



STATE OF NEW YORK
OFFICE OF THE ATTORNEY GENERAL

ANDREW M. CUOMO
ATTORNEY GENERAL

DIVISION OF SOCIAL JUSTICE
ENVIRONMENTAL PROTECTION BUREAU

VIA FACSIMILE
AND FEDERAL EXPRESS

September 14, 2007

Mr. Bruce Williamson
Chairman and Chief Executive Officer
Dynergy Inc.
1000 Louisiana, Suite 5800
Houston, Texas 77002

Dear Mr. Williamson:

We are aware that Dynergy Inc. has announced plans to build eight new conventional coal-fired power plants across the United States. The resulting massive increase in CO₂ emissions from the operation of eight new coal-fired power plants will subject Dynergy to increased financial, regulatory, and litigation risks. We are concerned that Dynergy has not adequately disclosed these risks to its shareholders, including the New York State Common Retirement Fund, which is a significant holder of Dynergy stock. Pursuant to the Attorney General's investigatory authority under New York General Business Law § 352, and New York Executive Law § 63(12), accompanying this letter is a subpoena seeking information regarding Dynergy's analyses of its climate risks and its disclosures of such risks to investors.

As a result of the operation of its eight new conventional coal-fired power plants, Dynergy will become one of the top five emitters of CO₂ in the country. It has been reported that the eight new conventional coal-fired power plants proposed by Dynergy would substantially increase Dynergy's annual CO₂ emissions by an estimated 62.4 million tons - a 200% increase.¹ With a lifetime of more than 60 years, these new units, if built as proposed, might well emit more than 3.7 billion tons of CO₂ in total.

Climate change is one of the most pressing environmental challenges facing the world today. Emissions from U.S. power plants currently constitute 30% of total U.S. carbon emissions. As a result, many power companies are taking steps to reduce CO₂ emissions from their power

¹See Innovest, Dynergy: Carbon Risk Accompanies LS Power Merger (Mar. 27, 2007), available at http://www.net.org/documents/Dynergy-LS_Power_Merger_Report.pdf.

plant fleets. In contrast, however, the cumulative emissions from Dynegy's proposed new plants could well cancel out all the emission reductions that will result from the ten-state Regional Greenhouse Gas Initiative in which New York participates.

As you are aware, a public company must disclose information material to a shareholder's investment decision. We are concerned that Dynegy has failed to disclose material information about the increased climate risks Dynegy's business faces. For example, any one of the several new or likely regulatory initiatives for CO₂ emissions from power plants – including state carbon controls, potential EPA regulations under the Clean Air Act, or the enactment of federal global warming legislation – would add a significant cost to carbon-intensive coal generation, such as the new conventional coal plants planned by Dynegy. According to the Innovest report cited above, Dynegy could face annual emission allowance expenses of over \$1 billion.

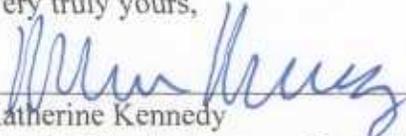
In its 2006 Form 10-K and 2007 proxy statement/prospectus filed as part of its merger with LS Power, Dynegy made no disclosure of projected CO₂ emissions from the proposed plants. Further, Dynegy did not attempt to evaluate or quantify the possible effects of future greenhouse gas regulations, or discuss their impact on the company. Dynegy also did not present any strategies to reduce CO₂ emissions, as new regulations likely would require. These omissions make it difficult for investors to make informed decisions.

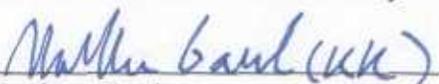
Under federal and state laws and regulations, Dynegy's disclosures to investors must be complete and not misleading. Selective disclosure of favorable information or omission of unfavorable information concerning climate change is misleading. Dynegy cannot excuse its failure to provide disclosure and analysis by claiming there is insufficient information concerning known climate change trends and uncertainties.

The enclosed subpoena requires your response by October 9, 2007.

We are available to discuss these issues with you further. Please feel free to contact Katherine Kennedy at (212) 416-8540 or Matthew Gaul at (212) 416-8198 with any questions.

Very truly yours,


 Katherine Kennedy
 Special Deputy Attorney General
 Environmental Protection Bureau
 Office of the New York Attorney General


 Matthew Gaul
 Chief
 Investor Protection Bureau
 Office of the New York Attorney General

Attachment