

DYNEGY HOLDINGS INC
Form 10-Q
November 09, 2010

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2010

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

For the transition period from _____ to _____

DYNEGY INC.
DYNEGY HOLDINGS INC.

(Exact name of registrant as specified in its charter)

Entity	Commission File Number	State of Incorporation	I.R.S. Employer Identification No.
Dynegy Inc.	001-33443	Delaware	20-5653152
Dynegy Holdings Inc.	000-29311	Delaware	94-3248415
1000 Louisiana, Suite 5800 Houston, Texas (Address of principal executive offices)			77002 (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.

Dynegy Inc.	Yes <input checked="" type="checkbox"/> No <input type="checkbox"/>
Dynegy Holdings Inc.	Yes <input checked="" type="checkbox"/> No <input type="checkbox"/>

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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).

Dynegy Inc.	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>
Dynegy Holdings Inc.	Yes <input type="checkbox"/>	No <input type="checkbox"/>

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

	Large accelerated filer	Accelerated filer	Non-accelerated filer (Do not check if a smaller reporting company)	Smaller reporting company
Dynegy Inc.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Dynegy Holdings Inc.	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Dynegy Inc.	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>
Dynegy Holdings Inc.	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>

Indicate the number of shares outstanding of Dynegy Inc.’s class of common stock, as of the latest practicable date: Common stock, \$0.01 par value per share, 120,894,257 shares outstanding as of November 1, 2010. All of Dynegy Holdings Inc.’s outstanding common stock is owned by Dynegy Inc.

This combined Form 10-Q is separately filed by Dynegy Inc. and Dynegy Holdings Inc. Information contained herein relating to any individual registrant is filed by such registrant on its own behalf. Each registrant makes no representation as to information relating to a registrant other than itself.

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EXPLANATORY NOTE

This report includes the combined filing of Dynegy Inc. (“Dynegy”) and Dynegy Holdings Inc. (“DHI”). DHI is the principal subsidiary of Dynegy, providing nearly 100 percent of Dynegy’s total consolidated revenue for the nine-month period ended September 30, 2010 and constituting nearly 100 percent of Dynegy’s total consolidated asset base as of September 30, 2010. Unless the context indicates otherwise, throughout this report, the terms “the Company,” “we,” “us,” “our” and “ours” are used to refer to both Dynegy and DHI and their direct and indirect subsidiaries. Discussions or areas of this report that apply only to Dynegy or DHI are clearly noted in such section.

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DEFINITIONS

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

ASU	Accounting Standard Update
BACT	Best available control technology
BART	Best available retrofit technology
BTA	Best technology available
CAISO	The California Independent System Operator
CAA	Clean Air Act
CCR	Coal combustion residuals
CO ₂	Carbon Dioxide
DHI	Dynegy Holdings Inc.
DMSLP	Dynegy Midstream Services L.P.
DOJ	U.S. Department of Justice
EPA	Environmental Protection Agency
FERC	Federal Energy Regulatory Commission
FTC	Federal Trade Commission
GAAP	Generally Accepted Accounting Principles of the United States of America
GEN	Our power generation business
GEN-MW	Our power generation business - Midwest segment
GEN-NE	Our power generation business - Northeast segment
GEN-WE	Our power generation business - West segment
GHG	Greenhouse Gas
ISO	Independent System Operator
MISO	Midwest Independent Transmission System Operator, Inc.
MMBtu	One million British thermal units
MW	Megawatts
MWh	Megawatt hour
NPDES	National Pollutant Discharge Elimination System
NRG	NRG Energy, Inc.
NYSDEC	New York State Department of Environmental Conservation
OAL	Office of Administrative Law
OTC	Over-the-counter
PJM	PJM Interconnection, LLC
PPEA	Plum Point Energy Associates, LLC
PSD	Prevention of significant deterioration
RACT	Reasonably available control technology
RCRA	Resource Conservation and Recovery Act
RMR	Reliability Must Run
SC Services	Sandy Creek Services LLC
SCH	Sandy Creek Holdings LLC
SEC	U.S. Securities and Exchange Commission
SPDES	State Pollutant Discharge Elimination System
VaR	Value at Risk
VIE	Variable Interest Entity

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PART I. FINANCIAL INFORMATION

Item 1—FINANCIAL STATEMENTS—DYNEGY INC. AND DYNEGY HOLDINGS INC.

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

	September 30, 2010	December 31, 2009
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 491	\$ 471
Restricted cash and investments	119	78
Short-term investments	182	9
Accounts receivable, net of allowance for doubtful accounts of \$33 and \$22, respectively	202	212
Accounts receivable, affiliates	1	2
Inventory	121	141
Assets from risk-management activities	1,691	713
Deferred income taxes	25	6
Broker margin account	36	286
Prepayments and other current assets	110	120
Total Current Assets	2,978	2,038
Property, Plant and Equipment	8,653	9,071
Accumulated depreciation	(2,289)	(1,954)
Property, Plant and Equipment, Net	6,364	7,117
Other Assets		
Restricted cash and investments	870	877
Assets from risk-management activities	344	163
Intangible assets	153	380
Other long-term assets	412	378
Total Assets	\$ 11,121	\$ 10,953
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts payable	\$ 180	\$ 181
Accounts payable, affiliates	12	—
Accrued interest	110	36
Accrued liabilities and other current liabilities	128	127
Liabilities from risk-management activities	1,548	696
Notes payable and current portion of long-term debt	146	807
Total Current Liabilities	2,124	1,847
Long-term debt	4,461	4,575
Long-term debt, affiliates	200	200
Long-Term Debt	4,661	4,775
Other Liabilities		
Liabilities from risk-management activities	347	213
Deferred income taxes	757	780

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Other long-term liabilities	342	359
Total Liabilities	\$ 8,231	\$ 7,974
Commitments and Contingencies (Note 14)		
Stockholders' Equity (Note 17)		
Common Stock, \$0.01 par value, 420,000,000 shares authorized at September 30, 2010 and December 31, 2009, and 121,444,560 and 120,715,515 shares issued and outstanding at September 30, 2010 and December 31, 2009, respectively	1	1
Additional paid-in capital	6,064	6,061
Subscriptions receivable	(2)	(2)
Accumulated other comprehensive loss, net of tax	(70)	(150)
Accumulated deficit	(3,032)	(2,937)
Treasury stock, at cost, 627,655 and 557,677 shares at September 30, 2010 and December 31, 2009, respectively	(71)	(71)
Total Dynegy Inc. Stockholders' Equity	2,890	2,902
Noncontrolling interests	—	77
Total Stockholders' Equity	2,890	2,979
Total Liabilities and Stockholders' Equity	\$ 11,121	\$ 10,953

See the notes to condensed consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Revenues	\$775	\$673	\$1,872	\$2,027
Cost of sales	(334)	(286)	(873)	(927)
Operating and maintenance expense, exclusive of depreciation shown separately below	(110)	(121)	(341)	(373)
Depreciation and amortization expense	(96)	(83)	(261)	(258)
Goodwill impairments	—	—	—	(433)
Impairment and other charges, exclusive of goodwill impairments shown separately above	(134)	(148)	(135)	(535)
General and administrative expenses	(51)	(42)	(110)	(125)
Operating income (loss)	50	(7)	152	(624)
Earnings (losses) from unconsolidated investments	—	(8)	(34)	13
Interest expense	(92)	(115)	(272)	(311)
Other income and expense, net	1	2	3	10
Loss from continuing operations before income taxes	(41)	(128)	(151)	(912)
Income tax benefit (Note 16)	17	34	80	147
Loss from continuing operations	(24)	(94)	(71)	(765)
Income (loss) from discontinued operations, net of tax benefit of zero, \$84, zero and \$91, respectively (Note 3)	—	(129)	1	(141)
Net loss	(24)	(223)	(70)	(906)
Less: Net loss attributable to the noncontrolling interests	—	(11)	—	(14)
Net loss attributable to Dynegy Inc.	\$(24)	\$(212)	\$(70)	\$(892)
Loss Per Share (Notes 13 and 17):				
Basic loss per share attributable to Dynegy Inc. common stockholders:				
Loss from continuing operations	\$(0.20)	\$(0.49)	\$(0.59)	\$(4.47)
Income (loss) from discontinued operations	—	(0.77)	0.01	(0.84)
Basic loss per share attributable to Dynegy Inc. common stockholders	\$(0.20)	\$(1.26)	\$(0.58)	\$(5.31)
Diluted loss per share attributable to Dynegy Inc. common stockholders:				
Loss from continuing operations	\$(0.20)	\$(0.49)	\$(0.59)	\$(4.47)
Income (loss) from discontinued operations	—	(0.77)	0.01	(0.84)
	\$(0.20)	\$(1.26)	\$(0.58)	\$(5.31)

Diluted loss per share attributable to Dynegy Inc. common stockholders

Basic shares outstanding	120	168	120	168
Diluted shares outstanding	121	169	121	169

See the notes to condensed consolidated financial statements.

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

	Nine Months Ended September 30,	
	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$(70)	\$(906)
Adjustments to reconcile net loss to net cash flows from operating activities:		
Depreciation and amortization	273	279
Goodwill impairments	—	433
Impairment and other charges, exclusive of goodwill impairments shown separately above	135	793
(Earnings) losses from unconsolidated investments, net of cash distributions	34	(13)
Risk-management activities	(123)	73
Gain on sale of assets	—	(10)
Deferred income taxes	(79)	(246)
Other	55	66
Changes in working capital:		
Accounts receivable	11	(4)
Inventory	15	(7)
Broker margin account	353	(104)
Prepayments and other assets	7	(30)
Accounts payable and accrued liabilities	111	81
Changes in non-current assets	(51)	(91)
Changes in non-current liabilities	(1)	(10)
Net cash provided by operating activities	670	304
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(270)	(429)
Unconsolidated investments	(15)	1
Proceeds from asset sales, net	—	105
Maturities of short-term investments	152	14
Purchases of short-term investments	(428)	—
Increase in restricted cash and restricted investments	(53)	(35)
Other investing	—	3
Net cash used in investing activities	(614)	(341)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from long-term borrowings, net of financing costs	(5)	75
Repayments of borrowings	(31)	(28)
Net cash used in financing activities	(36)	47
Net increase in cash and cash equivalents	20	10
Cash and cash equivalents, beginning of period	471	693

Cash and cash equivalents, end of period	\$491	\$703
Other non-cash investing activity:		
Non-cash capital expenditures	\$10	\$19

See the notes to condensed consolidated financial statements.

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

	Three Months Ended September 30,	
	2010	2009
Net loss	\$(24)	\$(223)
Cash flow hedging activities, net:		
Unrealized mark-to-market gains arising during period, net	—	45
Reclassification of mark-to-market losses to earnings, net	—	1
Deferred losses on cash flow hedges, net	—	(2)
Changes in cash flow hedging activities, net (net of tax expense of zero and \$11, respectively)	—	44
Amortization of unrecognized prior service cost and actuarial gain (loss) (net of tax benefit of zero and \$2)	1	(1)
Unconsolidated investments other comprehensive loss, net (net of tax benefit of zero and \$3)	—	(3)
Other comprehensive income, net of tax	1	40
Comprehensive loss		