31, 2016	1	1
Additional paid-in capital	3,320	3,547
Accumulated other comprehensive income, net of tax	26	21
Accumulated deficit	(1,758) (1,927)
Total Dynegy Stockholders' Equity	1,989	2,042
Noncontrolling interest	(5) (3)
Total Equity	1,984	2,039
Total Liabilities and Equity	\$ 12,007	\$ 13,053

See the notes to consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Revenues	\$1,437	\$1,184	\$3,848	\$3,211
Cost of sales, excluding depreciation expense	(787)	(660)	(2,225)	(1,698)
Gross margin	650	524	1,623	1,513
Operating and maintenance expense	(236)	(218)	(750)	(695)
Depreciation expense	(202)	(163)	(611)	(494)
Impairments	(29)	(212)	(148)	(857)
Loss on sale of assets, net	(78)	—	(107)	—
General and administrative expense	(44)	(41)	(126)	(117)
Acquisition and integration costs	(3)	(7)	(55)	(8)
Other	—	—	1	(16)
Operating income (loss)	58	(117)	(173)	(674)
Bankruptcy reorganization items (Note 18)	12	—	494	—
Earnings from unconsolidated investments	4	4	4	7
Interest expense	(161)	(166)	(478)	(449)
Loss on early extinguishment of debt (Note 12)	(66)	—	(75)	—
Other income and expense, net	19	29	65	60
Loss before income taxes	(134)	(250)	(163)	(1,056)
Income tax benefit (expense) (Note 14)	1	1	330	(6)
Net income (loss)	(133)	(249)	167	(1,062)
Less: Net loss attributable to noncontrolling interest	(1)	—	(2)	(2)
Net income (loss) attributable to Dynegy Inc.	(132)	(249)	169	(1,060)
Less: Dividends on preferred stock	5	5	16	16
Net income (loss) attributable to Dynegy Inc. common stockholders	\$(137)	\$(254)	\$153	\$(1,076)
Earnings (Loss) Per Share (Note 16):				
Basic earnings (loss) per share attributable to Dynegy Inc. common stockholders	\$(0.89)	\$(1.81)	\$1.01	\$(8.54)
Diluted earnings (loss) per share attributable to Dynegy Inc. common stockholders	\$(0.89)	\$(1.81)	\$0.96	\$(8.54)
Basic shares outstanding	154	140	152	126
Diluted shares outstanding	154	140	159	126

See the notes to consolidated financial statements.

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

	Three Months Ended September 30, 2017		Nine Months Ended September 30, 2016	
Net income (loss)	\$(133)	\$(249)	\$167	\$(1,062)
Other comprehensive income before reclassifications:				
Actuarial gain and plan amendment (net of tax of zero, zero, \$4, and zero for each respective period)	—	—	11	—
Amounts reclassified from accumulated other comprehensive income:				
Amortization of unrecognized prior service credit (net of tax of zero for each respective period)	(2)	(2)	(6)	(4)
Other comprehensive income (loss), net of tax	(2)	(2)	5	(4)
Comprehensive income (loss)	(135)	(251)	172	(1,066)
Less: Comprehensive loss attributable to noncontrolling interest	(1)	—	(2)	(2)
Total comprehensive income (loss) attributable to Dynegy Inc.	\$(134)	\$(251)	\$174	\$(1,064)

See the notes to consolidated financial statements.

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

	Nine Months Ended September 30, 2017 2016	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	\$ 167	\$(1,062)
Adjustments to reconcile net income (loss) to net cash flows from operating activities:		
Depreciation expense	611	494
Non-cash interest expense	36	37
Amortization of intangibles	13	17
Risk management activities	(38)	(75)
Loss on sale of assets, net	107	—
Loss on early extinguishment of debt	75	—
Earnings from unconsolidated investments	(4)	(7)
Deferred income taxes	(330)	6
Impairments	148	857
Change in value of common stock warrants	(16)	(5)
Bankruptcy reorganization items	(494)	—
Other	50	1
Changes in working capital:		
Accounts receivable, net	(20)	32
Inventory	106	153
Prepayments and other current assets	81	179
Accounts payable and accrued liabilities	9	104
Distributions from unconsolidated investments	2	1
Changes in non-current assets	(2)	(16)
Changes in non-current liabilities	—	12
Net cash provided by operating activities	501	728
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(129)	(337)
Acquisitions, net of cash acquired	(3,249)	—
Distributions from unconsolidated investments	7	14
Proceeds received from asset sales, net	600	—
Other investing	—	10
Net cash used in investing activities	(2,771)	(313)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from long-term borrowings, net of debt issuance costs	1,747	2,277
Repayments of borrowings	(2,261)	(21)
Proceeds from issuance of equity, net of issuance costs	150	359
Payments of debt extinguishment costs	(50)	—
Preferred stock dividends paid	(16)	(16)
Interest rate swap settlement payments	(15)	(13)
Acquisition of noncontrolling interest	(375)	—
Payments related to bankruptcy settlement	(133)	—
Other financing	(2)	(2)

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Net cash provided by (used in) financing activities	(955)	2,584
Net increase (decrease) in cash, cash equivalents and restricted cash	(3,225)	2,999
Cash, cash equivalents and restricted cash, beginning of period	3,838	544
Cash, cash equivalents and restricted cash, end of period	\$613	\$3,543

See the notes to consolidated financial statements.

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DYNEGY INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
For the Interim Periods Ended September 30, 2017 and 2016

Note 1—Basis of Presentation and Organization

The accompanying unaudited consolidated financial statements have been prepared in accordance with the instructions to interim financial reporting as prescribed by the SEC. The year-end consolidated balance sheet data was derived from audited consolidated financial statements, but does not include all disclosures required by the Generally Accepted Accounting Principles of the United States of America (“GAAP”). The unaudited consolidated financial statements contained in this report include all material adjustments of a normal recurring nature that, in the opinion of management, are necessary for a fair presentation of the results for the interim periods. Certain prior period amounts in our unaudited consolidated financial statements have been reclassified to conform to current year presentation. These interim financial statements should be read together with the consolidated financial statements and notes thereto included in our annual report on Form 10-K for the year ended December 31, 2016, filed with the SEC on February 24, 2017, which we refer to as our “Form 10-K.” Unless the context indicates otherwise, throughout this report, the terms “Dynergy,” “the Company,” “we,” “us,” “our,” and “ours” are used to refer to Dynergy Inc. and its direct and indirect subsidiaries.

We sell electric energy, capacity and ancillary services primarily on a wholesale basis from our power generation facilities. We also serve residential, municipal, commercial and industrial customers primarily in MISO, PJM and NY/NE through our Homefield Energy and Dynergy Energy Services retail businesses. We report the results of our power generation business as six segments in our unaudited consolidated financial statements: (i) PJM, (ii) ISO-NE/NYISO (“NY/NE”), (iii) ERCOT, (iv) MISO, (v) IPH, and (vi) CAISO. Our consolidated financial results also reflect corporate-level expenses such as general and administrative expense, interest expense, and income tax benefit (expense). All significant intercompany transactions have been eliminated. Please read Note 19—Segment Information for further discussion.

On February 2, 2017 (the “Emergence Date”), Illinois Power Generating Company (“Genco”) emerged from bankruptcy. Please read Note 18—Genco Chapter 11 Bankruptcy and Emergence for further discussion.

Note 2—Accounting Policies

The accounting policies followed by the Company are set forth in Note 2—Summary of Significant Accounting Policies in our Form 10-K. The accompanying unaudited consolidated financial statements include our accounts and the accounts of our majority-owned or controlled subsidiaries. Accounting policies for all of our operations are in accordance with GAAP. Except for the adoption of new policies as described below, there have been no significant changes to our accounting policies during the nine months ended September 30, 2017.

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

Accounting Standards Adopted

Statement of Cash Flows. In August 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2016-15-Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments. To reduce current and future diversity in practice, the amendments in this ASU provide guidance for several cash flow classification issues identified where current GAAP is either unclear or does not include specific guidance. We adopted this ASU on January 1, 2017 and applied the amendments on a retrospective basis. The adoption of this ASU affected the classification of prepayments for future planned outage work performed under long-term service agreements. The majority of the cash prepayments required under these agreements will now be reflected as cash outflows from investing activities and the remainder will be classified as cash outflows from operating activities, based on whether they are anticipated to be expensed or capitalized. As a result of the

retrospective application of this ASU, we reclassified approximately \$80 million of cash prepayments from operating activities to investing activities in our unaudited consolidated statement of cash flows for the nine months ended September 30, 2016.

In November 2016, the FASB issued ASU 2016-18-Statement of Cash Flows (Topic 230): Restricted Cash. The amendments in this ASU require that a statement of cash flows explains the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling

DYNEGY INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

For the Interim Periods Ended September 30, 2017 and 2016

the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. We adopted this ASU as of January 1, 2017 and applied the amendments on a retrospective basis. As a result of the retrospective application of this ASU, changes in restricted cash of \$1 million and \$2.045 billion previously reflected as cash flows from operating activities and investing activities, respectively, are now reflected in Net increase (decrease) in cash, cash equivalents, and restricted cash in our unaudited consolidated statement of cash flows for the nine months ended September 30, 2016. Additionally, restricted cash of \$39 million and \$2.085 billion are now reflected in the beginning of period and end of period cash, cash equivalents and restricted cash line items, respectively, in our unaudited consolidated statement of cash flows for the nine months ended September 30, 2016. Please read Note 7—Cash Flow Information for further discussion.

Compensation. In March 2016, the FASB issued ASU 2016-09-Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. The amendments in this ASU simplify several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities and classification on the statement of cash flows. We adopted this ASU on January 1, 2017 with no material impact on our unaudited consolidated financial statements.

Goodwill. In January 2017, the FASB issued ASU 2017-04-Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment. To simplify the subsequent measure of goodwill, the amendments in this ASU eliminate step two from the goodwill impairment test. An entity will no longer be required to calculate the implied fair value of goodwill by assigning the fair value of a reporting unit to all of its assets and liabilities as if the reporting unit had been acquired in a business combination to determine the impairment of goodwill. The amendments in this ASU will now require goodwill impairment to be measured by the amount by which the carrying value of the reporting unit exceeds its fair value. The guidance in this ASU is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Upon adoption, an entity shall apply the guidance in this ASU prospectively with early adoption permitted for annual goodwill tests performed after January 1, 2017. We adopted this ASU on January 1, 2017 with no material impact on our unaudited consolidated financial statements.

Accounting Standards Not Yet Adopted

Business Combinations. In January 2017, the FASB issued ASU 2017-01-Business Combinations (Topic 805): Clarifying the Definition of a Business. The amendments in this ASU clarify the definition of a business. The amendments affect all companies and other reporting organizations that must determine whether they have acquired or sold a business. The guidance in this ASU is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017, with early adoption permitted. We are currently evaluating this ASU and any potential impacts the adoption will have on our unaudited consolidated financial statements.

Pensions. In March 2017, the FASB issued ASU No. 2017-07, Compensation-Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost. The amendments of this ASU require an entity to report the service cost component of net benefit costs in the same line item as other compensation costs arising from services rendered by the related employees during the applicable service period. The other components of net benefit cost are required to be presented separately from the service cost component and below the subtotal of operating income. Additionally, only the service cost component of net benefit costs is eligible for capitalization. The guidance in this ASU is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017, with early adoption permitted. The adoption of this standard must be applied on a retrospective basis for the amendments concerning income statement presentation and on a prospective basis for the amendments regarding the capitalization of the service cost component. We are currently evaluating this ASU and any potential impacts the adoption will have on our unaudited consolidated financial statements.

Leases. In February 2016, the FASB issued ASU 2016-02-Leases (Topic 842). The provisions in this ASU will require lessees to recognize lease assets and lease liabilities, for all leases, including operating leases, on the balance sheet. The lease assets recognized in the balance sheet will represent a right-of-use asset, which is an asset that

represents the lessee's right to use, or control the use of, a specified asset for the lease term. The lease liability recognized in the balance sheet will represent the lessee's obligation to make lease payments arising from a lease, measured based on the present value of the minimum rental payments. Entities may make an accounting policy election to not recognize lease assets or lease liabilities for leases with a term of 12 months or less. The guidance in this ASU is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018, with early adoption permitted. We are currently evaluating this ASU and any potential impacts the adoption will have on our unaudited consolidated financial statements.

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Revenue from Contracts with Customers. In May 2014, the FASB issued ASU 2014-09-Revenue from Contracts with Customers (Topic 606). This ASU supersedes current revenue recognition requirements and industry specific guidance and develops a common revenue recognition standard whereby an entity will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration the entity expects to be entitled to in exchange for those goods or services. Additional disclosures will be required to describe the nature, amount, timing, and uncertainty of revenues and cash flows from contracts with customers. The guidance in this ASU and its amendments are effective for interim and annual periods beginning after December 15, 2017, with early adoption permitted for interim and annual periods beginning after December 15, 2016. We intend on adopting the ASU using the modified retrospective approach.

We have previously established an implementation team to assess the impact the new accounting standard will have on our financial statements, as well as accounting policies, business processes and controls upon adoption. Currently, the Company has completed its contract assessments in accordance with the new standard and has also considered industry specific guidance as well as certain other non-authoritative interpretations. As a result, the Company has not identified any material changes to the timing of our revenue recognition. We will continue to assess any new contracts as well as monitor the issuance of any new interpretations of the standard through the adoption date.

We believe changes to our disclosures will primarily include a regional presentation of our revenues disaggregated by revenue type - energy, capacity, and ancillary services. Additionally, we have assessed our accounting policies and identified changes which will become effective upon adoption. We are also in process of assessing the impact to our internal control structure. and have identified certain changes mainly related to the assessment of new contracts as well as the disaggregation of our revenues which will be disclosed in our footnotes upon adoption.

Note 3—Acquisitions and Divestitures

Acquisition

ENGIE Acquisition. On February 7, 2017 (the “ENGIE Acquisition Closing Date”), pursuant to the terms of the stock purchase agreement, as amended and restated on June 27, 2016, (the “ENGIE Acquisition Stock Purchase Agreement”), Dynegy acquired approximately 9,017 MW of generation from GDF SUEZ Energy North America, Inc. (“GSENA”) and International Power, S.A. (the “Seller”), including (i) 15 natural gas-fired facilities located in Illinois, Massachusetts, New Jersey, Ohio, Pennsylvania, Texas, Virginia, and West Virginia, (ii) one coal-fired facility in Texas, and (iii) one waste coal-fired facility in Pennsylvania for a base purchase price of approximately \$3.3 billion in cash, subject to certain adjustments (the “ENGIE Acquisition”).

Business Combination Accounting. The ENGIE Acquisition has been accounted for in accordance with ASC 805, Business Combinations, with identifiable assets acquired and liabilities assumed recorded at their estimated fair values on the acquisition date, February 7, 2017. A summary of the various techniques used to fair value the identifiable assets and liabilities, as well as their classification within the fair value hierarchy are listed below.

Working capital was valued using available market information (Level 2).

Acquired property, plant and equipment (“PP&E”), excluding those assets classified as held-for-sale, was valued using a discounted cash flow (“DCF”) analysis based upon a debt-free, free cash flow model (Level 3). The DCF model was created for each power generation facility based on its remaining useful life, and:

for the years 2017 and 2018, included gross margin forecasts using quoted forward commodity market prices;

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For the Interim Periods Ended September 30, 2017 and 2016

for the years 2019 through 2026, we used gross margin forecasts based upon commodity and capacity price curves developed internally using forward New York Mercantile Exchange natural gas prices and supply and demand factors;

for periods beyond 2026, we assumed a 2.5 percent growth rate.

We also used management's forecasts of operations and maintenance expense, general and administrative expense, as well as capital expenditures for the years 2017 through 2021, and for years thereafter assumed a 2.5 percent growth rate. These cash flows were discounted using discount rates of approximately 9 percent to 13 percent for gas-fired, and approximately 13 percent to 14 percent for coal-fired, generation facilities, based upon the plant's age, efficiency, region, and years until retirement.

Acquired PP&E classified as held-for-sale was valued based upon the sale price of the assets (Level 3).

Acquired derivatives were valued using the methods described in Note 6—Fair Value Measurements (Level 2 or Level 3).

Contracts with terms that were not at current market prices were also valued using a DCF analysis (Level 3). The cash flows generated by the contracts were compared with their cash flows based on current market prices with the resulting difference recorded as either an intangible asset or liability.

Asset retirement obligations ("AROs") were recorded in accordance with ASC 410, Asset Retirement and Environmental Obligations (Level 3).

The accounting for the ENGIE Acquisition is not complete because certain information and analysis that may impact our initial valuation is still being obtained or reviewed. Dynegy expects to finalize these amounts during the first quarter of 2018. The significant assets and liabilities for which provisional amounts are recognized are PP&E, deferred income taxes, and taxes other than deferred income taxes. Additionally, some taxes have not yet been finalized with the associated taxing jurisdictions, resulting in a potential change to their fair value at acquisition. These changes may also impact the fair value of the acquired PP&E or deferred tax liability. As such, the provisional amounts recognized are subject to revision until our valuation is completed, not to exceed one year from the ENGIE Acquisition Closing Date, and any material adjustments identified that existed as of the acquisition date will be recognized in the period in which they are identified.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
For the Interim Periods Ended September 30, 2017 and 2016

The following table summarizes the consideration paid and the provisional fair value amounts recognized for the assets acquired and liabilities assumed related to the ENGIE Acquisition, as of the acquisition date, February 7, 2017: (amounts in millions)

Base purchase price	\$3,300
Working capital adjustments and other	(31)
Fair value of total consideration transferred	\$3,269
Cash	\$20
Accounts receivable	22
Inventory	101
Prepayments and other current assets	3
Assets from risk management activities (including current portion of \$21 million)	25
Property, plant and equipment	2,716
Investment in unconsolidated affiliate	159
Intangible assets (including current portion of \$7 million)	50
Assets held-for-sale	478
Other long-term assets	131
Total assets acquired	3,705
Accounts payable	28
Liabilities from risk management activities (including current portion of \$13 million)	16
Asset retirement obligations	19
Intangible liabilities (including current portion of \$16 million)	30
Deferred income taxes, net	342
Other long-term liabilities	1
Total liabilities assumed	436
Net assets acquired	\$3,269

The following table summarizes certain information related to the ENGIE Acquisition, which is included in our unaudited consolidated statements of operations:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(amounts in millions)	2017	2016	2017	2016
Acquisition costs	\$—	\$ 3	\$35	\$ 5
Revenues	\$ 345	N/A	\$ 669	N/A
Operating loss	\$(36)	N/A	\$(32)	N/A

Pro Forma Results. The unaudited pro forma financial results for the nine months ended September 30, 2017 and 2016 assume the ENGIE Acquisition occurred on January 1, 2016. The unaudited pro forma financial results may not be indicative of the results that would have occurred had the acquisition been completed as of January 1, 2016, nor are they indicative of future results of operations. The unaudited pro forma financial results for the nine months ended September 30, 2017 and 2016 include adjustments of \$35 million and \$5 million, respectively, for non-recurring acquisition costs attributable to the ENGIE Acquisition.

Nine Months
Ended

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(amounts in millions)	September 30,	
	2017	2016
Revenue	\$3,905	\$3,942
Net income (loss)	\$169	\$(1,090)
Net income (loss) attributable to Dynegy Inc.	\$171	\$(1,088)

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DYNEGY INC.

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AER Acquisition. On April 12, 2017, we received approximately \$25 million of cash related to the 2013 AER Acquisition. As a result, we have recorded \$25 million in Other income and expense, net in our unaudited consolidated statement of operations for the nine months ended September 30, 2017.

Divestitures

Troy and Armstrong. On July 11, 2017, Dynegy completed the sale of its equity ownership interests in two peaking facilities in PJM to LS Power (the “Troy and Armstrong Sale”) for approximately \$480 million in cash. The facilities sold were recently acquired in the ENGIE Acquisition and total 1,269 MW.

Lee. On July 10, 2017, Dynegy signed a membership interest purchase agreement (the “Lee Sale Agreement”) with an affiliate of Rockland Capital for the sale of its equity ownership interest in the Lee facility, a natural gas-fueled peaking facility in PJM, for \$180 million in cash, plus adjustments for working capital. On October 4, 2017, the FERC approved our sale of Lee, and we completed the sale on October 12, 2017. Our Lee facility, associated inventory, and allocated goodwill of \$9 million are classified as long-term assets held-for-sale as of September 30, 2017. Goodwill was allocated based on the relative fair values of the assets sold to the reporting unit.

For the three and nine months ended September 30, 2017, we wrote down the carrying value of the assets held-for-sale to the sales price and recognized an impairment of \$15 million, which was recorded in Impairments in our unaudited consolidated statements of operations.

Dighton and Milford-MA. On September 22, 2017, Dynegy completed the sale of its equity ownership interests in two intermediate natural gas-fueled facilities in NY/NE to Starwood Energy Group for approximately \$125 million in cash, including \$6 million in working capital adjustments. This sale has fulfilled the mitigation plan approved by FERC regarding the Company’s purchase of ENGIE’s US-based asset portfolio. For the three and nine months ended September 30, 2017, we recognized a loss on sale of assets on our Dighton and Milford-MA facilities of \$77 million, which includes \$18 million of allocated goodwill. Goodwill was allocated based on the relative fair values of the assets sold to the reporting unit.

Note 4—Unconsolidated Investments

Equity Method Investments

NELP. In connection with the ENGIE Acquisition, we acquired a 50 percent interest in Northeast Energy, LP (“NELP”), a joint venture with NextEra Energy, Inc., which indirectly owns the Bellingham NEA facility and the Sayreville facility. At September 30, 2017, our equity method investment in NELP included in our unaudited consolidated balance sheets was \$154 million. Upon the acquisition, we recognized basis differences in the net assets of approximately \$14 million primarily related to PP&E. These basis differences are being amortized over their respective useful lives. Our risk of loss related to our equity method investment is limited to our investment balance. For the three and nine months ended September 30, 2017, we recorded \$4 million and \$4 million, respectively, in equity earnings related to our investment in NELP which is reflected in Earnings from unconsolidated investments in our unaudited consolidated statements of operations. For the nine months ended September 30, 2017, we received distributions of \$9 million, of which \$7 million was considered to be a return of investment using the cumulative earnings approach and reflected as Distributions from unconsolidated investments in our unaudited consolidated statements of cash flows.

Elwood. On November 21, 2016, Dynegy sold its 50 percent equity interest in Elwood Energy, LLC, a limited liability company (“Elwood Energy”) and Elwood Expansion LLC, a limited liability company (and together with Elwood Energy “Elwood”), to J-Power USA Development Co. Ltd. for approximately \$173 million (the “Elwood Sale”). As a result, we recorded an impairment charge of \$9 million to Impairments in our unaudited consolidated statements of operations for the three and nine months ended September 30, 2016, to write down our investment in Elwood to the sales price. For the three and nine months ended September 30, 2016, we recorded \$4 million and \$7 million, respectively, in equity earnings related to our investment in Elwood, which is reflected in Earnings from unconsolidated investments in our unaudited consolidated statements of operations. For the nine months ended September 30, 2016, we received distributions of \$15 million, of which \$14 million was considered to be a return of

investment using the accumulated earnings approach and reflected as Distributions from unconsolidated investments in our unaudited consolidated statements of cash flows.

Note 5—Risk Management Activities, Derivatives and Financial Instruments

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

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

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

Quantitative Disclosures Related to Financial Instruments and Derivatives

As of September 30, 2017, we had net purchases and sales of derivative contracts outstanding in the following quantities:

Contract Type	Quantity	Unit of Measure	Fair Value (1)
(dollars and quantities in millions)	Purchases (Sales)		Asset (Liability)
Commodity contracts:			
Electricity derivatives (2)	(60)	MWh	\$ 14
Electricity basis derivatives (3)	(34)	MWh	\$ (7)
Natural gas derivatives (2)	380	MMBtu	\$ (1)
Natural gas basis derivatives	108	MMBtu	\$ (14)
Physical heat rate derivatives	125/(13)	MMBtu/MWh	\$ 14
Emissions derivatives	17	Metric Ton	\$ 4
Interest rate swaps	1,963	U.S. Dollar	\$ (11)
Common stock warrants (4)	25	Warrant	\$ (2)

(1) Includes both asset and liability risk management positions but excludes margin and collateral netting of \$22 million.

(2) Mainly comprised of swaps and physical forwards.

(3) Comprised of FTRs and swaps.

(4) Each warrant is convertible into one share of Dynegy common stock.

DYNEGY INC.
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Derivatives on the Balance Sheet. The following tables present the fair value and balance sheet classification of derivatives in our unaudited consolidated balance sheets as of September 30, 2017 and December 31, 2016. As of September 30, 2017 and December 31, 2016, there were no gross amounts available to be offset that were not offset in our unaudited consolidated balance sheets.

Contract Type	Balance Sheet Location	September 30, 2017			
		Gross Fair Value	Contract Netting	Collateral or Margin Received or Paid	Net Fair Value
(amounts in millions)					
Derivative assets:					
Commodity contracts	Assets from risk management activities	\$204	\$(117)	\$ —	\$ 87
Interest rate contracts	Assets from risk management activities	12	—	—	12
Total derivative assets		\$216	\$(117)	\$ —	\$ 99
Derivative liabilities:					
Commodity contracts	Liabilities from risk management activities	\$(194)	\$117	\$ 22	\$(55)
Interest rate contracts	Liabilities from risk management activities	(23)	—	—	(23)
Common stock warrants	Accrued liabilities and other current liabilities and other long-term liabilities	(2)	—	—	(2)
Total derivative liabilities		\$(219)	\$117	\$ 22	\$(80)
Total derivatives		\$(3)	\$—	\$ 22	\$ 19

Contract Type	Balance Sheet Location	December 31, 2016			
		Gross Fair Value	Contract Netting	Collateral or Margin Received or Paid	Net Fair Value
(amounts in millions)					
Derivative assets:					
Commodity contracts	Assets from risk management activities	\$311	\$(165)	\$ —	\$146
Total derivative assets		\$311	\$(165)	\$ —	\$146
Derivative liabilities:					
Commodity contracts	Liabilities from risk management activities	\$(329)	\$165	\$ 54	\$(110)
Interest rate contracts	Liabilities from risk management activities	(30)	—	—	(30)
Common stock warrants	Accrued liabilities and other current liabilities	(1)	—	—	(1)
Total derivative liabilities		\$(360)	\$165	\$ 54	\$(141)

Total derivatives \$(49) \$— \$ 54 \$5

Certain of our derivative instruments have credit limits that require us to post collateral. The amount of collateral required to be posted is a function of the net liability position of the derivative as well as our established credit limit with the respective counterparty. If our credit rating were to worsen, the counterparties could require us to post additional collateral. The amount of additional collateral that would be required to be posted would vary depending on the extent of change in our credit rating as well as the requirements of the individual counterparty. As of September 30, 2017, the aggregate fair value of all commodity derivative instruments containing credit-risk-related contingent features, in a liability position and not fully collateralized, is \$9 million for which we have posted no collateral. Transactions with our clearing brokers are excluded as they are fully collateralized. Our

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remaining derivative instruments do not have credit-related collateral contingencies as they are included within our first-lien collateral program.

The following table summarizes our cash collateral posted as of September 30, 2017 and December 31, 2016, within Prepayments and other current assets in our unaudited consolidated balance sheets and the amount applied against short-term risk management activities:

Location on Balance Sheet	September 30, 2017	December 31, 2016
(amounts in millions)		
Gross collateral posted with counterparties	\$ 54	\$ 116
Less: Collateral netted against risk management liabilities	22	54
Net collateral within Prepayments and other current assets	\$ 32	\$ 62

Impact of Derivatives on the Unaudited Consolidated Statements of Operations

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

Our unaudited consolidated statements of operations for the three and nine months ended September 30, 2017 and 2016 include the impact of derivative financial instruments as presented below:

Derivatives Not Designated as Hedges	Location of Gain (Loss) Recognized in Income on Derivatives	Three Months Ended September 30,		Nine Months Ended September 30,	
		2017	2016	2017	2016
(amounts in millions)					
Commodity contracts	Revenues	\$ 29	\$ (27)	\$ 242	\$ 188
Interest rate contracts	Interest expense	\$ 1	\$ 1	\$ 4	\$ (11)
Common stock warrants	Other income and (expense), net	\$ 1	\$ 4	\$ 16	\$ 5

Note 6—Fair Value Measurements

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

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The following tables set forth, by level within the fair value hierarchy, our financial assets and liabilities that were accounted for at fair value on a recurring basis as of September 30, 2017 and December 31, 2016, and are presented on a gross basis before consideration of amounts netted under master netting agreements and the application of collateral and margin paid:

(amounts in millions)	Fair Value as of September 30, 2017			
	Level 1	Level 2	Level 3	Total
Assets:				
Assets from commodity risk management activities:				
Electricity derivatives	\$—	\$100	\$21	\$121
Natural gas derivatives	—	45	6	51
Physical heat rate derivatives	—	20	1	21
Emissions derivatives	—	11	—	11
Total assets from commodity risk management activities	—	176	28	204
Assets from interest rate contracts	—	12	—	12
Total assets	\$—	\$188	\$28	\$216

Liabilities:				
Liabilities from commodity risk management activities:				
Electricity derivatives	\$—	\$(94)	\$(20)	\$(114)
Natural gas derivatives	—	(60)	(6)	(66)
Physical heat rate derivatives	—	(7)	—	(7)
Emissions derivatives	—	(7)	—	(7)
Total liabilities from commodity risk management activities	—	(168)	(26)	(194)
Liabilities from interest rate contracts	—	(23)	—	(23)
Liabilities from outstanding common stock warrants	(2)	—	—	(2)
Total liabilities	\$(2)	\$(191)	\$(26)	\$(219)

(amounts in millions)	Fair Value as of December 31, 2016			
	Level 1	Level 2	Level 3	Total
Assets:				
Assets from commodity risk management activities:				
Electricity derivatives	\$—	\$118	\$20	\$138
Natural gas derivatives	—	169	4	173
Total assets from commodity risk management activities	\$—	\$287	\$24	\$311
Liabilities:				
Liabilities from commodity risk management activities:				
Electricity derivatives	\$—	\$(245)	\$(12)	\$(257)
Natural gas derivatives	—	(52)	(10)	(62)
Emissions derivatives	—	(10)	—	(10)
Total liabilities from commodity risk management activities	—	(307)	(22)	(329)
Liabilities from interest rate contracts	—	(30)	—	(30)
Liabilities from outstanding common stock warrants	(1)	—	—	(1)
Total liabilities	\$(1)	\$(337)	\$(22)	\$(360)

Level 3 Valuation Methods. The electricity derivatives classified within Level 3 include financial swaps executed in illiquid trading locations or on long dated contracts, capacity contracts and FTRs. The curves used to generate the fair value of the financial swaps are based on basis adjustments applied to forward curves for liquid trading points, while the curves for the capacity deals are based upon auction results in the marketplace, which are infrequently executed. The forward market price of FTRs is derived using historical congestion patterns within the marketplace and heat rate derivative valuations are derived using

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a DCF model, which uses modeled forward natural gas and power prices. The natural gas derivatives classified within Level 3 include financial swaps, basis swaps, and physical purchases executed in illiquid trading locations or on long dated contracts.

Sensitivity to Changes in Significant Unobservable Inputs for Level 3 Valuations. The significant unobservable inputs used in the fair value measurement of our commodity instruments categorized within Level 3 of the fair value hierarchy include estimates of forward congestion, power price spreads, and natural gas pricing, and the difference between our plant locational prices to liquid hub prices. Power price spreads, and natural gas pricing, and the difference between our plant locational prices to liquid hub prices are generally based on observable markets where available, or derived from historical prices and forward market prices from similar observable markets when not available. Increases in the price of the spread on a buy or sell position in isolation would result in a higher/lower fair value measurement. The significant unobservable inputs used in the valuation of Dynegy's contracts classified as Level 3 as of September 30, 2017 are as follows:

Transaction Type	Quantity	Unit of Measure	Net Fair Value	Valuation Technique	Significant Unobservable Input	Significant Unobservable Input Range
(dollars in millions)						
Electricity derivatives:						
Forward contracts—power (1)	(14)	Million MWh	\$ 4	Basis spread + liquid location	Basis spread	\$4.25 - \$6.25
FTRs	(29)	Million MWh	\$ (3)	Historical congestion	Forward price	\$0 - \$6.00
Physical heat rate derivatives	23/(3)	Million MMBtu/Million MWh	\$ 1	Discounted Cash Flow	Forward price	\$2.40 - \$3.30 / \$20 - \$24
Natural gas derivatives (1)	102	Million MMBtu	\$ —	Illiquid location fixed price	Forward price	\$1.75 - \$2.15

(1) Represents forward financial and physical transactions at illiquid pricing locations and long-dated contracts.

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

(amounts in millions)	Three Months Ended September 30, 2017			
	Electricity Derivatives	Natural Gas Derivatives	Heat Rate Derivatives	Total
Balance at June 30, 2017	\$ (1)	\$ 1	\$ (2)	\$ (2)
Total gains (losses) included in earnings	6	(1)	3	8
Transfers out of level 3 (1)	(2)	—	—	(2)
Settlements (2)	(2)	—	—	(2)
Balance at September 30, 2017	\$ 1	\$ —	\$ 1	\$ 2
Unrealized gains (losses) relating to instruments held as of September 30, 2017	\$ 6	\$ (1)	\$ 3	\$ 8

(amounts in millions)	Nine Months Ended September 30, 2017			
	Electricity Derivatives	Natural Gas Derivatives	Heat Rate Derivatives	Total
Balance at December 31, 2016	\$ 8	\$ (6)	\$ —	\$ 2
Acquired derivatives	1	—	—	1
Total gains (losses) included in earnings	(16)	10	1	(5)
Settlements (2)	8	(4)	—	4
Balance at September 30, 2017	\$ 1	\$ —	\$ 1	\$ 2
Unrealized gains (losses) relating to instruments held as of September 30, 2017	\$ (16)	\$ 10	\$ 1	\$ (5)

(amounts in millions)	Three Months Ended September 30, 2016			
	Electricity Derivatives	Natural Gas Derivatives	Coal Derivatives	Total
Balance at June 30, 2016	\$ (24)	\$ (15)	\$ 1	\$ (38)
Total gains (losses) included in earnings	9	(4)	1	6
Settlements (2)	5	5	(1)	9
Balance at September 30, 2016	\$ (10)	\$ (14)	\$ 1	\$ (23)
Unrealized gains (losses) relating to instruments held as of September 30, 2016	\$ 9	\$ (4)	\$ 1	\$ 6

(amounts in millions)	Nine Months Ended September 30, 2016			
	Electricity Derivatives	Natural Gas Derivatives	Coal Derivatives	Total
Balance at December 31, 2015	\$ (18)	\$ (32)	\$ 2	\$ (48)
Total gains included in earnings	4	—	—	4
Settlements (2)	4	18	(1)	21
Balance at September 30, 2016	\$ (10)	\$ (14)	\$ 1	\$ (23)
Unrealized gains relating to instruments held as of September 30, 2016	\$ 4	\$ —	\$ —	\$ 4

(1)

During the three months ended September 30, 2017, we had transfers from Level 3 to Level 2 due to changes in market liquidity.

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

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Gains and losses recognized for Level 3 recurring items are included in Revenues in our unaudited consolidated statements of operations for commodity derivatives. We believe an analysis of commodity instruments classified as Level 3 should be undertaken with the understanding that these items generally serve as economic hedges of our power generation portfolio.

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

Impairments. During the three and nine months ended September 30, 2017 and 2016, we recorded impairment charges related to certain of our facilities, materials and supplies inventory and assets held-for-sale using fair value measurements. See Note 3—Acquisitions and Divestitures, Note 8—Inventory and Note 9—Property, Plant and Equipment for further discussion.

Acquisitions. We fair valued the ENGIE Acquisition and our acquisition of additional joint ownership interest in the Zimmer facility using fair value measurements. See Note 3—Acquisitions and Divestitures and Note 10—Joint Ownership of Generating Facilities for further discussion of the fair value hierarchy classifications of valuations of acquired identifiable assets and liabilities.

Fair Value of Financial Instruments. The following table discloses the fair value of financial instruments which are not recognized at fair value in our unaudited consolidated balance sheets. Unless otherwise noted, the fair value of debt as reflected in the table has been calculated based on the average of certain available broker quotes as of September 30, 2017 and December 31, 2016, respectively.

(amounts in millions)	Fair Value Hierarchy	September 30, 2017		December 31, 2016	
		Carrying Amount	Fair Value	Carrying Amount	Fair Value
Dynegy Inc.:					
Tranche C-1 Term Loan, due 2024 (1)	Level 2	\$(1,940)	\$(2,029)	\$(1,994)	\$(2,025)
Tranche B-2 Term Loan, due 2020 (1)	Level 2	\$—	\$—	\$(219)	\$(225)
Revolving Facility (1)	Level 2	\$(300)	\$(300)	\$—	\$—
6.75% Senior Notes, due 2019 (1)	Level 2	\$(845)	\$(881)	\$(2,083)	\$(2,137)
7.375% Senior Notes, due 2022 (1)	Level 2	\$(1,733)	\$(1,824)	\$(1,731)	\$(1,665)
5.875% Senior Notes, due 2023 (1)	Level 2	\$(493)	\$(498)	\$(492)	\$(431)
7.625% Senior Notes, due 2024 (1)	Level 2	\$(1,237)	\$(1,294)	\$(1,237)	\$(1,156)
8.034% Senior Notes, due 2024 (1)	Level 2	\$(188)	\$(190)	\$—	\$—
8.00% Senior Notes, due 2025 (1)	Level 2	\$(739)	\$(778)	\$(738)	\$(703)
8.125% Senior Notes, due 2026 (1)	Level 2	\$(842)	\$(880)	\$—	\$—
7.00% Amortizing Notes, due 2019 (TEUs) (1)	Level 2	\$(58)	\$(62)	\$(78)	\$(90)
Forward capacity agreement (1)	Level 3	\$(212)	\$(212)	\$(205)	\$(205)
Inventory financing agreements	Level 3	\$(48)	\$(48)	\$(129)	\$(127)
Equipment financing agreements (1)	Level 3	\$(112)	\$(112)	\$(73)	\$(73)
Genco:					
Liabilities subject to compromise (2)	Level 3	\$—	\$—	\$(825)	\$(366)

(1) Carrying amounts include unamortized discounts and debt issuance costs. Please read Note 12—Debt for further discussion.

(2) Carrying amounts represent the Genco senior notes that were classified as liabilities subject to compromise as of December 31, 2016. The fair value of the senior notes was equal to the Genco Plan consideration and is a Level 3

valuation due to a lack of observable inputs that make up the consideration. Please read Note 22—Genco Chapter 11 Bankruptcy in our Form 10-K for further details.

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Note 7—Cash Flow Information

The supplemental disclosures of our non-cash investing and financing information are as follows:

	Nine Months Ended September 30,	
(amounts in millions)	2017	2016
Change in capital expenditures included in accounts payable	\$5	\$(10)
Change in capital expenditures pursuant to an equipment financing agreement	\$34	\$11
Issuance of 2017 Warrants	\$17	\$—
Issuance of senior notes related to the Genco restructuring	\$188	\$—
Sale of interest in Conesville facility	\$(58)	\$—
Acquisition of interest in Zimmer facility	\$27	\$—

The following table provides a reconciliation of cash, cash equivalents and restricted cash reported within our unaudited consolidated balance sheets that sum to the total of the same such amounts shown in our unaudited consolidated statements of cash flows:

(amounts in millions)	September 30, 2017	September 30, 2016
Cash and cash equivalents	\$ 613	\$ 1,458
Restricted cash included in current assets (1)	—	85
Restricted cash included in long-term assets (2)	—	2,000
Total cash, cash equivalents and restricted cash	\$ 613	\$ 3,543

Includes \$45 million placed in escrow for the issuance of the Tranche C Term Loan (\$25 million of pre-funded (1) interest and interest income earned and \$20 million of pre-funded original issue discount) and \$40 million related to collateral.

(2) Relates to amounts placed into escrow for the issuance of the Tranche C Term Loan.

Note 8—Inventory

A summary of our inventories is as follows:

(amounts in millions)	September 30, December 31,	
	2017	2016
Materials and supplies	\$ 236	\$ 182
Coal	165	238
Fuel oil	14	17
Natural gas	12	—
Emissions allowances (1)	2	8
Total	\$ 429	\$ 445

At September 30, 2017 and December 31, 2016, a portion of this inventory was held as collateral by one of our (1) counterparties as part of an inventory financing agreement. Please read Note 12—Debt—Emissions Repurchase Agreements for further discussion.

As discussed in Note 10—Joint Ownership of Generating Facilities, Stuart Unit 1 was retired early on September 30, 2017, with remaining Stuart and Killen units scheduled to be retired by mid-2018. We determined that we would not be able to recover the carrying value of our Materials and supplies inventory at these facilities and, as a result, recognized a charge of \$14 million in Impairments in our unaudited consolidated statements of operations for the three

and nine months ended September 30, 2017.

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Note 9—Property, Plant and Equipment

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

(amounts in millions)	September 30, December 31,	
	2017	2016
Power generation	\$ 9,845	\$ 7,537
Buildings and improvements	958	944
Office and other equipment	115	98
Property, plant and equipment	10,918	8,579
Accumulated depreciation	(1,989)	(1,458)
Property, plant and equipment, net	\$ 8,929	\$ 7,121

Impairments

For the three and nine months ended September 30, 2017 and 2016, we recognized the following PP&E impairments in our unaudited consolidated statements of operations (amounts in millions). Each valuation is classified as Level 3 within the fair value hierarchy and is presented as of the date of its impairment.

Facility	Fair Value	Three Months Ended September 30,		Nine Months Ended September 30,	
		2017	2016	2017	2016
Baldwin (1)	\$ 97	—	—	—	645
Stuart (2)	\$ —	—	55	—	55
Newton FGD (3)	\$ —	—	148	—	148
Killen (4)	\$ —	—	—	20	—
Hennepin (1)	\$ 16	—	—	10	—
Havana (1)	\$ 37	—	—	89	—
Total (5)		\$ —	\$ 203	\$ 119	\$ 848

(1) Units failed to recover their basic operating costs in the MISO capacity auctions. The impairment was measured using a DCF model.

We determined that the facility would experience recurring negative cash flows due to on-going required (2) maintenance and environmental capital expenditures, combined with consistently poor reliability. The impairment was measured using a DCF model.

(3) We terminated the flue gas desulfurization (“FGD”) systems construction project at our Newton generation facility. The capitalized cost of the project was used to determine the impairment amount.

(4) In first quarter 2017, Dayton Power and Light Co., the partner and operator of Killen, announced the shutdown of the Killen generation facility by June 2018. The impairment charge was equal to the book value.

(5) Excludes impairments related to Goodwill and Materials and supplies inventory.

Brayton Point Retirement

The Brayton Point facility officially retired on June 1, 2017. During the three and nine months ended September 30, 2017, we recognized approximately \$7 million and \$12 million of severance costs, respectively, which were classified within Operating and maintenance expense in our unaudited consolidated statement of operations.

Note 10—Joint Ownership of Generating Facilities

We hold ownership interests in certain jointly owned generating facilities. We are entitled to the proportional share of the generating capacity and the output of each unit equal to our ownership interests. We pay our share of capital

expenditures, fuel inventory purchases, and operating expenses, except in certain instances where agreements have been executed to limit certain joint owners' maximum exposure to additional costs. Our share of revenues and operating costs of the jointly owned generating facilities is included within the corresponding financial statement line items in our unaudited consolidated statements of operations.

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The following tables present the ownership interests of the jointly owned facilities as of September 30, 2017 and December 31, 2016 included in our unaudited consolidated balance sheets. Each facility is co-owned with one or more other generation companies.

(dollars in millions)	September 30, 2017				
	Ownership Interest	Property, Plant and Equipment	Accumulated Depreciation	Construction Work in Progress	Total
Miami Fort	64.0%	\$ 208	\$ (55)	\$ 4	\$157
Stuart (1)(2)	39.0%	\$ —	\$ —	\$ 1	\$1
Zimmer	71.9%	\$ 131	\$ (37)	\$ 8	\$102
Killen (1)(2)	33.0%	\$ —	\$ —	\$ —	\$—

(dollars in millions)	December 31, 2016				
	Ownership Interest	Property, Plant and Equipment	Accumulated Depreciation	Construction Work in Progress	Total
Miami Fort	64.0%	\$ 207	\$ (39)	\$ 4	\$172
Stuart (1)	39.0%	\$ —	\$ —	\$ 4	\$4
Conesville (1)	40.0%	\$ 61	\$ (3)	\$ 6	\$64
Zimmer	46.5%	\$ 115	\$ (25)	\$ 6	\$96
Killen (1)	33.0%	\$ 19	\$ (2)	\$ 3	\$20

(1) Facilities not operated by Dynegy.

(2) Stuart Unit 1 was retired early on September 30, 2017, with remaining Stuart and Killen units scheduled to be retired by mid-2018.

On May 9, 2017, Dynegy finalized the sale of its 40 percent ownership interest in Conesville to American Electric Power (“AEP”) in exchange for AEP’s 25.4 percent ownership interest in Zimmer. As a result, Dynegy now owns 71.9 percent of the Zimmer facility and no longer has an ownership interest in the Conesville facility. No cash was exchanged in the transaction and no additional debt was incurred by either party. AEP returned a previously issued letter of credit totaling \$58 million to Dynegy. The acquisition of the additional interest in Zimmer has been accounted for as a business combination using similar fair value methodologies as described in Note 3—Acquisitions and Divestitures. The fair value of the additional Zimmer interest is \$27 million and was allocated \$14 million to Property, plant and equipment, \$14 million to Inventory, and \$1 million to ARO liability in our unaudited consolidated balance sheets. As a result of the Conesville sale, we recognized a loss of \$31 million for the nine months ended September 30, 2017, representing the difference between the \$58 million book value of our transferred interest in Conesville and the \$27 million fair value of the acquired interest in Zimmer.

On April 21, 2017, Dynegy reached an agreement with AES Ohio Generation, LLC and The Dayton Power and Light Company (collectively, “AES”) under which Dynegy will purchase AES’ 28.1 percent interest in Zimmer and 36 percent interest in Miami Fort for \$50 million in cash and the assumption of certain liabilities, subject to customary adjustments. The transaction is expected to close by the end of 2017.

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Note 11—Intangible Assets and Liabilities

The following table summarizes the components of our intangible assets and liabilities as of September 30, 2017 and December 31, 2016:

(amounts in millions)	September 30, 2017			December 31, 2016		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Intangible Assets:						
Electricity contracts	\$230	\$ (176)	\$ 54	\$260	\$ (206)	\$ 54
Gas transport contracts	30	(11)	19	13	(6)	7
Total intangible assets	\$260	\$ (187)	\$ 73	\$273	\$ (212)	\$ 61
Intangible Liabilities:						
Electricity contracts	\$(19)	\$ 17	\$ (2)	\$(28)	\$ 26	\$ (2)
Coal contracts	(32)	32	—	(49)	42	(7)
Coal transport contracts	(84)	78	(6)	(86)	73	(13)
Gas transport contracts	(58)	13	(45)	(41)	8	(33)
Gas storage contracts	(2)	1	(1)	—	—	—
Total intangible liabilities	\$(195)	\$ 141	\$ (54)	\$(204)	\$ 149	\$ (55)
Intangible assets and liabilities, net	\$65	\$ (46)	\$ 19	\$69	\$ (63)	\$ 6

The following table presents our amortization expense (revenue) of intangible assets and liabilities for the three and nine months ended September 30, 2017 and 2016:

(amounts in millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Electricity contracts, net (1)	\$5	\$19	\$29	\$52
Coal contracts, net (2)	(1)	(9)	(4)	(32)
Coal transport contracts, net (2)	(2)	(7)	(7)	(21)
Gas transport contracts, net (2)	(3)	1	(4)	18
Gas storage contracts, net (2)	—	—	(1)	—
Total	\$(1)	\$4	\$13	\$17

(1) The amortization of these contracts is recognized in Revenues or Cost of sales in our unaudited consolidated statements of operations.

(2) The amortization of these contracts is recognized in Cost of sales in our unaudited consolidated statements of operations.

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The following table summarizes the components of our contract based intangible assets and liabilities recorded in connection with the ENGIE Acquisition in February 2017:

(amounts in millions/months)	Gross	
	Carrying Amount	Weighted-Average Amortization Period
Intangible Assets:		
Electricity contracts	\$ 34	39
Gas transport contracts	16	47
Total intangible assets	\$ 50	41
Intangible Liabilities:		
Electricity contracts	\$ (11)	32
Gas contracts	—	1
Gas transport contracts	(17)	35
Gas storage contracts	(2)	13
Total intangible liabilities	\$ (30)	33
Total intangible assets and liabilities, net	\$ 20	

Amortization expense (revenue), net related to intangible assets and liabilities recorded in connection with the ENGIE Acquisition for the next five years as of September 30, 2017 is as follows: 2017—\$(3) million, 2018—\$11 million, 2019—\$17 million, 2020—\$4 million and 2021—\$(1) million.

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Note 12—Debt

A summary of our long-term debt is as follows:

(amounts in millions)	September 30, 2017	December 31, 2016
Secured Obligations:		
Tranche C-1 Term Loan, due 2024 (1)	\$ 2,018	\$ 2,000
Tranche B-2 Term Loan, due 2020	—	224
Revolving Facility	300	—
Forward Capacity Agreements	241	219
Inventory Financing Agreements	48	129
Subtotal secured obligations	2,607	2,572
Unsecured Obligations:		
7.00% Amortizing Notes, due 2019 (TEUs)	60	80
6.75% Senior Notes, due 2019	850	2,100
7.375% Senior Notes, due 2022	1,750	1,750
5.875% Senior Notes, due 2023	500	500
7.625% Senior Notes, due 2024	1,250	1,250
8.034% Senior Notes, due 2024 (2)	188	—
8.00% Senior Notes, due 2025	750	750
8.125% Senior Notes, due 2026	850	—
Equipment Financing Agreements	139	97
Subtotal unsecured obligations	6,337	6,527
Total debt obligations	8,944	9,099
Unamortized debt discounts and issuance costs	(197) (120
	8,747	8,979
Less: Current maturities, including unamortized debt discounts and issuance costs, net	99	201
Total long-term debt	\$ 8,648	\$ 8,778

(1) At December 31, 2016, the \$2.0 billion Tranche C Term Loan was held by Dynegy Finance IV. Upon the close of the ENGIE Acquisition, this debt obligation became Dynegy Inc.'s secured obligation.

(2) See Note 18—Genco Chapter 11 Bankruptcy and Emergence for further discussion.

Credit Agreement

As of September 30, 2017, we had a \$3.769 billion credit agreement, as amended, that consisted of (i) a \$2.224 billion seven-year senior secured term loan facility (the “Tranche C-1 Term Loan”) and (ii) \$1.545 billion in senior secured revolving credit facilities (the “Revolving Facility,” and collectively with the Tranche C-1 Term Loan the “Credit Agreement”). During the nine months ended September 30, 2017, we made the following changes to the Credit Agreement:

On January 10, 2017, we amended the Credit Agreement (Fourth Amendment) to increase the revolver capacity by \$45 million and to extend the maturity date on \$450 million in revolver capacity to 2021, which was effective upon the ENGIE Acquisition Closing Date.

On the ENGIE Acquisition Closing Date, we amended the Credit Agreement (Fifth Amendment) to (i) reduce the interest rate applicable to the Tranche C Term Loan by 75 basis points and (ii) extend the maturity to 2024 of the existing Tranche B-2 Term Loan through the exchange of the outstanding initial Tranche B-2 Term Loan for the \$2.224 billion Tranche C-1 Term Loan. As a result of this exchange, we recorded a loss on early extinguishment of debt of approximately \$9 million in our unaudited consolidated statements of operations in the first quarter of 2017, of which approximately \$7

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million was related to the write-off of unamortized deferred financing costs and approximately \$2 million was related to the write-off of unamortized debt discount.

On August 22, 2017, we repaid \$200 million of our Tranche C-1 term loan. As a result of this transaction, we recorded a loss on early extinguishment of debt of approximately \$8 million in our unaudited consolidated statements of operations for the three and nine months ended September 30, 2017, of which \$6 million was related to the write-off of unamortized deferred financing costs and \$2 million was related to the write-off of unamortized debt discount.

At September 30, 2017, there was \$300 million drawn on the Revolving Facility. We also had outstanding letters of credit (“LCs”) of approximately \$310 million, which reduce the amount available under the Revolving Facility. The Credit Agreement contains customary events of default and affirmative and negative covenants, subject to certain specified exceptions, including a Senior Secured Leverage Ratio (as defined in the Credit Agreement) calculated on a rolling four quarters basis. Under the Credit Agreement, if Dynegy utilizes 25 percent or more of its Revolving Facility, Dynegy must be in compliance with the Consolidated Senior Secured Net Debt to Consolidated Adjusted EBITDA ratio of 4.00:1.00. Our revolver usage at September 30, 2017 was 39 percent of the aggregate revolver commitment due to outstanding LCs and revolver draws. Based on the calculation outlined in the Credit Agreement, we were in compliance with these covenants as of September 30, 2017. In October 2017, we repaid the outstanding Revolving Facility balance of \$300 million.

Under the terms of the Credit Agreement, existing balances under our Forward Capacity Agreement, Inventory Financing Agreements, and Equipment Financing Agreements are excluded from Consolidated Senior Secured Net Debt, as defined in the Credit Agreement.

Interest Rate Swaps. In March 2017, we amended our existing interest rate swaps to more closely match the terms of our Tranche C-1 Term Loan. The swaps have an aggregate notional value of approximately \$763 million at an average fixed rate of 3.03 percent and expire between the second quarter of 2018 and the second quarter of 2020. In a previous extension to the existing interest rate swaps, in lieu of paying the breakage fees related to terminating the old swaps and issuing the new swaps, the costs were incorporated into the terms of the new swaps. As a result, any cash flows related to the settlement of the swaps are reflected as a financing activity in our unaudited consolidated statements of cash flows.

Additionally, in May 2017, we entered into new interest rate swap agreements. The swaps have an aggregate notional value of approximately \$1.2 billion at an average fixed rate of 1.97 percent, and expire in the first quarter of 2024. Any cash flows related to the settlement of these swaps are reflected as an operating activity in our unaudited consolidated statements of cash flows.

Senior Notes

The senior notes are unsecured and unsubordinated obligations of the Company and are guaranteed by each of the Company’s current and future wholly-owned domestic subsidiaries that from time to time are a borrower or guarantor under the Credit Agreement. The senior notes indentures limit, among other things, the ability of the Company or any of the guarantors to create liens upon any principal property to secure debt for borrowed money in excess of, among other limitations, 30 percent of total assets.

On August 21, 2017, we issued \$850 million of 8.125 percent senior notes due 2026 (the “2026 Senior Notes”) in a private placement transaction. Interest is payable semiannually in arrears on January 30 and July 30 of each year, beginning January 30, 2018. Dynegy used the proceeds of the offering, together with proceeds from the sale of certain facilities, and cash-on-hand to repurchase \$1.25 billion of its 6.75 percent senior notes due 2019 and repay \$200 million of its Tranche C-1 term loan, as noted above.

In connection with the extinguishment of a portion of our 2019 senior notes, we recorded a loss on early extinguishment of debt of approximately \$58 million in our unaudited consolidated statements of operations for the three and nine months ended September 30, 2017, of which approximately \$44 million related to a premium paid in excess of debt principal, approximately \$8 million related to the write-off of unamortized deferred financing costs,

and approximately \$6 million related to fees. The Company, pursuant to a Registration Rights Agreement, has agreed to use commercially reasonable efforts to register the 2026 Senior Notes by August 16, 2018. Otherwise, the 2026 Senior Notes are generally identical in all material respects to Dynegy's other outstanding senior notes.

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Amortizing Notes

On June 21, 2016, in connection with the issuance of the tangible equity units (“TEUs”), Dynegy issued the Amortizing Notes with a principal amount of approximately \$87 million. The Amortizing Notes mature on July 1, 2019. Each installment payment per Amortizing Note will be paid in cash and will constitute a partial repayment of principal and a payment of interest, computed at an annual rate of 7 percent. Interest will be calculated on the basis of a 360 day year consisting of twelve 30 day months. Payments will be applied first to the interest due and payable and then to the reduction of the unpaid principal amount, allocated as set forth in the Indenture.

The indenture limits, among other things, the ability of Dynegy to consolidate, merge, sell, or dispose all or substantially all of its assets. If a fundamental change occurs, or if Dynegy elects to settle the prepaid stock contracts (“SPCs”) early, then the holders of the Amortizing Notes will have the right to require Dynegy to repurchase the Amortizing Notes at a repurchase price equal to the principal amount of the Amortizing Notes as of the repurchase date (as described in the supplemental indenture) plus accrued and unpaid interest. The indenture also contains customary events of default which would permit the holders of the Amortizing Notes to declare those Amortizing Notes to be immediately due and payable if not cured within applicable grace periods, including the failure to make timely installment payments on the Amortizing Notes or other material indebtedness, the failure to satisfy covenants, and specified events of bankruptcy and insolvency.

Letter of Credit Facilities

Dynegy has a Letter of Credit Reimbursement Agreement with an issuing bank, for an LC in an amount not to exceed \$55 million. In July 2017, the expiry date of the facility was extended one year, to September 19, 2018. As of September 30, 2017, there was \$55 million outstanding under this LC.

Following the ENGIE Acquisition Closing Date, Dynegy entered into a Letter of Credit Reimbursement Agreement with an issuing bank, pursuant to which the issuing bank agreed to provide LCs in an amount not to exceed \$50 million. The facility matures February 7, 2018 and may be extended at the Lender’s discretion for up to four additional one-year terms. As of September 30, 2017, there was \$40 million outstanding under this facility.

Forward Capacity Agreement

As of September 30, 2017, we have sold a portion of our PJM capacity that cleared for Planning Years 2018-2019, 2019-2020 and 2020-2021 to a financial institution. Dynegy will continue to be subject to the performance obligations as well as any associated performance penalties and bonus payments for those planning years. As a result, this transaction is accounted for as a debt issuance of \$241 million with an implied interest rate of 4.9 percent. On March 29, 2017, we replaced an existing Planning Year 2017-2018 contract in the amount of \$110 million, with a Planning Year 2019-2020 contract in the amount of \$121 million. On July 7, 2017, we replaced \$99 million of \$109 million of an existing Planning Year 2018-2019 contract with a Planning Year 2020-2021 contract in the amount of \$110 million.

Inventory Financing Agreements

Brayton Point Inventory Financing. On May 31, 2017, the Brayton Point inventory financing agreement terminated and the remaining obligation was paid. The Brayton Point facility officially retired on June 1, 2017.

Emissions Repurchase Agreements. In August 2015, we entered into two repurchase transactions with a third party in which we sold approximately \$78 million of RGGI inventory and received cash. In February 2017, we repurchased approximately \$30 million of the previously sold RGGI inventory. We are obligated to repurchase the remaining inventory in February 2018 at a specified price with an annualized carry cost of approximately 3.49 percent. As of September 30, 2017, there was \$48 million, in aggregate, outstanding under these agreements.

Equipment Financing Agreements

Under certain of our contractual service agreements in which we receive maintenance and capital improvements for our gas-fueled generation fleet, we have obtained parts and equipment intended to increase the output, efficiency, and availability of our generation units. We have financed these parts and equipment under agreements with maturities ranging from 2017 to 2025. The portion of future payments attributable to principal will be classified as cash outflows

from financing activities, and the portion of future payments attributable to interest will be classified as cash outflows from operating activities in our unaudited consolidated statements of cash flows. The related assets were recorded at the net present value of the payments of \$112 million. The \$27 million discount is currently being amortized as interest expense over the life of the payments.

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Note 13—Commitments and Contingencies

Legal Proceedings

Set forth below is a summary of our material ongoing legal proceedings. We record accruals for estimated losses from contingencies when available information indicates that a loss is probable and the amount of the loss, or range of loss, can be reasonably estimated. In addition, we disclose matters for which management believes a material loss is reasonably possible. In all instances, management has assessed the matters below based on current information and made judgments concerning their potential outcome, giving consideration to the nature of the claim, the amount, if any, the nature of damages sought, and the probability of success. Management regularly reviews all new information with respect to such contingencies and adjusts its assessments and estimates of such contingencies accordingly. Because litigation is subject to inherent uncertainties including unfavorable rulings or developments, it is possible that the ultimate resolution of our legal proceedings could involve amounts that are different from our currently recorded accruals, and that such differences could be material.

In addition to the matters discussed below, we are party to other routine proceedings arising in the ordinary course of business. Any accruals or estimated losses related to these matters are not material. In management's judgment, the ultimate resolution of these matters will not have a material effect on our financial condition, results of operations, or cash flows.

Gas Index Pricing Litigation. We, through our subsidiaries, and other energy companies are named as defendants in several lawsuits claiming damages resulting from alleged price manipulation and false reporting of natural gas prices to various index publications from 2000-2002. The cases allege that the defendants engaged in an antitrust conspiracy to inflate natural gas prices in three states (Kansas, Missouri, and Wisconsin) during the relevant time period. The cases are consolidated in a multi-district litigation proceeding pending in the United States District Court for Nevada. On March 30, 2017, the court denied Plaintiffs' motion to certify a class action, which will be subject to an interlocutory appeal granted by the Ninth Circuit on June 13, 2017. At this time we cannot reasonably estimate a potential loss.

Advatech Dispute. On September 2, 2016, our Genco subsidiary terminated its Second Amended and Restated Newton Flue Gas Desulfurization System Engineering, Procurement, Construction and Commissioning Services Contract dated as of December 15, 2014 with Advatech, LLC. Advatech issued Genco its final invoice on September 30, 2016 totaling \$81 million. Genco contested the invoice on October 3, 2016 and believes the proper amount is less than \$1 million. On October 27, 2016, Advatech initiated the dispute resolution process under the Contract and filed for arbitration on March 16, 2017. Settlement discussions required under the dispute resolution process have been unsuccessful. We believe the risk of a material loss related to this dispute to be remote. We dispute the allegations and will defend our position vigorously.

Other Contingencies

MISO 2015-2016 PI