

October 17, 2008

Over the past few months, the Board of Directors and management of the Company, with the assistance of an experienced team at Credit Suisse, have engaged in an extensive process of exploring various strategic alternatives for the Company, with the ultimate goal of maximizing the value of the Company for our shareholders. As part of this process, the Company and Credit Suisse approached many industry participants and financial sponsors regarding their potential interest in a range of transactions, including a purchase of the Company as a whole and an acquisition of one or a combination of our power generating facilities. Despite the difficult M&A and credit markets, we received multiple indicative proposals for both the acquisition of the entire Company and acquisitions of individual assets from a combination of strategic and financial bidders.

We were generally pleased with the results of the solicitation. However, the Board believes that the Company and our shareholders would realize even greater value, with more certainty of closing, in a more stable financial market in which potential acquirers would have greater, and more certain, access to capital and financing instruments. Accordingly, the Board has determined not to bring the sale process to a conclusion at this time. The Company will continue to explore and review credible transaction proposals, to the extent that they increase shareholder value, as they are received.

While exploring strategic alternatives, we have also taken important steps to reposition and enhance the value of the Company, including creating a new revenue generating opportunity and reducing costs. These steps include:

- Entering into an attractive tolling agreement with Southern Power Company for 250 to 280 mw of capacity and associated energy from our Sandersville facility over the period from June 2011 to December 2015;
- Appointing Daniel Hudson, the highly regarded Chief Financial Officer of Navasota Energy and industry expert, as Chairman of the Board. Dan has been actively engaged with Company management to improve operating efficiencies at the Company's generation facilities;
- Eliminating two members of senior management of the Company who received total annual compensation of approximately \$12 million for fiscal year 2007;
- Holding bi-weekly Board meetings to closely oversee and direct the operation of the business; and

- Eliminating the payment of annual fees to directors. Other than the Chairman whose compensation reflects his active engagement with the day-to-day operations of the Company, your directors do not take any compensation for their service as directors, saving the Company \$400,000 in annual compensation that would otherwise have been payable to those directors.

Your Board and management intend to continue to be actively focused on implementing value enhancing strategies to the daily operation of the business, including maximizing revenue generating opportunities and reducing expenses.

As this Board believes strongly in the importance of shareholder communications, the Board and management will host a conference call to discuss these matters with the Company's shareholders on Friday, October 24, 2008 at 11:00 a.m., Eastern. The Company will provide additional information regarding this conference call by email on a later date.

If you have any questions or concerns about any of these matters, we encourage you to call Daniel Hudson, Chairman of the Board, at (281) 252-5201, Richard McLean, Chief Executive Officer, at (713) 979-1909 or any of the Directors.

The Board of KGen Power Corporation

Daniel T. Hudson (Chairman)  
James P. Jenkins  
Gerald J. Stalun  
Jeffrey S. Stein  
Thomas B. White

*Forward-Looking Statements*

Except for historical information, the discussion in this letter contains certain forward-looking statements that involve risks and uncertainties. We have based these forward-looking statements on our current expectations and assumptions about future events. In some cases, you can identify forward-looking statements by terminology, such as "may," "should," "could," "predict," "potential," "continue," "expect," "anticipate," "future," "intend," "plan," "believe," "estimate," "forecast" and similar expressions (or the negative of such expressions). Forward-looking statements include statements concerning known and unknown risks, uncertainties and other important factors that could cause actual results, performance or achievements of the Company and its subsidiaries to differ materially from any future results, performance or achievements expressed or implied by such forward-looking statements. Forward-looking statements are based on our beliefs as well as assumptions based on information currently available to us, including financial and operational information and current industry and competitive conditions. As a result, these statements are subject to various risks and uncertainties. For a discussion of material risks and uncertainties that the Company faces, see the discussion above and in our Annual Report for the fiscal year ended June 30, 2008 "Number 1A. Risk Factors."