



# Chuck Watson

*Chairman and Chief Executive Officer  
Dynegey Inc.*

*September 24, 2001*

# ***PERSPECTIVES ON ENERGY***

- ◆ It's a global issue
- ◆ Decisions we make today will affect generations to come
- ◆ Diversity is the key to meeting global energy needs
  - Coal
  - Natural gas
  - Nuclear
  - Distributed generation
- ◆ Dramatic transformation occurring in the energy industry



# ***WHY AM I HERE?***

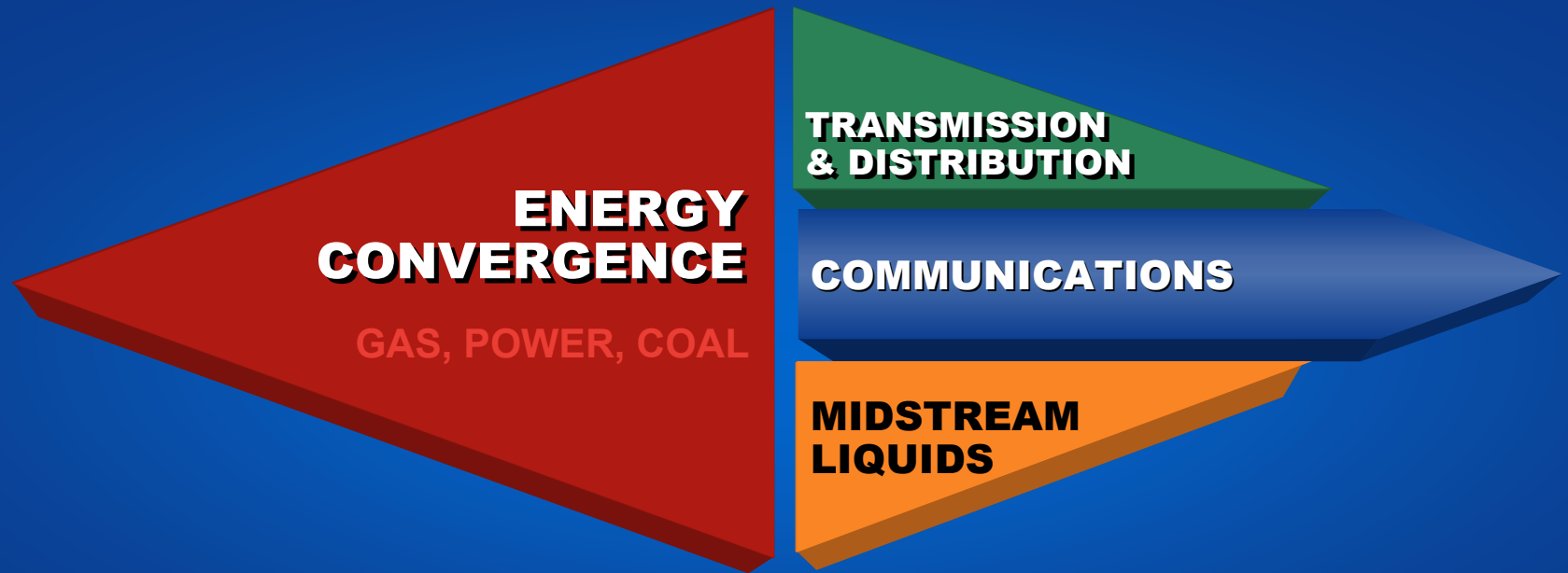
- ◆ From Convergence to California... energy issues we face today affect every sector, every citizen
- ◆ Provide a national energy perspective
- ◆ Discuss where we go from here





# Who is Dynegy?

# DYNEGY INC.\*



- ◆ \$25 Billion Revenues
- ◆ \$23 Billion Assets
- ◆ \$14 Billion Market Value
- ◆ 6,200+ Employees
- ◆ 18,700 MW Generation Control
- ◆ 12 Bcf/d Natural Gas Sales
- ◆ 127 MM MWh Total Power Sales
- ◆ 568 MBbls/d Liquids Sales

\*Year to date

# ENERGY VALUE CHAIN

**Production**

E&P, generation, midstream liquids

**Logistics**

Pipeline transport, electric transmission, rail, truck, barge and storage

**Distribution**

Last mile, to customer

**Customer**

**AGGREGATORS** - utilities, corporations, municipals  
**INDUSTRIAL** - manufacturing, petro chemical, refineries  
**COMMERCIAL** - retail, grocers, service industry  
**RESIDENTIAL** - homes, small consumers

**Deregulation unbundles regulated vertical players**

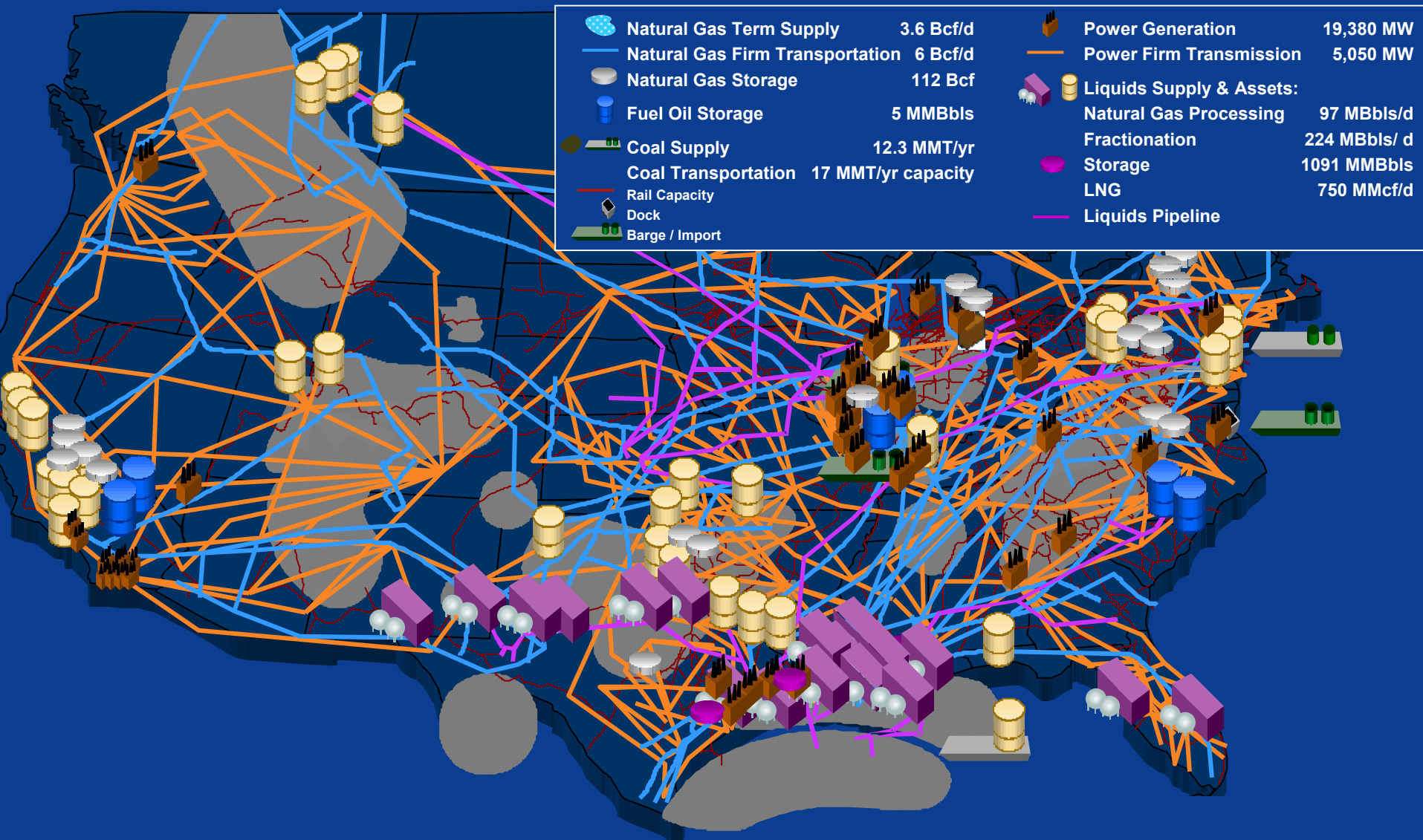


# ***INTEGRATED MERCHANT COMPANY***

- ◆ Provide energy delivery and risk management solutions
- ◆ Aggregate unregulated energy capabilities
- ◆ Leverage bulk wholesale efficiencies
- ◆ Customize products and services
- ◆ Bundle and repackage discreet offerings
- ◆ Fulfill **customer** needs with unique capabilities

**Competitive advantage – Dynegy's Delivery Network**

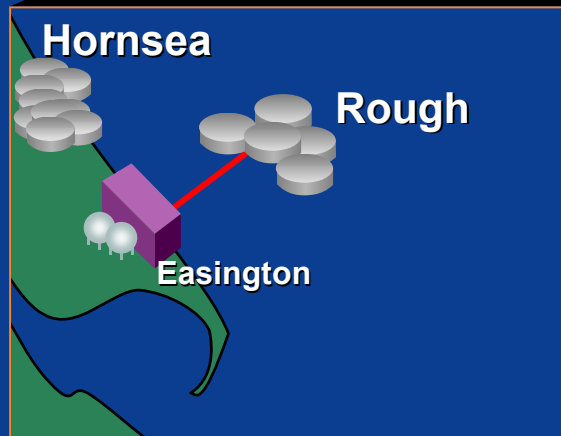
# DYNEGY ENERGY DELIVERY NETWORK



◆ Physical capabilities to deliver energy – barrier to entry

# DYNEGY EUROPE

- ◆ Replicating integrated merchant play
- ◆ Expanding European presence
- ◆ Establishing physical network
- ◆ NETA implemented March 2001
- ◆ LNG links U.S. and Europe



BG Storage Acquisition



# DYNEGY ENERGY NETWORK

## INTELLECTUAL CAPITAL

Trading & Marketing

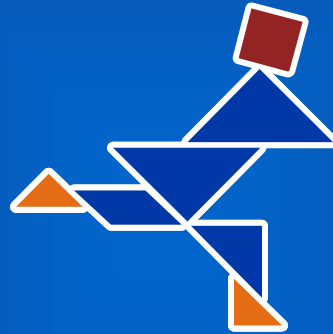
Technology Driven  
Financially Positioned

Risk Management

Network  
Optimization

Industry Leading  
Workforce

Consistent Profitability



Sustainable Growth

## ENERGY NETWORK

Multi-Commodity  
Gas, Power, Coal, Oil

Asset-Lite, Strategic,  
Physical & Contractual

Transport

Storage

Customers / Suppliers

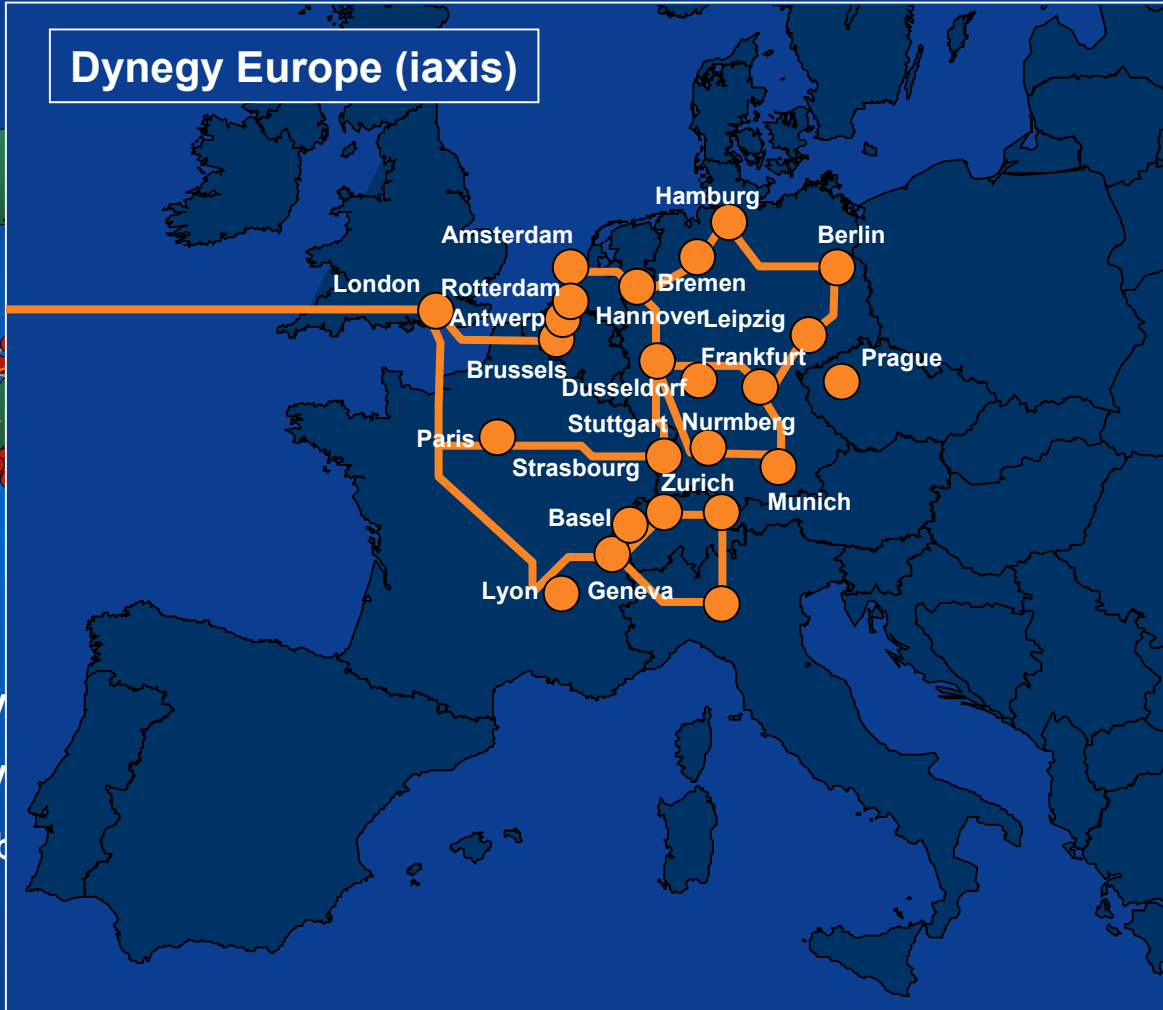
Profitability in all market environments

# DYNEGY GLOBAL COMMUNICATIONS



# DYNEGY GLOBAL COMMUNICATIONS

## Dynegy Europe (iaxis)





# The Energy Industry



DYNEGY

# ***NATURAL GAS INDUSTRY***

- ◆ North American resources can meet projected demand
- ◆ Anticipate regional dislocations with pricing volatility
- ◆ Technology continues to significantly advance E&P
- ◆ New supply sources are emerging
- ◆ Continued expansion of entire infrastructure required
- ◆ Price induced demand reduction

# ***POWER INDUSTRY***

- ◆ **Transmission constraints causing regional dislocations**
- ◆ **Capacity versus energy delivery**
  - **Fuel delivery and flexibility**
- ◆ **Demand appears to be decreasing in the West due to recent rate increases (the market will work if we let it)**
- ◆ **11 out of 19 power markets in the U.S. will remain “short” in 2003**





# ***CALIFORNIA ELECTRIC MARKET SUMMARY***

- ◆ **California is not a failure of deregulation, California is a failure to deregulate**
- ◆ **California's inability to effectively address its supply shortage and market design flaws has created a significant economic problem**
- ◆ **Misinformation/politicizing in California has impacted our international reputation**

# ***TEXAS ELECTRIC MARKET SUMMARY***

- ◆ **Retail Choice Pilot Program underway; customers were switched to their provider of choice on Sept. 7**
- ◆ **Full competition begins on Jan. 1, 2002**
- ◆ **Unlike California, Texas has a well-crafted deregulation law**
- ◆ **New competitors with new generation sources have developed here**
- ◆ **Dynegy is a program participant; we define “retail” as commercial and industrial customers**



# ***MARKET EVOLUTION***

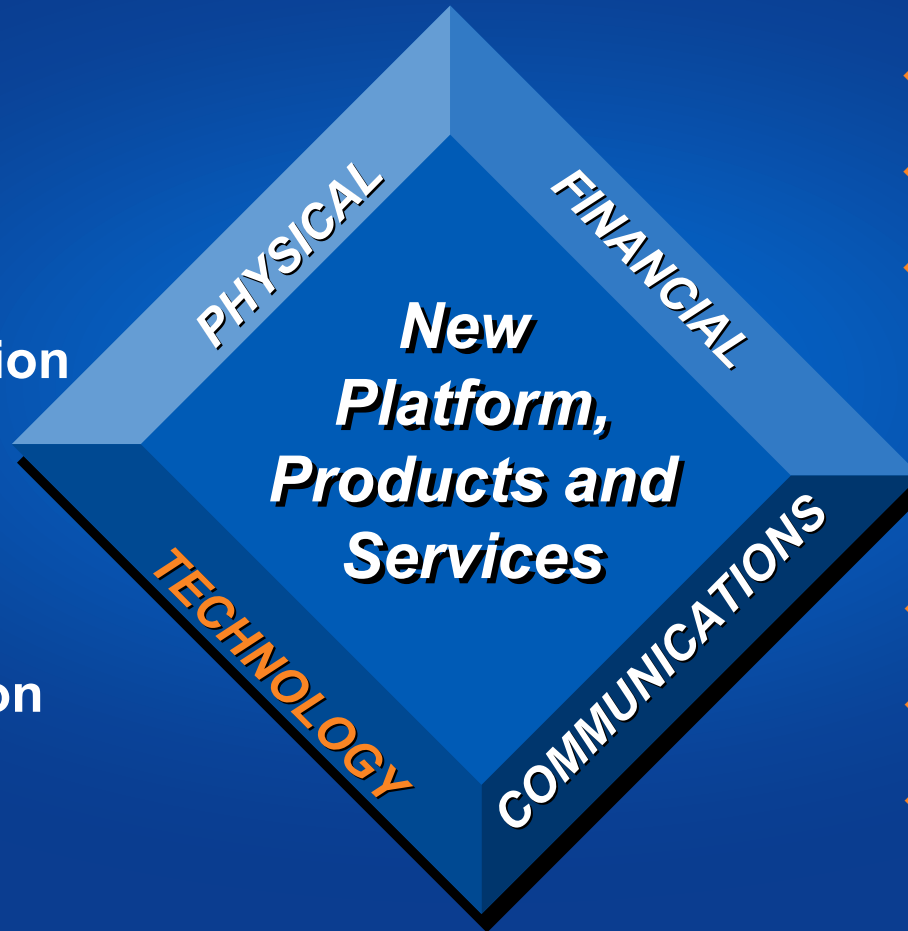
- ◆ **Energy Convergence is the ongoing process driving the energy industry and its participants as a result of the gas and power industry restructuring**
- ◆ **Major players emerging from this market evolution are “Energy Merchants”**
- ◆ **Successful energy merchants must have a dynamic, integrated energy network**
- ◆ **They must deliver customer-driven solutions**



# ***ENERGY AND TECHNOLOGY CONVERGE***

- ◆ Deregulation
- ◆ Unbundling
- ◆ Competition
- ◆ Commoditization

- ◆ Automation
- ◆ Communication
- ◆ E-Commerce
- ◆ B2B



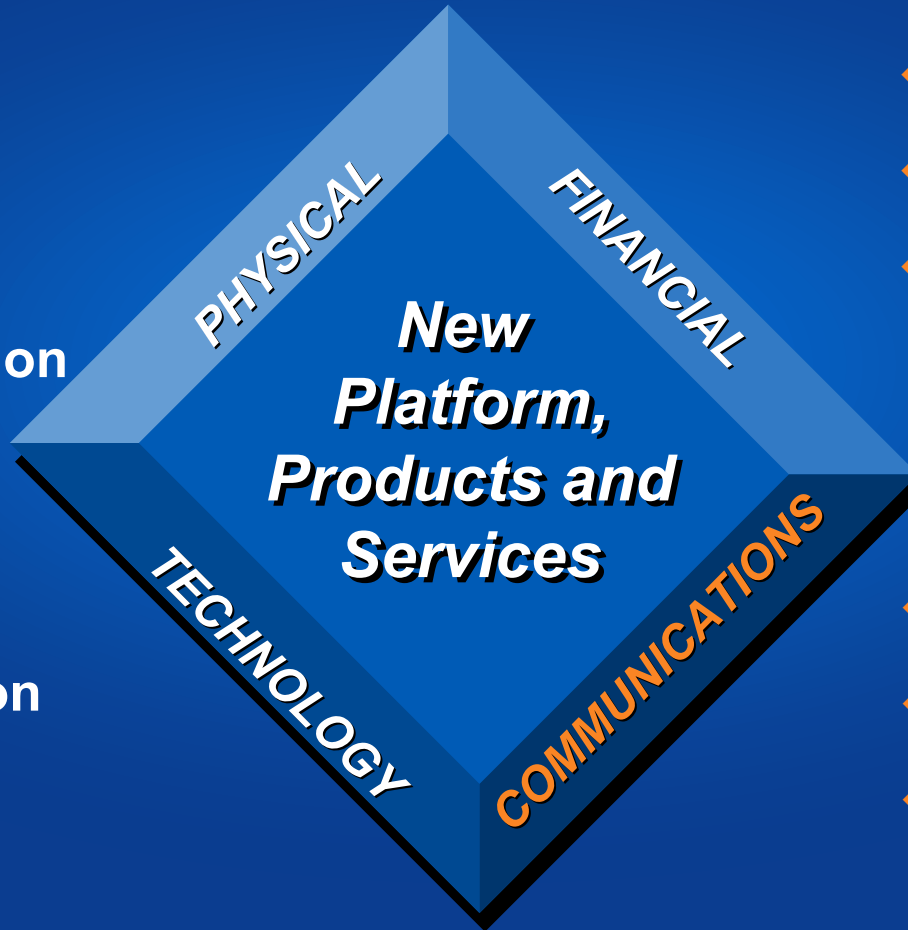
- ◆ Market Making
- ◆ Trading
- ◆ Product Services

- ◆ Telecom
- ◆ Bandwidth
- ◆ Infrastructure

# **ENERGY AND COMMUNICATIONS CONVERGE**

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# ***IS THE U.S. MODEL RIGHT FOR THE WORLD?***

## **◆ One size does not fit all**

- United States is unique in number of cities over one million in population**
- Our needs are different**
- Cumbersome regulatory and permitting process**
- To replicate the U.S. system elsewhere would be too costly**
- Each model must fit the circumstances or needs of its population**



# ***ENERGY INDUSTRY FUTURE***

- ◆ **Political/regulatory stability**
- ◆ **Diversification**
- ◆ **Liquidity/connectivity**
- ◆ **Leverage technology**
- ◆ **The time is right for a national energy policy**

# ***THE “NEW” ENERGY INDUSTRY FUTURE***

- ◆ Energy is always essential
  - A foundation of our economy
  - The lights are always on somewhere, sometime
  - Industry performed very well during and following Sept. 11 attack, found ways to serve customers
    - ◆ Heightened security measures at facilities
    - ◆ Business continuity plans implemented
    - ◆ Collaboration to prevent significant volatility





# DYNEGY