
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

Form 10-Q

(Mark One)

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the Quarterly Period Ended June 30, 2010

or

- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _____ to _____

Commission file number 333-92047-03

EME HOMER CITY GENERATION L.P.

(Exact name of registrant as specified in its charter)

Pennsylvania

(State or other jurisdiction of incorporation or organization)

33-0826938

(I.R.S. Employer Identification No.)

1750 Power Plant Road

Homer City, Pennsylvania

(Address of principal executive offices)

15748

(Zip Code)

Registrant's telephone number, including area code: **(724) 479-9011**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Number of shares outstanding of the registrant's ownership interests as of August 5, 2010: Not applicable.

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GLOSSARY

When the following terms and abbreviations appear in the text of this report, they have the meanings indicated below.

BACT	best available control technology
Btu	British thermal units
CAA	Clean Air Act
EME	Edison Mission Energy
Homer City	EME Homer City Generation L.P.
EMMT	Edison Mission Marketing & Trading, Inc.
GAAP	United States generally accepted accounting principles
GHG	greenhouse gas
GWh	gigawatt-hours
MD&A	Management's Discussion and Analysis of Financial Condition and Results of Operations
MMBtu	million British thermal units
MW	megawatts
MWh	megawatt-hours
NAAQS	National Ambient Air Quality Standards
NOV	Notice of Violation
NO _x	nitrogen oxide
NYSEG	New York State Electric & Gas Corporation
PADEP	Pennsylvania Department of Environmental Protection
Penelec	Pennsylvania Electric Company
PJM	PJM Interconnection, LLC
PSD	Prevention of Significant Deterioration
RPM	Reliability Pricing Model
SO ₂	sulfur dioxide
US EPA	United States Environmental Protection Agency

PART I – FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

EME HOMER CITY GENERATION L.P.

STATEMENTS OF INCOME (LOSS)

(in millions, unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Operating Revenues from Marketing Affiliate	\$ 129	\$ 161	\$ 304	\$ 326
Operating Expenses				
Fuel	57	63	127	127
Plant operations	41	21	79	56
Depreciation and amortization	17	16	33	32
Administrative and general	2	1	3	2
Total operating expenses	117	101	242	217
Operating income	12	60	62	109
Other Income (Expense)				
Interest expense	(32)	(32)	(64)	(63)
Income (loss) before income taxes	(20)	28	(2)	46
Provision (benefit) for income taxes	(8)	10	(1)	17
Net Income (Loss)	\$ (12)	\$ 18	\$ (1)	\$ 29

The accompanying notes are an integral part of these financial statements.

EME HOMER CITY GENERATION L.P.

STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(in millions, unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Net Income (Loss)	\$ (12)	\$ 18	\$ (1)	\$ 29
Other comprehensive income (loss), net of tax				
Unrealized gains (losses) on derivatives qualified as cash flow hedges:				
Unrealized holding gains (losses) arising during period, net of income tax expense (benefit) of \$(11) and \$(16) for the three months and \$6 and \$13 for the six months ended June 30, 2010 and 2009, respectively	(14)	(31)	10	11
Reclassification adjustments included in net income, net of income tax expense (benefit) of \$(11) and \$10 for the three months and \$(19) and \$(1) for the six months ended June 30, 2010 and 2009, respectively	(17)	19	(28)	3
Other comprehensive income (loss)	(31)	(12)	(18)	14
Comprehensive Income (Loss)	\$ (43)	\$ 6	\$ (19)	\$ 43

The accompanying notes are an integral part of these financial statements.

EME HOMER CITY GENERATION L.P.

BALANCE SHEETS

(in millions, unaudited)

	June 30, 2010	December 31, 2009
Assets		
Current Assets		
Cash and cash equivalents	\$ 96	\$ 121
Fuel inventory	78	58
Spare parts inventory	32	31
Derivative assets	46	81
Intangible assets	3	41
Other current assets	7	10
Total current assets	262	342
Property, Plant and Equipment	2,235	2,223
Less accumulated depreciation and amortization	576	540
Net property, plant and equipment	1,659	1,683
Deferred taxes	118	102
Long-term derivative assets	—	1
Restricted deposits	27	27
Long-term intangible assets	43	5
Total Assets	\$ 2,109	\$ 2,160
Liabilities and Partners' Equity		
Current Liabilities		
Accounts payable	\$ 25	\$ 19
Accrued liabilities	8	7
Due to affiliates	60	60
Interest payable	21	25
Interest payable to affiliate	9	9
Derivative liabilities	—	1
Deferred taxes	21	31
Current portion of lease financing	73	65
Total current liabilities	217	217
Long-term debt to affiliate	483	459
Lease financing, net of current portion	1,014	1,084
Benefit plans and other	47	43
Long-term derivative liabilities	10	—
Total Liabilities	1,771	1,803
Commitments and Contingencies (Note 7)		
Partners' Equity	338	357
Total Liabilities and Partners' Equity	\$ 2,109	\$ 2,160

The accompanying notes are an integral part of these financial statements.

EME HOMER CITY GENERATION L.P.

STATEMENTS OF PARTNERS' EQUITY

(in millions, unaudited)

	Chestnut Ridge Energy Company	Mission Energy Westside Inc.	Total Partners' Equity
Balance at December 31, 2009	\$ 356	\$ 1	\$ 357
Net loss	(1)	—	(1)
Other comprehensive loss	(18)	—	(18)
Balance at June 30, 2010	\$ 337	\$ 1	\$ 338

The accompanying notes are an integral part of these financial statements.

EME HOMER CITY GENERATION L.P.

STATEMENTS OF CASH FLOWS

(in millions, unaudited)

	Six Months Ended June 30,	
	2010	2009
Cash Flows From Operating Activities		
Net income (loss)	\$ (1)	\$ 29
Adjustments to reconcile income to net cash provided by operating activities:		
Depreciation and amortization	33	31
Deferred taxes	(13)	(6)
Other non-cash items	4	1
Increase in due to affiliates	6	21
Increase in inventory	(21)	(18)
Decrease in other current assets	4	5
Decrease in intangible assets	—	6
Increase in accounts payable and other current liabilities	7	5
Increase (decrease) in interest payable	(4)	12
Increase in other liabilities	3	4
Decrease (increase) in derivative assets and liabilities	14	(5)
Net cash provided by operating activities	32	85
Cash Flows From Financing Activities		
Borrowings on long-term obligation to affiliate	21	25
Repayments of long-term obligation to affiliate	(3)	—
Repayments of lease financing	(63)	(57)
Net cash used in financing activities	(45)	(32)
Cash Flows From Investing Activities		
Capital expenditures	(12)	(16)
Proceeds from sale of emission allowances	—	1
Decrease in restricted deposits	—	10
Net cash used in investing activities	(12)	(5)
Net (decrease) increase in cash and cash equivalents	(25)	48
Cash and cash equivalents at beginning of period	121	59
Cash and cash equivalents at end of period	\$ 96	\$ 107

The accompanying notes are an integral part of these financial statements.

EME HOMER CITY GENERATION L.P.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010
(Unaudited)

Note 1. Summary of Significant Accounting Policies

Basis of Presentation

Homer City's significant accounting policies were described in "Note 1—Summary of Significant Accounting Policies" on page 68 of Homer City's annual report on Form 10-K for the year ended December 31, 2009. Homer City follows the same accounting policies for interim reporting purposes, with the exception of accounting principles adopted as of January 1, 2010 as discussed below in "—New Accounting Guidance." This quarterly report should be read in conjunction with such financial statements.

In the opinion of management, all adjustments, including recurring accruals, have been made that are necessary to fairly state the financial position and results of operations and cash flows in accordance with accounting principles generally accepted in the United States of America for the periods covered by this quarterly report on Form 10-Q. The results of operations for the six months ended June 30, 2010 are not necessarily indicative of the operating results for the full year.

Certain prior year reclassifications have been made to conform to the current year financial statement presentation pertaining to immaterial items.

Cash Equivalents

Cash equivalents include money market funds totaling \$33 million and \$40 million at June 30, 2010 and December 31, 2009, respectively. The carrying value of cash equivalents equals the fair value as all investments have maturities of less than three months. For further discussion of money market funds, see Note 2—Fair Value Measurements.

New Accounting Guidance

Accounting Guidance Adopted in 2010

Fair Value Measurements and Disclosures

The Financial Accounting Standards Board (FASB) issued an accounting standards update that provides for new disclosure requirements related to fair value measurements. Requirements, effective January 1, 2010, include separate disclosure of significant transfers in and out of Levels 1 and 2 and the reasons for the transfers. The update also clarified existing disclosure requirements for the level of disaggregation, inputs and valuation techniques. In addition, effective January 1, 2011, the Level 3 reconciliation of fair value measurements using significant unobservable inputs should include gross rather than net information about purchases, sales, issuances and settlements. The guidance impacts disclosures only. For further discussion, see Note 2—Fair Value Measurements.

Accounting Guidance Not Yet Adopted

Recently issued accounting standards updates by the FASB (including its Emerging Issues Task Force), the American Institute of Certified Public Accountants and the Securities and Exchange Commission

that were effective after June 30, 2010 are not expected to have a material effect on Homer City's results of operations or financial position.

Note 2. Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (referred to as an "exit price"). Fair value for a liability should reflect the entity's nonperformance risk. Fair value is determined using a hierarchy to prioritize inputs to valuation models. The hierarchy gives the highest priority to unadjusted quoted market prices in active markets for identical assets and liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are:

- Level 1—Unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets and liabilities;
- Level 2—Pricing inputs that include quoted prices for similar assets and liabilities in active markets and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the derivative instrument; and
- Level 3—Prices or valuations that require inputs that are both significant to the fair value measurements and unobservable.

Homer City's assets and liabilities carried at fair value primarily consist of derivative contracts and money market funds. Derivative contracts are primarily commodity contracts for the purchase and sale of power and include contracts for forward physical sales and purchases, options and forward price swaps which settle only on a financial basis (including futures contracts). Derivative contracts can be exchange or over-the-counter traded.

The fair value of derivative contracts takes into account quoted market prices, time value of money, volatility of the underlying commodities and other factors. Derivatives that are exchange traded in active markets for identical assets or liabilities are classified as Level 1. Investments in money market funds are generally classified as Level 1 as fair value is determined by observable market prices in active markets.

Derivative contracts, valued based on forward market prices in active markets (PJM West Hub) adjusted for nonperformance risks, are classified as Level 2. EMMT obtains forward market prices from traded exchanges (Intercontinental Exchange Futures U.S. or New York Mercantile Exchange) and available broker quotes. Then, EMMT selects a primary source that best represents traded activity for each market to develop observable forward market prices in determining the fair value of these positions. Broker quotes or prices from exchanges are used to validate and corroborate the primary source. These price quotations reflect mid-market prices (average of bid and ask) and are obtained from sources that EMMT believes to provide the most liquid market for the commodity. EMMT considers broker quotes to be observable when corroborated with other information which may include a combination of prices from exchanges, other brokers, and comparison to executed trades.

Financial transmission rights and over-the-counter derivatives that trade infrequently at illiquid locations are classified as Level 3. For illiquid financial transmission rights, EMMT reviews objective criteria related to system congestion on a quarterly basis and other underlying drivers and adjusts fair value when EMMT concludes a change in objective criteria would result in a new valuation that better reflects fair value. Changes in fair values are based on the hypothetical sale of illiquid positions. In

circumstances where EMMT cannot verify fair value with observable market transactions, it is possible that a different valuation model could produce a materially different estimate of fair value. As markets continue to develop and more pricing information becomes available, EMMT continues to assess valuation methodologies used to determine fair value. Derivative contracts with counterparties that have significant nonperformance risks are classified as Level 3.

In assessing nonperformance risks, EMMT reviews credit ratings of counterparties (and related default rates based on such credit ratings) and prices of credit default swaps. The market price (or premium) for credit default swaps represents the price that a counterparty would pay to transfer the risk of default, typically bankruptcy, to another party. A credit default swap is not directly comparable to the credit risks of derivative contracts, but provides market information of the related risk of nonperformance. The fair value of derivative assets nonperformance risk was none at June 30, 2010.

The following table sets forth Homer City's assets and liabilities that were accounted for at fair value by level within the fair value hierarchy:

(in millions)	As of June 30, 2010			
	Level 1	Level 2	Netting ²	Total
Assets at Fair Value				
Money market funds ¹	\$ 33	\$ —	\$ —	\$ 33
Electricity contracts	—	44	2	46
Liabilities at Fair Value				
Electricity contracts	\$ —	\$ (8)	\$ (2)	\$ (10)
<hr/>				
	As of December 31, 2009			
Assets at Fair Value				
Money market funds ¹	\$ 40	\$ —	\$ —	\$ 40
Electricity contracts	—	82	—	82
Liabilities at Fair Value				
Electricity contracts	\$ —	\$ (1)	\$ —	\$ (1)

¹ Included in cash and cash equivalents on Homer City's balance sheets.

² Represents the impact of netting across the levels of the fair value hierarchy. Netting among positions classified within the same level is included in that level.

The change in unrealized gains (losses) related to derivative contracts, net held at June 30, 2010 and 2009 for the three months and six months ended June 30, 2010 and 2009 was immaterial. Homer City determines the fair value of transfers in and transfers out of each level at the end of each reporting period.

Long-term Obligations

The carrying amount of Homer City's subordinated loan with an affiliate was \$483 million at June 30, 2010 and \$459 million at December 31, 2009. It is not practicable to estimate the fair value of this financial instrument due to the subordination features of the loan and the provisions of the sale-leaseback agreements for the Homer City facilities.

Note 3. Derivative Instruments and Risk Management

Homer City uses derivative instruments to reduce its exposure to market risks that arise from fluctuations in prices of electricity, capacity, fuel, emission allowances, and transmission rights. To the extent that Homer City does not use derivative instruments to hedge these market risks, the unhedged portions will be subject to the risks and benefits of spot market price movements.

Risk management positions may be designated as cash flow hedges or economic hedges, which are derivatives that are not designated as cash flow hedges. Economic hedges are accounted for at fair value on Homer City's balance sheets with offsetting changes recorded in the statements of income (loss). For transactions that qualify for accounting hedge treatment, the fair value is recognized, to the extent effective, on Homer City's balance sheets with offsetting changes in fair value recognized in accumulated other comprehensive income until the related forecasted transaction occurs.

Notional Volumes of Derivative Instruments

The following table summarizes the notional volumes of derivatives used for hedging activities:

June 30, 2010					
Commodity	Instrument	Classification	Unit of Measure	Cash Flow Hedges	Economic Hedges
Electricity	Forwards/Futures	Sales	GWh	5,569 ¹	4,020 ²
Electricity	Forwards/Futures	Purchases	GWh	—	4,026 ²
Electricity	Capacity	Sales	MW-Day (in thousands)	37 ³	—
Electricity	Capacity	Purchases	MW-Day (in thousands)	17 ³	—
Electricity	Congestion	Sales	GWh	—	136 ⁴
Electricity	Congestion	Purchases	GWh	—	951 ⁴
December 31, 2009					
Electricity	Forwards/Futures	Sales	GWh	3,703 ¹	7,566 ²
Electricity	Forwards/Futures	Purchases	GWh	—	7,566 ²
Electricity	Capacity	Sales	MW-Day (in thousands)	—	1 ³
Electricity	Congestion	Sales	GWh	—	136 ⁴
Electricity	Congestion	Purchases	GWh	—	1,576 ⁴

¹ Includes forward and futures contracts that qualify for hedge accounting. This category excludes power contracts for the Homer City facilities which meet the normal sales and purchase exception and are accounted for on the accrual method.

² Homer City also entered into transactions that adjust financial and physical positions, or day-ahead and real-time positions to reduce costs or increase gross margin. These positions largely offset each other. The net sales positions of these categories are primarily related to hedge transactions that are not designated as cash flow hedges.

³ Homer City's hedge transactions for capacity result from bilateral trades. Capacity sold in the PJM RPM auction is not accounted for as a derivative.

⁴ Congestion contracts include financial transmission rights, transmission congestion contracts or congestion revenue rights. These positions are similar to a swap, where the buyer is entitled to receive a stream of revenues (or charges) based on the hourly day-ahead price differences between two locations.

Fair Value of Derivative Instruments

The following table summarizes the fair value of commodity derivative instruments for non-trading purposes reflected on Homer City's balance sheets:

June 30, 2010

(in millions)	Derivative Assets			Derivative Liabilities			Net Assets
	Short-term	Long-term	Subtotal	Short-term	Long-term	Subtotal	
Cash flow hedges	\$ 52	\$ —	\$ 52	\$ 6	\$ 10	\$ 16	\$ 36
Economic hedges	10	—	10	10	—	10	—
	62	—	62	16	10	26	36
Netting ¹	(16)	—	(16)	(16)	—	(16)	—
Total	\$ 46	\$ —	\$ 46	\$ —	\$ 10	\$ 10	\$ 36

December 31, 2009

Cash flow hedges	\$ 87	\$ —	\$ 87	\$ 8	\$ —	\$ 8	\$ 79
Economic hedges	26	1	27	25	—	25	2
	113	1	114	33	—	33	81
Netting ¹	(32)	—	(32)	(32)	—	(32)	—
Total	\$ 81	\$ 1	\$ 82	\$ 1	\$ —	\$ 1	\$ 81

¹ Netting of derivative receivables and derivative payables is permitted when a legally enforceable master netting agreement exists with a derivative counterparty.

Income Statement Impact of Derivative Instruments

The following table provides the activity of accumulated other comprehensive income, containing the information about the changes in the fair value of cash flow hedges and reclassification from accumulated other comprehensive income into results of operations:

(in millions)	Cash Flow Hedge Activity ¹		Income Statement Location
	Six Months Ended		
	2010	2009	
Accumulated other comprehensive income derivative gain at January 1	\$ 66	\$ 130	
Effective portion of changes in fair value	16	24	
Reclassification from accumulated other comprehensive income to net income	(47)	2	Operating revenues
Accumulated other comprehensive income derivative gain at June 30	\$ 35	\$ 156	

¹ Unrealized derivative gains are before income taxes. The after-tax amounts recorded in accumulated other comprehensive income at June 30, 2010 and 2009 were \$20 million and \$90 million, respectively.

The portion of a cash flow hedge that does not offset the change in the value of the transaction being hedged, which is commonly referred to as the ineffective portion, is immediately recognized in earnings. Homer City recorded net gains (losses) of \$(8) million and \$4 million during the second quarters of 2010 and 2009, respectively, and net gains (losses) of \$(7) million and \$5 million during the six months ended June 30, 2010 and 2009, respectively, representing the amount of cash flow hedge ineffectiveness and are reflected in operating revenues on the statements of income (loss).

The effect of realized and unrealized losses from derivative instruments used for non-trading purposes on the statements of income (loss) is presented below:

(in millions)	Income Statement Location	Three Months Ended June 30,		Six Months Ended June 30,	
		2010	2009	2010	2009
Economic hedges	Operating revenue	\$ (1)	\$ (3)	\$ (4)	\$ (4)

Note 4. Accumulated Other Comprehensive Income

Accumulated other comprehensive income consisted of the following:

(in millions)	Unrealized Gains on Cash Flow Hedges, Net	Unrecognized Losses and Prior Service Adjustments, Net ¹	Accumulated Other Comprehensive Income
Balance at December 31, 2009	\$ 38	\$ (2)	\$ 36
Current period change	(18)	—	(18)
Balance at June 30, 2010	\$ 20	\$ (2)	\$ 18

¹ For further detail, see Note 5—Compensation and Benefit Plans.

Unrealized gains on cash flow hedges, net of tax, at June 30, 2010, consist of futures and forward electricity contracts that qualify for hedge accounting. These gains arise because current forecasts of future electricity prices are lower than Homer City's contract prices. Approximately \$26 million of unrealized gains on cash flow hedges, net of tax, are expected to be reclassified into earnings during the next 12 months. Management expects that reclassification of net unrealized gains will increase energy revenue recognized at market prices. Actual amounts ultimately reclassified into earnings over the next 12 months could vary materially from this estimated amount as a result of changes in market conditions. The maximum period over which a commodity cash flow hedge is designated is through December 31, 2012.

Note 5. Compensation and Benefit Plans

Pension Plans and Postretirement Benefits Other Than Pensions

Pension Plans

Contributions to Homer City's pension plans were \$0.5 million for the six months ended June 30, 2010 and are estimated at \$1.7 million for the last six months of 2010.

The following are components of pension expense:

(in millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Service cost	\$ 0.3	\$ 0.3	\$ 0.7	\$ 0.6
Interest cost	0.4	0.5	0.9	0.8
Expected return on plan assets	(0.3)	(0.3)	(0.7)	(0.5)
Amortization of net loss	—	0.1	—	0.2
Total expense	\$ 0.4	\$ 0.6	\$ 0.9	\$ 1.1

Postretirement Benefits Other Than Pensions

Contributions to Homer City's postretirement benefits other than pensions were \$0.3 million for the six months ended June 30, 2010 and are estimated at \$0.4 million for the last six months of 2010.

The following are components of postretirement benefits expense:

(in millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Service cost	\$ 0.2	\$ 0.1	\$ 0.3	\$ 0.3
Interest cost	0.4	0.5	0.8	0.9
Amortization of prior service credit	(0.1)	(0.1)	(0.2)	(0.2)
Amortization of net loss	—	0.1	0.1	0.2
Total expense	\$ 0.5	\$ 0.6	\$ 1.0	\$ 1.2

Note 6. Income Taxes

Homer City's effective income tax provision (benefit) rates were (72)% and 37% for the six months ended June 30, 2010 and 2009, respectively. Homer City's effective income tax rate varies from the federal statutory rate of 35% primarily due to state income taxes and estimated benefits from a federal deduction related to qualified domestic production activities under Section 199 of the Internal Revenue Code.

Note 7. Commitments and Contingencies

Commitments

Capital Improvements

At June 30, 2010, Homer City had firm commitments to spend approximately \$7 million for capital expenditures during the remainder of 2010 related to non-environmental improvements such as upgrades to boiler and turbine controls, replacement of major boiler components and main power transformer replacement. Homer City intends to fund these expenditures through cash generated from operations or funding under its affiliated subordinated revolving loan agreement.

Fuel Supply Contracts

At June 30, 2010, Homer City had fuel purchase commitments with various third-party suppliers for the purchase of bituminous steam coal and fuel oil. The contracts require Homer City to purchase a minimum quantity over the term of the contracts. Based on the contract provisions that consist of fixed prices, subject to adjustment clauses, these minimum commitments are estimated to be \$547 million, summarized as follows: \$141 million for the remainder of 2010, \$260 million in 2011, \$113 million in 2012, and \$33 million in 2013.

Interconnection Agreement

Homer City's general partner, Mission Energy Westside, is a party to an interconnection agreement with NYSEG and Penelec to provide interconnection services necessary to interconnect the Homer City facilities with NYSEG's and Penelec's transmission systems. Unless terminated earlier in accordance with specified terms, the interconnection agreement will terminate on a date mutually agreed to by Mission Energy Westside, NYSEG and Penelec. This date will not exceed the retirement date of the Homer City units. NYSEG and Penelec have agreed to extend the interconnection services (but not the expiration of the agreement) to modifications, additions or upgrades to, or repowering of the Homer City units. Mission Energy Westside is required to compensate NYSEG and Penelec for all reasonable costs associated with any modifications, additions or replacements made to NYSEG's or Penelec's interconnection facilities or transmission systems in connection with any modification, addition or upgrade to, or repowering of the Homer City units.

Guarantees and Indemnities

Tax Indemnity Agreements

In connection with the sale-leaseback transaction related to the Homer City facilities, Homer City and its indirect parent, EME, entered into tax indemnity agreements. Under these tax indemnity agreements, Homer City and EME agreed to indemnify the equity investors in the sale-leaseback transaction for specified adverse tax consequences that could result in certain situations set forth in the tax indemnity agreements, including specified defaults under the respective leases. The potential indemnity obligation under these tax indemnity agreements could be significant. Due to the nature of the obligations under these tax indemnity agreements, Homer City cannot determine a maximum potential liability which would be triggered by a valid claim from the lessors. Homer City has not recorded a liability related to these indemnities.

Environmental Indemnity Related to the Homer City Facilities

In connection with the acquisition of the Homer City facilities, Homer City agreed to indemnify the sellers with respect to specified environmental liabilities before and after the date of sale. Payments would be triggered under this indemnity by a valid claim from the sellers. EME guaranteed this obligation of Homer City. Also, in connection with the sale-leaseback transaction related to the Homer City facilities, Homer City agreed to indemnify the lessors for specified environmental liabilities. Due to the nature of the obligation under this indemnity provision, it is not subject to a maximum potential liability and does not have an expiration date. For a discussion of the NOV received by Homer City and associated indemnity claims, see “—Contingencies—New Source Review Notice of Violation.” Homer City has not recorded a liability related to this indemnity.

Contingencies

New Source Review Notice of Violation

Recent Developments

In May 2010, Homer City received an NOV from the US EPA. The new NOV alleges claims similar to those in the 2008 NOV, but it adds nonattainment New Source Review requirements to the alleged PSD violations. It also adds two prior owners of the Homer City facilities as parties.

In July 2010, Homer City received a 60-day Notice of Intent to Sue signed by the State of New York and the PADEP, stating their intent to file a citizen suit based on the same or similar theories advanced by the US EPA in the NOV. The Notice of Intent to Sue also named the sale-leaseback owner participants of the Homer City facilities, Homer City's general partner and limited partner, and two prior owners of the Homer City facilities.

Background

In June 2008, Homer City received an NOV from the US EPA alleging that, beginning in 1988, Homer City (or former owners of the Homer City facilities) performed repair or replacement projects at Homer City Units 1 and 2 without first obtaining construction permits as required by the PSD requirements of the CAA. The US EPA also alleges that Homer City has failed to file timely and complete Title V permits. The NOV does not specify the penalties or other relief that the US EPA seeks for the alleged violations. On June 30, 2009 and January 2, 2010, the US EPA issued requests for information to Homer City under Section 114 of the CAA. Homer City is working on a response to the requests. Homer City has met with the US EPA and has expressed its intent to explore the possibility of a settlement. If no settlement is reached and the U.S. Department of Justice files suit, litigation could take many years to resolve the issues alleged in the NOV. Homer City cannot predict the outcome of this matter or estimate the impact on its facilities, its results of operations, financial position or cash flows.

Homer City has sought indemnification for liability and defense costs associated with the NOV from the sellers under the asset purchase agreement pursuant to which Homer City acquired the Homer City facilities. The sellers responded by denying the indemnity obligation, but accepting a portion of defense costs related to the claims.

Homer City notified the sale-leaseback owner participants of the Homer City facilities of the NOV under the operative indemnity provisions of the sale-leaseback documents. The owner participants of the Homer City facilities, in turn, sought indemnification and defense from Homer City for costs and liabilities associated with the Homer City NOV. Homer City responded by recognizing its indemnity obligation and defense of the claims on terms consistent with its contractual obligations.

Ash Disposal Site

Homer City's ash disposal site is a permitted Class I Residual Waste Landfill, the most stringently regulated of the three categories of residual waste landfills authorized by the regulations of the PADEP. Homer City's permit allows it to dispose of coal combustion by-products, including fly ash, bottom ash, pyrites, gypsum, and miscellaneous plant wastes at the landfill. The wastes are deposited in compacted layers within lifts, or sections. Each lift where coal ash is disposed must be capped and covered when it reaches final grade. Homer City must also monitor groundwater quality at and adjacent to the ash disposal site through a network of monitoring wells and report the results to the PADEP on a periodic

basis. In the event that a disposal facility's groundwater monitoring identifies degradation in any of its wells, the PADEP's regulations require the facility to first confirm the existence and nature of the degradation by conducting a groundwater assessment. If the assessment confirms groundwater degradation in excess of the applicable regulatory standards, the facility is then required to prepare and implement an abatement plan that could include measures such as installing a liner in a previously unlined area. To date, no degradation has been found in the groundwater monitoring system at Homer City that would require the development of an assessment or abatement plan. Homer City also provides financial assurance in the form of a surety bond to guarantee its closure and post-closure obligations at the landfill. The estimated closure date is 2018. Based on the remaining capacity of the landfill and the estimated material requiring future disposal, Homer City has begun permitting additional areas for expansion of the landfill. Management does not believe that the costs of maintaining and closing the ash disposal site will have a material impact on Homer City's financial statements under current regulations.

Insurance

Homer City maintains insurance policies that it believes are comparable to those carried by other electric generating facilities of a similar size. The insurance program includes all-risk real and personal property insurance, including coverage for losses from boiler and machinery breakdowns, and the perils of earthquake and flood, subject to certain sublimits. The property insurance program currently covers losses up to \$1.6 billion. Under the terms of the participation agreements entered into as part of Homer City's sale-leaseback transaction, Homer City is required to maintain specified minimum insurance coverages with insurers having specific minimum ratings if and to the extent that such insurance is available on a commercially reasonable basis. Although the insurance covering the Homer City facilities is comparable to insurance coverages normally carried by companies engaged in similar businesses, and owning similar properties, the insurance coverages that are in place do not meet the minimum insurance coverages required under the participation agreements. In addition, some of the insurers providing Homer City's insurance do not meet the minimum ratings required under the participation agreements. Due to the current market environment, the minimum insurance coverage and rating are not commercially available at reasonable prices. Homer City has obtained a waiver under the participation agreements which permits it to maintain its current insurance through June 1, 2011.

Homer City also carries general liability insurance covering liabilities to third parties for bodily injury or property damage resulting from operations, automobile liability insurance and excess liability insurance. Limits and deductibles in respect of these insurance policies are consistent with the requirements of the participation agreements. However, some insurers providing general liability coverage do not meet the minimum ratings requirements under the participation agreements. The waiver obtained permits Homer City to retain these insurers for all of its insurance coverages.

Environmental Developments

Environmental Issues and Capital Resource Limitations

Homer City operates selective catalytic reduction equipment on all three units to reduce NO_x emissions, operates flue gas desulfurization equipment on Unit 3 to reduce SO₂ emissions, and uses coal-cleaning equipment on site to reduce the ash and sulfur content of raw coal to meet both combustion and environmental requirements. Homer City may be required to install additional environmental equipment on Unit 1 and Unit 2 to comply with environmental regulations for future operations. For further information, see “—Transport Rule” and “—New Source Review Notice of Violation.” Restrictions under the agreements entered into as part of Homer City's 2001 sale-leaseback

transaction could affect, and in some cases significantly limit or prohibit, Homer City's ability to incur indebtedness or make capital expenditures. Homer City will have limited ability to obtain additional outside capital for such projects without amending its lease and related agreements. EME is under no contractual or other obligation to provide funding to Homer City.

Climate Change

In June 2010, the US EPA finalized the PSD and Title V GHG tailoring rule. The effective date of the final rule is August 2, 2010. The emissions thresholds for CO₂ equivalents in the final rule are as follows:

January - June 2011	75,000 tons per year for new and modified sources already subject to PSD for pollutants other than GHGs
July 2011 - June 2013	100,000 tons per year for new sources, and 75,000 tons per year for modified sources

Petitions for judicial review of the GHG tailoring rule are to be submitted by August 2, 2010. Legal challenges to the GHG tailoring rule have been filed.

Transport Rule

In July 2010, the US EPA issued a Notice of Proposed Rulemaking for a proposed rule, known as the Transport Rule, which would require 31 eastern states (including Pennsylvania) and the District of Columbia to substantially reduce power plant emissions of NO_x and SO₂ starting in 2012, with additional reductions in 2014. The Transport Rule would replace the Clean Air Interstate Rule, which had been remanded to the US EPA in 2008 for issuance of a revised rule.

The US EPA has proposed three possible approaches to emissions allowance trading. Under its preferred approach, a pollution limit would be set for each state, intrastate trading would be permitted among power plants, and limited interstate trading would also be permitted consistent with the requirement that each state meet its own pollution control obligations. Under the first alternative, a pollution limit would be set for each state, and only intrastate trading of allowances would be permitted. Under the second alternative, a pollution limit would be set for each state and an emissions limit would be set for each power plant, and limited emissions averaging would be permitted among affected units.

Under the Transport Rule, each covered state would initially be subject to a federal implementation plan designed to reduce pollution that significantly contributed to nonattainment of, or interferes with the maintenance of, NAAQS in other states. States would be able to choose to develop state implementation plans to replace the federal implementation plans.

Comments on the Transport Rule will be due 60 days after its publication in the Federal Register. The Transport Rule is scheduled to be finalized in 2011. The Clean Air Interstate Rule will remain in place until that time. If adopted as proposed, the Transport Rule may require the installation of additional environmental equipment to reduce SO₂ emissions at Units 1 and 2 of the Homer City facilities.

National Ambient Air Quality Standard for Sulfur Dioxide

In June 2010, the US EPA finalized the primary NAAQS for SO₂ by establishing a new one-hour standard at a level of 75 parts per billion. The final standard is in line with Homer City's expectations

and is being taken into account in Homer City’s environmental compliance strategy. Revisions to state implementation plans to achieve compliance with the new standard are due to be submitted to the US EPA by February 2014. The US EPA anticipates that the deadline for attainment with the SO₂ NAAQS will be August 2017 (five years after the US EPA intends to finalize initial determinations as to the areas of the country that are and are not in attainment with the primary SO₂ NAAQS).

Hazardous Substances and Hazardous Waste Laws

In June 2010, the US EPA published proposed regulations relating to coal combustion wastes. Two different proposed approaches are under consideration. The first approach, under which the US EPA would list these wastes as special wastes subject to regulation under Subtitle C of the Resource Conservation and Recovery Act (the section for hazardous wastes), could require Homer City to incur additional capital and operating costs. The second approach, under which the US EPA would regulate these wastes under Subtitle D of the Resource Conservation and Recovery Act (the section for nonhazardous wastes), is substantially similar to the requirements of existing regulations.

Note 8. Supplemental Cash Flows Information

(in millions)	Six Months Ended June 30,	
	2010	2009
Cash paid		
Interest	\$ 67	\$ 51
Income taxes	—	8
Non-cash investing and financing activities		
Non-cash settlement of intercompany tax liabilities through an increase in the subordinated revolving loan agreement with affiliate	\$ 6	\$ 90

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This MD&A contains “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. These statements reflect Homer City’s current expectations and projections about future events based on Homer City’s knowledge of present facts and circumstances and assumptions about future events and include any statement that does not directly relate to a historical or current fact. Other information distributed by Homer City that is incorporated in this report, or that refers to or incorporates this report, may also contain forward-looking statements. In this quarterly report on Form 10-Q, the words “expects,” “believes,” “anticipates,” “estimates,” “projects,” “intends,” “plans,” “probable,” “may,” “will,” “could,” “would,” “should,” and variations of such words and similar expressions, or discussions of strategy or plans, are intended to identify forward-looking statements. Such statements necessarily involve risks and uncertainties that could cause actual results to differ materially from those anticipated. Some of the risks, uncertainties and other important factors that could cause results to differ from those currently expected, or that otherwise could impact Homer City, include but are not limited to:

- environmental laws and regulations, at both state and federal levels, or changes in the application of those laws, that could require additional expenditures or otherwise affect Homer City’s cost and manner of doing business;
- supply and demand for electric capacity and energy, and the resulting prices and dispatch volumes, in the wholesale markets to which Homer City’s generating units have access;
- weather conditions, natural disasters and other unforeseen events;
- the extent of additional supplies of capacity, energy and ancillary services from current competitors or new market entrants, including the development of new generation facilities, and technologies that may be able to produce electricity at a lower cost than Homer City’s generating facilities and/or increased access by competitors to Homer City’s markets as a result of transmission upgrades;
- the cost and availability of fuel and fuel transportation services;
- the cost and availability of emission credits or allowances;
- transmission congestion in and to each market area and the resulting differences in prices between delivery points;
- the difficulty of predicting wholesale prices, transmission congestion, energy demand, and other aspects of the complex and volatile markets in which Homer City participates;
- the availability and creditworthiness of counterparties, and the resulting effects on liquidity in the power and fuel markets in which Homer City operates and/or the ability of counterparties to pay amounts owed in excess of collateral provided in support of their obligations;
- governmental, statutory, regulatory or administrative changes or initiatives affecting Homer City or the electricity industry generally, including market structure rules and price mitigation strategies;
- market volatility and other market conditions that could increase Homer City’s obligations to post collateral beyond the amounts currently expected, and the potential effect of such conditions on the

ability of Homer City to provide sufficient collateral in support of its hedging activities and purchases of fuel;

- operating risks, including equipment failure, availability, heat rate, output, costs of repairs and retrofits, and availability and cost of spare parts;
- creditworthiness of suppliers and their ability to deliver goods and services under their contractual obligations to Homer City or to pay damages if they fail to fulfill those obligations;
- effects of legal proceedings, changes in or interpretations of tax laws, rates or policies, and changes in accounting standards; and
- general political, economic and business conditions.

Additional information about risks and uncertainties, including more detail about the factors described above, is contained throughout this MD&A and in “Item 1A. Risk Factors” on page 22 of Homer City’s annual report on Form 10-K for the year ended December 31, 2009. Readers are urged to read this entire quarterly report on Form 10-Q and carefully consider the risks, uncertainties and other factors that affect Homer City’s business. Forward-looking statements speak only as of the date they are made, and Homer City is not obligated to publicly update or revise forward-looking statements. Readers should review future reports filed by Homer City with the Securities and Exchange Commission.

This MD&A discusses material changes in the results of operations, financial condition and other developments of Homer City since December 31, 2009, and as compared to the second quarter of 2009 and six months ended June 30, 2009. This discussion presumes that the reader has read or has access to the MD&A included in Item 7 of Homer City’s annual report on Form 10-K for the year ended December 31, 2009.

MANAGEMENT’S OVERVIEW

Introduction

Homer City is a Pennsylvania limited partnership engaged in the business of operating and selling energy and capacity from its three coal-fired electric generating units. Hedging activities in power markets are arranged by EMMT, on behalf of Homer City.

This overview is presented in two sections:

- Highlights of operating results, and
- Environmental developments.

The overview is presented as an update to the overview presented in Homer City’s 2009 annual report on Form 10-K. For additional information on these topics, refer to “Management’s Overview” on page 34 of Homer City’s annual report on Form 10-K for the year ended December 31, 2009.

Highlights of Operating Results

Homer City’s net income (loss) for the second quarter and six months ended June 30, 2010 was \$(12) million and \$(1) million, respectively, compared to \$18 million and \$29 million for the second quarter

and six months ended June 30, 2009, respectively. The decreases in earnings were due to lower realized energy revenue and higher plant maintenance costs primarily attributed to scheduled plant outages during 2010. Plant maintenance and overhaul related expenses were higher in 2010 due to the deferral of plant outages in 2009. Scheduled plant maintenance for 2010 was substantially completed in the second quarter. Higher forced outage rates in 2010 compared to 2009 were the result of deratings caused by opacity. In addition, Homer City's results were impacted by \$12 million and \$14 million of unrealized losses during the second quarter and six months ended June 30, 2010, respectively, compared to unrealized gains of \$5 million during each of the second quarter and six months ended June 30, 2009.

Environmental Developments

US EPA Developments

In June 2010, the US EPA published its final GHG tailoring rule, with less stringent statutory emissions thresholds for GHGs than those originally proposed in late 2009. Since the rule affects only new or modified sources, it is not expected to have any immediate effect on the Homer City facilities.

In June 2010, the US EPA finalized the primary NAAQS for SO₂ by establishing a new one-hour standard at a level of 75 parts per billion. The final standard is in line with Homer City's expectations and is being taken into account in Homer City's environmental compliance strategy.

In June and July of 2010, two proposed rules were published. The first proposed rule, known as the Transport Rule (a replacement for the Clean Air Interstate Rule), would substantially reduce power plant emissions of NO_x and SO₂ starting in 2012, with additional reductions in 2014, and would impose new limitations on emissions allowance trading. The second proposal relates to the handling of coal combustion wastes.

For further discussion, see "EME Homer City Generation L.P. Notes to Financial Statements—Note 7. Commitments and Contingencies—Contingencies—Environmental Developments."

RESULTS OF OPERATIONS

Summary

The table below summarizes total revenues as well as key performance measures related to Homer City's coal-fired generation.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Operating Revenues (in millions)	\$ 129	\$ 161	\$ 304	\$ 326
Statistics				
Generation (in GWh)	2,289	3,025	5,243	5,683
Equivalent availability	64.5%	90.5%	72.3%	83.7%
Capacity factor	55.5%	73.4%	63.9%	69.3%
Load factor	86.0%	81.1%	88.4%	82.8%
Forced outage rate	14.1%	7.0%	12.1%	9.5%
Average realized energy price/MWh	\$ 48.78	\$ 46.24	\$ 49.57	\$ 51.29
Capacity revenue only (in millions)	\$ 29	\$ 18	\$ 58	\$ 30
Average fuel costs/MWh	\$ 25.08	\$ 20.91	\$ 24.23	\$ 22.36

Statistical Definitions and Non-GAAP Disclosures

- The equivalent availability factor is defined as the number of MWh the coal plants are available to generate electricity divided by the product of the capacity of the coal plants (in MW) and the number of hours in the period. Equivalent availability reflects the impact of the unit's inability to achieve full load, referred to as derating, as well as outages which result in a complete unit shutdown. The coal plants are not available during periods of planned and unplanned maintenance.
- The capacity factor is defined as the actual number of MWh generated by the coal plants divided by the product of the capacity of the coal plants (in MW) and the number of hours in the period.
- The load factor is determined by dividing capacity factor by the equivalent availability factor.
- The forced outage rate refers to unplanned maintenance outages and forced deratings.
- The average realized energy price is presented as an aid in understanding the operating results of the Homer City facilities. Average realized energy price is a non-GAAP performance measure since such statistical measure excludes unrealized gains or losses recorded as operating revenues. Management believes that the average realized energy price is meaningful for investors as this information reflects the impact of hedge contracts at the time of actual generation in period-over-period comparisons or as compared to real-time market prices.

The average realized energy price reflects the average price at which energy is sold into the market including the effects of hedges, real-time and day-ahead sales and PJM fees and ancillary services. It is determined by dividing (i) operating revenue less unrealized gains (losses) and other non-energy related

revenue by (ii) generation as shown in the table below. Revenue related to capacity sales is excluded from the calculation of average realized energy price.

(in millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Operating revenues	\$ 129	\$ 161	\$ 304	\$ 326
Less:				
Unrealized (gains) losses	12	(5)	14	(5)
Capacity and other revenues	(29)	(17)	(58)	(30)
Realized revenues	\$ 112	\$ 139	\$ 260	\$ 291
Generation (in GWh)	2,289	3,025	5,243	5,683
Average realized energy price/MWh	\$ 48.78	\$ 46.24	\$ 49.57	\$ 51.29

Seasonal Disclosure

Due to fluctuations in electric demand resulting from warmer weather during the summer months and cold weather during the winter months, electric revenues from the Homer City facilities normally vary substantially on a seasonal basis. In addition, maintenance outages generally are scheduled during periods of lower projected electric demand (spring and fall), further reducing generation and increasing major maintenance costs which are recorded as an expense when incurred. Accordingly, earnings from the Homer City facilities are seasonal and have significant variability from quarter to quarter. Seasonal fluctuations may also be affected by changes in market prices. For further discussion regarding market prices, see “Market Risk Exposures—Commodity Price Risk—Energy Price Risk.”

Operating Revenues

Operating revenues decreased \$32 million and \$22 million in the second quarter and six months ended June 30, 2010, respectively, compared to the corresponding periods of 2009. The second quarter and year-to-date decreases were attributable to lower energy revenues primarily due to lower generation and higher unrealized losses related to hedge contracts, partially offset by higher capacity revenues. The Homer City facilities experienced increased forced outages in 2010 compared to 2009 due to opacity-related deratings.

Included in operating revenues were unrealized gains (losses) from hedging activities of \$(12) million and \$5 million for the second quarters of 2010 and 2009, respectively, and \$(14) million and \$5 million for the six months ended June 30, 2010 and 2009, respectively. Unrealized gains (losses) in 2010 and 2009 were primarily attributable to the ineffective portion of forward and futures contracts which are derivatives that qualify as cash flow hedges. The ineffective portion of hedge contracts was attributable to changes in the difference between energy prices at the PJM West Hub (the settlement point under forward contracts) and the energy prices at the Homer City busbar (the delivery point where power generated by the Homer City facilities is delivered into the transmission system). For more information regarding forward market prices and unrealized gains (losses), see “Market Risk Exposures—Commodity Price Risk” and “Results of Operations—Derivative Instruments,” respectively.

Operating Expenses

Operating expenses increased \$16 million and \$25 million for the second quarter and six months ended June 30, 2010, respectively, compared to the corresponding periods of 2009. Fuel expenses decreased \$6 million for the second quarter ended June 30, 2010, compared to the corresponding period of 2009. Fuel expenses remained the same for the six months ended June 30, 2010 and 2009. Homer City had lower coal consumption as a result of lower generation for both the second quarter and six months ended June 30, 2010, as compared to the corresponding periods of 2009, which was offset by higher coal costs. The net cost of emission allowances included in fuel expenses was \$1 million during each of the second quarters of 2010 and 2009, and \$5 million and \$8 million during the six months ended June 30, 2010 and 2009, respectively.

Plant operations expenses increased \$20 million and \$23 million for the second quarter and six months ended June 30, 2010, respectively, compared to the corresponding periods of 2009. The increases were attributable to higher scheduled plant maintenance and overhaul related expenses due to the deferral of plant outages in 2009. Scheduled plant maintenance for 2010 was substantially completed in the second quarter.

Other Income (Expense)

Interest expense increased \$1 million in the six months ended June 30, 2010, compared to the corresponding period of 2009. Interest expense primarily relates to the lease financing of the Homer City facilities. Interest expense also included \$10 million in each of the second quarters of 2010 and 2009, and \$19 million and \$17 million for the six months ended June 30, 2010 and 2009, respectively, related to Homer City's subordinated revolving loan agreement with Edison Mission Finance Co. Homer City had higher long-term debt balances during 2010 as compared to 2009 on the subordinated revolving loan agreement.

Provision (Benefit) for Income Taxes

Homer City had effective income tax provision (benefit) rates during the six months ended June 30, 2010 and 2009 of (72)% and 37%, respectively. Homer City's effective income tax rate varies from the federal statutory rate of 35% primarily due to state income taxes and estimated benefits from a federal deduction related to qualified domestic production activities under Section 199 of the Internal Revenue Code.

New Accounting Guidance

For a discussion of new accounting guidance affecting Homer City, see "EME Homer City Generation L.P. Notes to Financial Statements—Note 1. Summary of Significant Accounting Policies—New Accounting Guidance."

Derivative Instruments

Unrealized Gains and Losses

Homer City classifies unrealized gains and losses from derivative instruments (other than the effective portion of derivatives that qualify for hedge accounting) as part of operating revenues. The results of

derivative activities are recorded as part of cash flows from operating activities on the statements of cash flows. The following table summarizes unrealized gains (losses):

(in millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Non-qualifying hedges	\$ —	\$ 1	\$ —	\$ —
Ineffective portion of cash flow hedges	(12)	4	(14)	5
Total unrealized gains (losses)	\$ (12)	\$ 5	\$ (14)	\$ 5

At June 30, 2010, cumulative unrealized gains of \$1 million were recognized from non-qualifying hedge contracts or the ineffective portion of cash flow hedges related to subsequent periods in 2010.

Fair Value Disclosures

In determining the fair value of Homer City’s derivative positions, Homer City uses third-party market pricing where available. For further explanation of the fair value hierarchy and a discussion of Homer City’s derivative instruments, see “EME Homer City Generation L.P. Notes to Financial Statements—Note 2. Fair Value Measurements” and “—Note 3. Derivative Instruments and Risk Management,” respectively, and refer to “Fair Value of Derivative Instruments” in Item 7 on page 43 of Homer City’s annual report on Form 10-K for the year ended December 31, 2009.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flow

At June 30, 2010, Homer City had cash and cash equivalents of \$96 million, compared to \$121 million at December 31, 2009. Net cash provided by operating activities decreased \$53 million in the first six months of 2010, compared to the first six months of 2009. The 2010 decrease was primarily due to a net loss in 2010 and interest payments made on the subordinated revolving loan during the first six months of 2010, as compared to no interest payments made during the first six months of 2009.

Net cash used in financing activities increased \$13 million in the first six months of 2010, compared to the first six months of 2009. During the first six months of 2010, Homer City borrowed \$7 million, net less on its affiliate subordinated revolving loan agreement and paid \$6 million more of lease financing payments, as compared to the corresponding period of 2009.

Net cash used in investing activities increased \$7 million in the first six months of 2010, compared to the first six months of 2009. During the first six months of 2010, Homer City had capital expenditures of \$12 million, as compared to \$16 million during the corresponding period of 2009. In addition, during the first six months of 2009, Homer City had a \$10 million reduction in restricted deposits.

Homer City's usage of cash generated from operations is restricted by the sale-leaseback agreements.

Capital Expenditures and Lease Covenants

At June 30, 2010, the forecasted capital expenditures through 2012 by Homer City were as follows:

(in millions)	July through December 2010	2011	2012
Plant capital expenditures	\$ 8	\$ 52	\$ 24
Environmental expenditures ¹	1	3	22
Total	\$ 9	\$ 55	\$ 46

¹ Excludes amounts that may become required under environmental regulations for future operations. For further information, see "EME Homer City Generation L.P. Notes to Financial Statements—Note 7. Commitments and Contingencies—Contingencies—Environmental Developments—Transport Rule" and "—Contingencies—New Source Review Notice of Violation."

Estimated plant capital expenditures relate to non-environmental projects such as upgrades to boiler and turbine controls, replacement of major boiler components and main power transformer replacement. Estimated environmental expenditures relate to emission monitoring and control projects. Homer City plans to fund these expenditures with cash on hand or cash generated from operations. In addition, Homer City may receive funds under its subordinated revolving loan. For further discussion of environmental regulations, refer to "Environmental Matters and Regulations" in Item 1 on page 13 of Homer City's annual report on Form 10-K for the year ended December 31, 2009.

Under the participation agreements entered into as part of the sale-leaseback transaction, Homer City's ability to enter into specified transactions and to engage in specified business activities, including financing and investment activities, is subject to significant restrictions. These restrictions could affect, and in some cases significantly limit or prohibit, its ability to, among other things, merge, consolidate or sell its assets, create liens on its properties or assets, enter into non-permitted trading activities, enter into transactions with its affiliates, incur indebtedness, create, incur, assume or suffer to exist

guarantees or contingent obligations, make restricted payments to its partners, make capital expenditures, own subsidiaries, liquidate or dissolve, engage in non-permitted business activities, sublease its leasehold interests in the facilities or make improvements to the facilities. Accordingly, Homer City's liquidity is substantially based on its ability to generate cash flow from operations. If Homer City is unable to generate cash flow from operations necessary to meet its obligations, Homer City will have limited ability to obtain additional capital unless its partners provide additional funding, which they are under no legal obligation to do.

The rent payments that Homer City owes under the sale-leaseback agreements are comprised of two components, a senior rent portion and an equity rent portion. The senior rent is used exclusively for debt service to the holders of the senior secured bonds issued in connection with the sale-leaseback transaction, while the equity rent is paid to the owner-lessors. In order to pay the equity portion of the rent, among other requirements, Homer City is required to meet historical and projected senior rent service coverage ratios of 1.7 to 1 subject to reduction to 1.3 to 1 under circumstances specified in the participation agreements. During the 12 months ended June 30, 2010, the senior rent service coverage ratio was 2.53 to 1. Homer City was in compliance with the historical and projected senior rent service coverage ratios. The senior rent service coverage ratio is determined by dividing net cash flow as defined in the participation agreements by the senior rent due in that period. The sale-leaseback documentation does not permit the owner-lessor to terminate the lease in the event of non-payment of the equity portion of the rent while the lease debt is outstanding.

Homer City's use of cash in its bank accounts is limited to specific operating and capital expenditures as set forth in the security deposit agreement executed as part of the sale-leaseback transaction. The amount in certain reserve accounts will be available for payments due on the equity portion of lease rent during specified periods, and in accordance with the sale-leaseback documents, unless there is a default in the payment of the senior portion of lease rent, in which case the amount will be available to pay such senior portion of the lease rent. The release of funds from these restricted cash accounts is permitted, provided Homer City maintains specified reserve balances in accordance with the sale-leaseback documents, no event of default shall have occurred or be continuing and no two failed rent payments shall have occurred. Homer City had \$20 million included in restricted deposits at June 30, 2010 related to these reserve accounts.

Payments Made Under Subordinated Revolving Loan and Tax Payments

The following table summarizes the payments by Homer City under its subordinated revolving loan with Edison Mission Finance Co., a subsidiary of EME, that constitute permitted distributions pursuant to the terms of the sale-leaseback transaction and any payments made pursuant to tax-allocation agreements.

(in millions)	Six Months Ended June 30,	
	2010	2009
Payment of interest	\$ 19	\$ —
Payment of principal	3	—
Subordinated revolving loan payments	22	—
Tax payments under tax-allocation agreements	—	—
Total payments	\$ 22	\$ —

Credit Ratings

Homer City has entered into a contract with EMMT for the sale of energy and capacity from its facilities, which enables this marketing affiliate to engage in forward sales and hedging. For a discussion of the effect of EMMT's credit rating on Homer City's ability to sell forward the output of the Homer City facilities through EMMT, refer to "Credit Ratings" in Item 7 on page 46 of Homer City's annual report on Form 10-K for the year ended December 31, 2009.

Contractual Obligations and Contingencies

Fuel Supply Contracts

For a discussion of fuel supply contracts, see "EME Homer City Generation L.P. Notes to Financial Statements—Note 7. Commitments and Contingencies—Commitments—Fuel Supply Contracts."

New Source Review Notice of Violation

For a discussion of the New Source Review Notice of Violation, see "EME Homer City Generation L.P. Notes to Financial Statements—Note 7. Commitments and Contingencies—Contingencies—New Source Review Notice of Violation."

Environmental Matters and Regulations

For a discussion of Homer City's environmental matters, refer to "Environmental Matters and Regulations" in Item 1 on page 13 of Homer City's annual report on Form 10-K for the year ended December 31, 2009. There have been no significant developments with respect to environmental matters specifically affecting Homer City since the filing of Homer City's annual report, except as set forth in "EME Homer City Generation L.P. Notes to Financial Statements—Note 7. Commitments and Contingencies—Contingencies—Environmental Developments."

MARKET RISK EXPOSURES

For a detailed discussion of Homer City's market risk exposures, including commodity price risk, credit risk and interest rate risk, refer to "Market Risk Exposures" in Item 7 on page 49 of Homer City's annual report on Form 10-K for the year ended December 31, 2009.

Commodity Price Risk

Energy Price Risk

Energy and capacity from the Homer City facilities are sold under terms, including price, duration and quantity, arranged by EMMT with customers through a combination of bilateral agreements (resulting from negotiations or from auctions), forward energy sales and spot market sales. Power is sold into PJM at spot prices based upon locational marginal pricing. Hedging transactions related to generation at the Homer City facilities are generally entered into at the PJM West Hub. This trading hub has been the most liquid locations for hedging purposes.

The following table depicts the average historical market prices for energy per megawatt-hour for the first six months of 2010 and 2009:

	24-Hour Average Historical Market Prices ¹	
	2010	2009
PJM West Hub	\$ 43.88	\$ 41.40
Homer City Busbar	38.28	38.01

¹ Energy prices were calculated at the Homer City busbar (delivery point) and the PJM West Hub using historical hourly real-time prices as published by PJM or provided on the PJM web site.

The following table sets forth the forward market prices for energy per megawatt-hour as quoted for sales into the PJM West Hub at June 30, 2010:

	24-Hour Forward Energy Prices ¹ PJM West Hub
2010	
July	\$ 53.39
August	52.04
September	42.66
October	40.15
November	41.16
December	44.25
2011 calendar "strip" ²	\$ 45.54

¹ Energy prices were determined by obtaining broker quotes and information from other public sources relating to the PJM West Hub delivery point.

² Market price for energy purchases for the entire calendar year.

Forward market prices at the PJM West Hub fluctuate as a result of a number of factors, including natural gas prices, transmission congestion, changes in market rules, electricity demand (which in turn

is affected by weather, economic growth, and other factors), plant outages in the region, and the amount of existing and planned power plant capacity. The actual spot prices for electricity delivered by the Homer City facilities into these markets may vary materially from the forward market prices set forth in the preceding table.

EMMT engages in hedging activities for the Homer City facilities to hedge the risk of future change in the price of electricity. The following table summarizes Homer City's hedge positions (including load-serving transactions and forward contracts accounted for on the accrual basis) as of June 30, 2010 for electricity expected to be generated during the remainder of 2010 and in 2011 and 2012:

	2010	2011	2012
MWh (in thousands)	2,474	2,163	1,020
Average price/MWh ¹	\$ 71.43	\$ 51.37	\$ 51.17

¹ The above hedge positions include forward contracts for the sale of power during different periods of the year and the day. Market prices tend to be higher during on-peak periods and during summer months, although there is significant variability of power prices during different periods of time. Accordingly, the above hedge positions are not directly comparable to the 24-hour PJM West Hub prices set forth above.

Capacity Price Risk

The following table summarizes the status of capacity sales for Homer City at June 30, 2010:

	Installed Capacity MW	Unsold Capacity ¹ MW	Capacity Sold MW	RPM Capacity Sold in Base Residual Auction		Other Capacity Sales, Net of Purchases ²		Aggregate Average Price per MW-day
				MW	Price per MW-day	MW	Average Price per MW-day	
July 1, 2010 to May 31, 2011	1,884	(211)	1,673	1,813	\$ 174.29	(140)	\$ 55.36	\$ 184.24
June 1, 2011 to May 31, 2012	1,884	(113)	1,771	1,771	110.00	—	—	110.00
June 1, 2012 to May 31, 2013	1,884	(148)	1,736	1,736	133.37	—	—	133.37
June 1, 2013 to May 31, 2014	1,884	(104)	1,780	1,780	226.15	—	—	221.03 ³

¹ Capacity not sold arises from: (i) capacity retained to meet forced outages under the RPM auction guidelines, and (ii) capacity that PJM does not purchase at the clearing price resulting from the RPM auction.

² Other capacity sales and purchases, net includes contracts executed in advance of the RPM base residual auction to hedge the price risk related to such auction, participation in RPM incremental auctions and other capacity transactions entered into to manage capacity risks.

³ Includes the impact of a 100 MW capacity swap transaction executed prior to the base residual auction at \$135 MW-day.

Basis Risk

During the six months ended June 30, 2010 and 2009, transmission congestion in PJM has resulted in prices at the Homer City busbar being lower than those at the PJM West Hub by an average of 13% and 8%, respectively.

Coal Price Risk

The Homer City facilities purchase coal primarily from mines located near the facilities in Pennsylvania. Coal purchases are made under a variety of supply agreements. The following table summarizes the

amount of coal under contract at June 30, 2010 for the remainder of 2010 and the following three years:

	July through December 2010	2011	2012	2013
Amount of Coal Under Contract in Millions of Equivalent Tons ¹	2.5	4.2	1.7	0.5

¹ The amount of coal under contract in tons is calculated based on contracted tons and applying a 13,000 Btu equivalent.

Homer City is subject to price risk for purchases of coal that are not under contract. Prices of Northern Appalachian (NAPP) coal, which are related to the price of coal purchased for the Homer City facilities, increased during 2010 from 2009 year-end prices. The market price of NAPP coal (with 13,000 Btu per pound heat content and <3.0 pounds of SO₂ per MMBtu sulfur content) increased to a price of \$62.75 per ton at July 2, 2010, compared to a price of \$52.50 per ton at December 31, 2009, as reported by the Energy Information Administration.

Emission Allowances Price Risk

Homer City purchases (or sells) emission allowances for the Homer City facilities based on the amounts required for actual generation in excess of (or less than) the amounts allocated to these facilities under applicable programs. In the event that actual emission allowances required are greater than allowances held, Homer City is subject to price risk for purchases of emission allowances. The market price for emission allowances may vary significantly. The average purchase price of SO₂ allowances was \$49 per ton during the six months ended June 30, 2010. Based on broker's quotes and information from public sources, the spot price for SO₂ allowances was \$15 per ton at June 30, 2010. Homer City did not make any emission allowance purchases in 2009.

For a discussion of environmental regulations related to emissions, refer to "Environmental Matters and Regulations" in Item 1 on page 13 of Homer City's annual report on Form 10-K for the year ended December 31, 2009.

Credit Risk

Homer City derives a significant source of its operating revenues from electric power sold into the PJM market by EMMT. Sales into PJM accounted for approximately 69% of Homer City's operating revenues for the six months ended June 30, 2010. PJM, a regional transmission organization (RTO) with over 300 member companies, maintains its own credit risk policies and does not extend unsecured credit to non-investment grade companies. Losses resulting from a PJM member default are shared by all other members using a predetermined formula.

For the six months ended June 30, 2010, Constellation Energy Commodities Group, Inc., accounted for 19% of Homer City's operating revenues and consisted of energy sales under forward contracts. The contracts with Constellation are guaranteed by Constellation Energy Group, Inc. At June 30, 2010, EMMT's account receivable due from Constellation was \$11 million.

Interest Rate Risk

Homer City has mitigated the risk of interest rate fluctuations by obtaining fixed rate financing on its subordinated revolving loan with Edison Mission Finance. Homer City does not believe that interest rate fluctuations will have a material adverse effect on its financial position or results of operations.

CRITICAL ACCOUNTING ESTIMATES AND POLICIES

For a discussion of Homer City's critical accounting policies, refer to "Critical Accounting Policies and Estimates" in Item 7 on page 55 of Homer City's annual report on Form 10-K for the year ended December 31, 2009.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

For a discussion of market risk sensitive instruments, refer to "Fair Value of Derivative Instruments" on page 43 and "Market Risk Exposures" on page 49 in Item 7 of Homer City's annual report on Form 10-K for the year ended December 31, 2009. For an update to that disclosure, see "Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations—Derivative Instruments—Fair Value Disclosures" and "—Market Risk Exposures."

ITEM 4T. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Homer City's management, under the supervision and with the participation of the partnership's principal executive officer and principal financial officer, has evaluated the effectiveness of Homer City's disclosure controls and procedures (as that term is defined in Rules 13a-15(e) or 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of the end of the period covered by this report. Based on that evaluation, the principal executive officer and principal financial officer have concluded that, as of the end of the period, Homer City's disclosure controls and procedures are effective.

Internal Control Over Financial Reporting

There were no changes in Homer City's internal control over financial reporting (as that term is defined in Rules 13a-15(f) or 15d-15(f) under the Exchange Act) during the period to which this report relates that have materially affected, or are reasonably likely to materially affect, Homer City's internal control over financial reporting.

PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

For a discussion of Homer City’s legal proceedings, refer to “Item 3. Legal Proceedings” on page 30 of Homer City’s annual report on Form 10-K for the year ended December 31, 2009. There have been no significant developments with respect to legal proceedings specifically affecting Homer City since the filing of Homer City’s annual report on Form 10-K for the year ended December 31, 2009, except as follows:

New Source Review Notice of Violation

Recent Developments

In May 2010, Homer City received an NOV from the US EPA. The new NOV alleges claims similar to those in the 2008 NOV, but it adds nonattainment New Source Review requirements to the alleged PSD violations. It also adds two prior owners of the Homer City facilities as parties.

In July 2010, Homer City received a 60-day Notice of Intent to Sue signed by the State of New York and the PADEP, stating their intent to file a citizen suit based on the same or similar theories advanced by the US EPA in the NOV. The Notice of Intent to Sue also named the sale-leaseback owner participants of the Homer City facilities, Homer City’s general partner and limited partner, and two prior owners of the Homer City facilities.

ITEM 1A. RISK FACTORS

For a discussion of the risks, uncertainties, and other important factors which could materially affect Homer City’s business, financial condition, or future results, refer to “Item 1A. Risk Factors” on page 22 of Homer City’s annual report on Form 10-K for the year ended December 31, 2009. The risks described in Homer City’s annual report on Form 10-K and in this report are not the only risks facing Homer City. Additional risks and uncertainties that are not currently known, or that are currently deemed to be immaterial, also may materially adversely affect Homer City’s business, financial condition or future results.

ITEM 6. EXHIBITS

Exhibit No.	Description
31.1	Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act.
31.2	Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act.
32	Statement Pursuant to 18 U.S.C. Section 1350.
101	Financial statements from the quarterly report on Form 10-Q of EME Homer City Generation L.P. for the quarter ended June 30, 2010, filed on August 5, 2010, formatted in XBRL: (i) the Statements of Income (Loss), (ii) the Statements of Comprehensive Income (Loss), (iii) the Balance Sheets, (iv) the Statements of Partners’ Equity, (v) the Statements of Cash Flows, and (vi) the Notes to Financial Statements tagged as blocks of text.

