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DYNEGY IS NEW ENGLAND’S LARGEST POWER GENERATOR

(1) Portfolio as of August 3, 2017 which includes assets pending sale (Dighton, Milford (MA) and Lee); (2) PJM and MISO capacity percentages reflect pseudo-tied MWs in PJM.
DYNEGY’S TRANSFORMATION

Capacity by Region (GW)

- Duke/ECP Acquisition: ~60% Gas & ~40% Coal
- ENGIE Acquisition: ~90% Gas & ~10% Coal

12/31/2014
- Target/Premium Markets (PJM/ISO-NE/ERCOT/NYISO): 13 GW (~75% Gas, ~25% Coal)
- Legacy Markets (MISO/CAISO): 13 GW (~75% Gas, ~25% Coal)

12/31/2015
- Target/Premium Markets (PJM/ISO-NE/ERCOT/NYISO): 26 GW (~75% Gas, ~25% Coal)
- Legacy Markets (MISO/CAISO): 30 GW (~80% Gas, ~20% Coal)

Pro forma
- ENGIE uplift offset by ~5 GW of retirements/divestments

Adjusted EBITDA Contribution by Fuel Type (Before Corporate allocation)

- 2014 YTD: Gas 32%, Coal 68%
- Q4 2016: Gas 76%, Coal 24%

Dynegy is now a major gas-based power generator.

DYNEGY’S PORTFOLIO HAS TRANSFORMED TO PREDOMINATELY NATURAL GAS GENERATION
ISO-NE POWER MARKET DYNAMICS (TWh/year)

INCREASING STATE-LEVEL POLICIES ARE CARVING UP THE MARKET

Source: IHS, Dynegy Fundamentals
The focus is on selective CO$_2$ reduction. Power sector CO$_2$ in these six states represents only 1.2% of total US power sector CO$_2$ emissions

NE power sector CO$_2$ emissions have been reduced by nearly 50% below 2005 levels while transportation sector emissions remained flat

Nearly $5$ billion annually in out-of-market actions in Massachusetts: green house gas rule, offshore wind, Canadian hydro, solar and energy efficiency

**New England CO$_2$ (MMT)**

Source: EIA

**THE ELECTRIC SECTOR HAS HAD THE LARGEST REDUCTIONS IN CO$_2$ EMISSIONS**
States embraced competition for many reasons, including:

- Ensuring reliability at the lowest cost (as opposed to how much customers would be willing to pay)
- Giving customers a choice (as opposed to locking them into a supplier)
- Shifting investment risk from captive customers to private investors

States didn’t cede or relinquish control, they embraced the competitive model.
Special interests are ramping up their efforts to force a resource mix. The mechanism by which subsidies for certain resources are charged to customers is on a non-bypassable basis. These subsidies are often cloaked in the mantle of environmental or reliability concerns, but the main driver is jobs. There are no bill signings or ribbon cutting ceremonies for “continuing to embrace competitive markets.”

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• Subsidies lead to more subsidies
• The low-priced environment has not only forced this issue of subsidies but also masks the effects of the subsidies

Subsidies also contribute to a cliff event by unnaturally delaying the inevitable retirements.
WHERE TO DRAW THE LINE?

Some politicians justify more subsidies by saying “Subsidies exist all over the energy space ... what’s one more?”
For example, in Illinois coal is subject to sales tax but uranium is tax-exempt because it’s leased.

...but there is a clear difference between tax breaks and subsidies that directly affect wholesale prices by driving market entry and exit decisions and incentivizing production without regard to economic signals.

A LINE HAS BEEN DRAWN BY THE SUPREME COURT – MEASURES THAT “AIM AT” AND “TARGET” THE WHOLESALE MARKET ARE PRE-EMPTED
There are a number of generation attributes that support the reliability of the system:

- Fast Start
- Fast Ramping Up and Down
- Voltage Support
- Dynamic Stability
- Frequency Response
- Black Start
- Time to Re-Start After Trip

**What is “Base Load” Generation?**

- “Base Load” isn’t a reliability attribute – it’s a function of a unit’s capacity factor.
- The most ideal “base load” unit is one that can run at a high capacity factor, but also ramp up and down.
- As more intermittent resources come onto the grid, and customer usage changes via smart homes and other behind-the-meter technology, traditional “base load” generation is inflexible.

**ALL OF THESE CONTRIBUTE TO GRID RESILIENCY**

These attributes are becoming more critical as the grid changes, and the pricing of these attributes needs to change, too.
TAKEAWAYS

- Subsidies lead to more subsidies, undermining the benefits of competitive markets.
- Subsidized generation puts more pressure on cost-effective suppliers than low-cost natural gas.
- Various reliability attributes can be priced through a competitive, market-based process.
- The electric sector has made significant reductions in carbon emissions, without subsidies.