



KGen Power Corporation

December 5, 2012

**KGEM POWER BOARD OF DIRECTORS DECLARES
A CASH DISTRIBUTION OF
\$8.60 PER SHARE**

DISTRIBUTION TO BE PAID ON OR ABOUT DECEMBER 26, 2012

The Board of Directors of KGen Power Corporation is pleased to announce that it has declared a cash liquidating distribution of \$8.60 per share to the Company's stockholders of record as of the close of business on December 17, 2012. This distribution will be made to stockholders on or about December 26, 2012. There are a total of 56,223,977 shares of the Company's common stock and RSUs outstanding, resulting in an aggregate cash distribution of approximately \$483.5 million. We determined the amount of this distribution after considering a variety of factors, including the amount of the Company's cash on hand, our estimates of the costs and expenses necessary to wind down the Company, and what we believe to be an appropriate reserve to fund potential unanticipated expenses.

The distribution we announce today is the second of a series of liquidating distributions expected to be declared by the Board pursuant to a plan of complete liquidation adopted by the Board in April 2011. Our first liquidating distribution in an amount of \$5.00 per share was distributed to the Company's stockholders in June 2011.

We currently estimate that the total amount per share that will be distributed to stockholders in connection with our plan of complete liquidation will be between \$14.70 to \$14.80, including our June 2011 distribution and the distribution we announced today. Under the terms of our Hot Spring and Hinds transaction agreements, we were required to place approximately \$68 million into escrow accounts to secure our indemnification obligations under those agreements. We currently estimate that the Company (or a liquidating trust we expect to establish under our plan of liquidation) will make future distributions to stockholders from the proceeds released from the escrow accounts, as follows:

- \$0.40 per share shortly after we receive the first escrow installments, which, under the sale agreements, is to be released to us at the beginning of December 2013;
- \$0.30 per share shortly after we receive the second escrow installments, which, under the sale agreements, is to be released to us at the beginning of June 2014; and
- \$0.45 per share shortly after we receive the last escrow installments, which, under the sale agreements, is to be released to us at the end of May 2016.

All other cash will be distributed shortly after the trustees of the liquidating trust determine in their discretion that all remaining liabilities and obligations (including contingent obligations) of the Company and the liquidating trust have been satisfied or satisfactorily provided for.

Please note that the timing indicated above reflects our best estimates based on the information available to us today. The actual amounts distributed by the Company and the timing of these distributions will depend on a number of factors, including the extent, if any, to which indemnification liabilities arise in connection with our sale transactions, escrowed amounts are released to us later than anticipated as a result of unresolved disputes with our transaction counterparties or otherwise, our wind down expenses are more than anticipated or other unforeseen events or circumstances occur.

We expect to hold our next stockholders meeting in February 2013 at which stockholders will be asked to vote to approve the legal dissolution of the Company. A proxy statement for this meeting will be distributed in January 2013. The Company's stockholders of record as of the close of business on December 17, 2012, will be entitled to vote at such stockholders meeting. As the approval of the liquidation may have a significant beneficial impact on the tax treatment of the distributions from the Company, we urge you to vote as soon as possible after you receive your proxy statement.

We have attached a summary of certain of the U.S. federal income tax considerations relating to our past and future liquidating distributions. As indicated on the attached summary, the Company will report distributions made by the Company to its registered stockholders on Internal Revenue Service Form 1099-DIV (or a successor form) as a cash liquidating distribution (Box 8 of the current Form 1099-DIV). Stockholders who hold shares in street name are urged to share the attached summary as soon as possible with their brokers or others responsible for tax reporting in connection with the distribution to ensure that such broker or other person properly reports the distribution for U.S. federal income tax purposes.

We encourage you to call Thomas White at (713) 979-1935 or Daniel Hudson at (281) 252- 5201 if you have any questions.

The Board of KGen Power Corporation

Daniel Hudson (Chairman)

Gerald J. Stalun

Thomas B. White (President and Chief Executive Office)

About KGen Power Corporation

KGen Power Corporation previously owned and operated merchant electric power generation plants and sold electricity and electrical generation capacity. For more information, visit www.kgenpower.com.

CERTAIN MATERIAL U.S. FEDERAL INCOME TAX CONSIDERATIONS

Pursuant to U.S. Treasury Department Circular 230, stockholders of KGen Power Corporation (the “Company”) are hereby notified that: (i) any discussion of U.S. federal income tax matters set forth in this document is not intended and was not written to be used, and cannot be used, for the purpose of avoiding penalties that may be imposed under the U.S. Internal Revenue Code of 1986, as amended (the “Code”); (ii) such discussion was written to support the promotion or marketing (within the meaning of Circular 230) of the transactions or matters addressed herein; and (iii) stockholders of the Company should seek advice based on their particular circumstances from their own independent tax advisors.

On December 5, 2012, the board of directors of the Company (the “Board”) declared a cash distribution of \$8.60 per share of common stock of the Company (each, a “Share”). The distribution will be paid on or about December 26, 2012 to the Company’s stockholders of record as of the close of business on December 17, 2012. This distribution is the second of a series of liquidating distributions expected to be declared by the Board over the next several years and will be made out of (a) the net after-tax sales proceeds the Company received in connection with the closing on November 30, 2012 of the sales of the Company’s Hinds and Hot Spring power generation facilities, (b) the funds released in October 2012 from the escrow established to secure the Company’s indemnification obligations in connection with the Company’s previously completed sale of its Murray I and II power generation facilities, and (c) excess cash on hand not reserved for the winding down of the Company’s business. The Board previously made a cash distribution of \$5.00 per Share to the Company’s stockholders on June 24, 2011 out of the net after-tax proceeds the Company received in connection with its sale of the Murray I and II power generation facilities. The Company expects to make future distributions to stockholders in connection with the release of the funds escrowed to secure the Company’s indemnification obligations in connection with the sales of the Hinds and Hot Spring facilities (expected to occur, in part, on or about December 2, 2013, June 2, 2014, and May 30, 2016). The liquidating distributions are being made pursuant to a plan of complete liquidation for U.S. federal income tax purposes adopted by the Board in April 2011 (the “Plan”).

The following is a general summary of certain material U.S. federal income tax considerations for beneficial owners (“Holder”) of Shares who received the June 24, 2011, distribution, the December 26, 2012 distribution and/or any future distributions from the Company pursuant to the Plan. This discussion assumes that the Company will liquidate in accordance with the Plan in all material respects.

This discussion is based on the Code, final and temporary Treasury Regulations promulgated thereunder, administrative pronouncements or practices and judicial decisions, all as in effect as of the date hereof. Future legislative, judicial or administrative modifications, revocations or interpretations, which may or may not be retroactive, may result in U.S. federal income tax considerations significantly different from those summarized herein. We have not sought, and do not intend to seek, any ruling from the Internal Revenue Service (the “IRS”) or any other taxing authority with respect to any of the U.S. federal income tax considerations summarized herein, and there can be no assurance that the IRS will not challenge any of the

considerations summarized herein, or that a court will not sustain any such challenge by the IRS.

For purposes of this discussion, the term “U.S. Holder” means a Holder that is, for U.S. federal income tax purposes:

- a citizen or an individual resident of the United States;
- a corporation (or other entity taxable as a corporation) created or organized under the laws of the United States, any state thereof or the District of Columbia;
- an estate the income of which is subject to U.S. federal income taxation regardless of its source; or
- a trust which (i) is subject to the primary jurisdiction of a court within the United States and for which one or more U.S. persons have authority to control all substantial decisions, or (ii) has a valid election in effect under applicable Treasury Regulations to be treated as a U.S. person.

A “Non-U.S. Holder” is a Holder (other than a partnership or any entity or arrangement treated as a partnership for U.S. federal income tax purposes) that is not a U.S. Holder. If a partnership (including any entity or arrangement treated as a partnership for U.S. federal income tax purposes) holds Shares, the tax treatment of a partner in such partnership generally will depend on the status of the partner and the activities of the partnership. Partners in any partnership that holds Shares should consult their own tax advisors regarding the tax consequences to them of distributions in complete liquidation of the Company.

This summary is for general information only and does not constitute tax advice. This summary does not address all aspects of U.S. federal income taxation that may be relevant to Holders in light of their particular circumstances. In addition, this discussion does not apply to certain categories of Holders that are subject to special treatment under the U.S. federal income tax laws, such as (i) banks, financial institutions or insurance companies, (ii) regulated investment companies or real estate investment trusts, (iii) brokers or dealers in securities or currencies or traders in securities that elect mark-to-market treatment, (iv) tax-exempt organizations, qualified retirement plans, individual retirement accounts or other tax-deferred accounts, (v) controlled foreign corporations or passive foreign investment companies, (vi) Holders that acquired Shares in connection with the exercise of employee stock options or otherwise as compensation for services, (vii) Holders that own Shares as part of a straddle, hedge, constructive sale, conversion transaction or other integrated investment, (viii) Holders that are liable for the “alternative minimum tax” under the Code, (ix) U.S. Holders whose functional currency is not the United States dollar, or (x) U.S. expatriates. This discussion does not address any tax consequences arising under any state, local or non-U.S. tax laws or U.S. federal estate or gift tax laws. In addition, this discussion applies only to Holders that hold their Shares as capital assets within the meaning of Section 1221 of the Code (generally, property held for investment).

HOLDERS ARE URGED TO CONSULT THEIR OWN TAX ADVISORS REGARDING THE APPLICATION OF U.S. FEDERAL TAX LAWS TO THEM IN LIGHT OF THEIR OWN PARTICULAR CIRCUMSTANCES AND ANY TAX CONSEQUENCES ARISING UNDER THE LAWS OF ANY STATE, LOCAL, NON-U.S. OR OTHER TAXING JURISDICTION.

U.S. Holders. For a U.S. Holder that owns a single block of Shares (*i.e.*, a group of Shares of the same class acquired in the same transaction at the same cost), the amount of a liquidating distribution received by such U.S. Holder will be applied against and reduce such U.S. Holder's total adjusted basis in such block of Shares. A U.S. Holder will recognize gain as a result of a liquidating distribution only to the extent that the aggregate value of the distribution and prior liquidating distributions received by such U.S. Holder exceeds such U.S. Holder's total adjusted basis in its block of Shares. If a U.S. Holder owns more than one block of Shares, each liquidating distribution will be allocated among such U.S. Holder's blocks of Shares in proportion to the number of Shares in each block. Within each block, the liquidating distributions will first be applied against the U.S. Holder's total adjusted basis in such block, and distributions in excess of such basis will result in the U.S. Holder's recognition of gain. A U.S. Holder will recognize loss only when such U.S. Holder receives its final liquidating distribution and then only if the aggregate value of all liquidating distributions with respect to a block of Shares is less than the U.S. Holder's total adjusted basis in such block. A U.S. Holder's adjusted tax basis in its Shares will depend upon various factors, including the price paid by such U.S. Holder for the Shares and the amount and nature of any prior distributions received with respect to such Shares. Generally, gain or loss will be capital gain or loss and will be long-term capital gain or loss if the U.S. Holder held its Shares for more than one year. Long-term capital gains of noncorporate U.S. Holders generally are subject to U.S. federal income tax at preferential rates, although such rates are subject to change and are currently scheduled to expire for taxable years beginning after December 31, 2012. The deduction of capital losses is subject to limitations.

If the Board were to revoke the Plan, which it is permitted to do at any time and is required to do if the Company fails to make its final liquidating distribution under the Plan within approximately three years of the adoption of the Plan (because it fails to obtain necessary stockholder approval described below or otherwise), or if it were otherwise determined that distributions made pursuant to the Plan were not liquidating distributions, the portion of each distribution made out of the Company's earnings and profits (determined on a historic or current year basis as calculated in accordance with U.S. federal income tax purposes) could be recharacterized as a dividend taxable at ordinary income rates, and U.S. Holders would include the amount of the ordinary dividend in their gross income. For taxable years beginning before January 1, 2013, dividends received by a U.S. Holder from the Company generally will be taxable at the lower net capital gain rate (currently, a maximum of 15%) rather than ordinary income rates. The Company's earnings and profits will be computed at the close of the taxable year in which the distribution is made. The portion of a recharacterized distribution that is in excess of the Company's earnings and profits would reduce the U.S. Holder's adjusted basis in its Shares, and any amount in excess of the U.S. Holder's adjusted basis would be treated as capital gain. If a distribution were recharacterized

as a dividend, U.S. Holders would have to file amended returns and pay any additional taxes that may be due.

Completion of Liquidation. The Company intends to make its final liquidating distribution under the Plan around the third anniversary of the Plan's adoption.

Under the terms of the Company's transaction agreements applicable to the sales of the Hinds and Hot Spring facilities, approximately \$68 million of the purchase price was placed in escrow to secure the Company's indemnification obligations. Approximately \$44 million of the escrowed amounts will not be returned to the Company (if at all) until after the third anniversary of the adoption of the Plan. In order to make the final liquidating distribution within approximately three years of the Plan's adoption, the Company currently expects to make the final liquidating distribution to Holders by legally dissolving the Company and transferring the Company's rights to receive amounts released from escrow under the Company's transaction agreements (the "Escrow Rights") and any remaining cash or other assets of the Company to a liquidating trust that will be established for the benefit of the Holders. Each Holder will receive one unit of beneficial interests in the liquidating trust for each Share. The beneficial interests in the Liquidating Trust will generally not be transferable by the Holders.

The legal dissolution of the Company will require approval of the Board and holders of a majority of the then outstanding Shares. A complete description of the terms of the proposed dissolution will be described in a proxy statement that the Company will distribute to the Holders in connection with a stockholder meeting the Company expects to hold in February 2013 at which stockholders will be asked to vote on the dissolution of the Company. If the dissolution is not approved by the Holders, the Company will not be able to make its final liquidating distribution within approximately three years of the adoption of the Plan and, as such, a portion of the distributions previously made to Holders could be recharacterized as dividends, as noted above.

For U.S. federal income tax purposes, the dissolution and the transfer of the Company's assets to the liquidating trust would be treated as if each Holder received a distribution of its proportionate share of the Company's remaining assets (expected to consist primarily of the Escrow Rights) and contributed such proportionate share of the assets to the liquidating trust. As a result, the fair market value of the proportionate share of the Escrow Rights and/or other Company assets deemed to be distributed to a U.S. Holder would be applied against and reduce such U.S. Holder's remaining adjusted basis in its Shares. A U.S. Holder would recognize capital gain as a result of a deemed distribution pursuant to the transfer of the Company's assets to the liquidating trust to the extent that the aggregate value of the deemed distribution and prior liquidating distributions received by such U.S. Holder exceeds such U.S. Holder's adjusted basis in its Shares.

After the dissolution and the transfer of the Company's assets to the liquidating trust, each U.S. Holder would have an aggregate tax basis in its beneficial interest in the liquidating trust equal to the fair market value of such U.S. Holder's proportionate share of the Escrow Rights and/or other Company assets transferred by the Company to the liquidating trust. After the transfer to the liquidating trust, each U.S. Holder would be treated as the owner of its

allocable portion of the liquidating trust for U.S. federal income tax purposes, and would be required to take into account for U.S. federal income tax purposes its allocable share of the liquidating trust's income, gains, losses and deductions for the liquidating trust's taxable year or years ending with or within such U.S. Holder's taxable year without regard to whether the liquidating Trust were to make cash distributions to such U.S. Holder. Consequently, U.S. Holders that are holders of beneficial interests in the liquidating trust could be subject to tax even if such U.S. Holders did not receive distributions from the liquidating trust with which to pay such tax.

The liquidating trust's tax basis in the Company assets, including the Escrow Rights, deemed contributed to it by Holders generally would be equal to the fair market value of the Company's cash and other assets, including the Escrow Rights, on the date of the transfer to the liquidating trust. If the liquidating trust subsequently received escrowed proceeds by virtue of holding Escrow Rights, the amount of each payment of escrowed proceeds (less any amounts treated as imputed interest) generally would be applied against and reduce the liquidating trust's tax basis in the Escrow Rights. A U.S. Holder would recognize its allocable share of imputed interest, as well as its allocable share of capital gain to the extent that the aggregate amount of escrowed proceeds received by the liquidating trust (less any amounts treated as imputed interest) exceeds the liquidating trust's adjusted basis in the Escrow Rights. Any capital gains received more than one year after the transfer to the liquidating trust would be treated as long term capital gains. A U.S. Holder would recognize its allocable share of capital loss only when the liquidating trust receives its final payment of escrowed proceeds (if any) and then only if the aggregate amount of escrowed proceeds received by the liquidating trust (less any amounts treated as imputed interest) is less than the liquidating trust's adjusted basis in the Escrow Rights. As each U.S. Holder is treated as the owner of its allocable portion of the liquidating trust for U.S. federal income tax purposes, a U.S. Holder generally would not recognize gain as a result of a distribution by the liquidating trust.

Non-U.S. Holders. Liquidating distributions received by a Non-U.S. Holder with respect to shares of the Company generally will not be subject to U.S. federal income tax, unless: (a) the gain, if any, is effectively connected with the conduct by the Non-U.S. Holder of a trade or business in the United States (and, if required by an applicable income tax treaty, is attributable to a United States permanent establishment maintained by the Non-U.S. Holder), in which event (i) the Non-U.S. Holder will be subject to U.S. federal income tax on a net basis under regular graduated income tax rates in the same manner as if such Non-U.S. Holder were a U.S. Holder and (ii) if the Non-U.S. Holder is a corporation, it may also be subject to a branch profits tax at a flat rate of 30% (or such lower rate as may be specified under an applicable income tax treaty); (b) the Non-U.S. Holder is an individual who was present in the United States for 183 days or more in the taxable year in which the distribution is received and certain other conditions are met, in which event gain recognized by the Non-U.S. Holder will be subject to U.S. federal income tax at a flat rate of 30% (or such lower rate as may be specified under an applicable income tax treaty), but generally may be offset by U.S. source capital losses; or (c) the Shares are "United States real property interests" within the meaning of Section 897 of the Code.

The Company has determined that, while the matter is not free from doubt, it should not be treated as a “United States real property holding corporation” within the meaning of Section 897(c)(2) of the Code and, therefore, the Company should not treat the Shares as “United States real property interests” within the meaning of Section 897(c)(1) of the Code. Accordingly, the Company will not withhold tax under the Foreign Investment in Real Property Tax Act of 1980 (FIRPTA), which otherwise might impose a withholding tax at a rate of 10% of the gross proceeds of distributions to Non-U.S. Holders.

If a distribution were recharacterized as a dividend to the extent of the Company’s earnings and profits, the gross amount of such distribution paid to a Non-U.S. Holder generally would be subject to withholding at a rate of 30% unless such Non-U.S. Holder provided the Company or its paying agent with a properly executed (i) IRS Form W-8ECI (or other applicable form) stating that the distribution is not subject to withholding tax because it is effectively connected with the conduct by the Non-U.S. Holder of a trade or business in the United States or (ii) IRS Form W-8BEN (or other applicable form) claiming an exemption from, or reduction in, withholding under an applicable income tax treaty.

Information Reporting and Backup Withholding. Liquidating distributions received by a Holder with respect to Shares during the preceding calendar year will be reported to the Holder and the IRS on Form 1099-DIV (or a successor form) as a cash liquidating distribution (Box 8 of the current Form 1099-DIV). In addition, distributions to noncorporate Holders may be subject to backup withholding tax at the applicable rate (currently 28%) unless an exemption applies. For an exemption to backup withholding to apply to a U.S. Holder, such U.S. Holder generally must timely provide the Company with a correct taxpayer identification number and otherwise comply with certain certification procedures (generally, by providing a properly completed Form W-9). For an exemption to backup withholding to apply to a Non-U.S. Holder, such Non-U.S. Holder generally must certify under penalties of perjury on an appropriate and properly completed IRS Form W-8 that such Non-U.S. Holder is not a U.S. person. Each Non-U.S. Holder is urged to consult its own tax advisor to determine which IRS Form W-8 is appropriate in such Non-U.S. Holder’s case. If Shares are held through a non-U.S. partnership or other flow-through entity, certain documentation requirements also may apply to the partnership or other flow-through entity.

Backup withholding is not an additional tax, and any amounts withheld under the backup withholding rules from a payment to a Holder generally will be allowed as a refund or credit against such Holder’s U.S. federal income tax liability, provided that such Holder timely furnishes the required information to the IRS.