
**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 March 31, 2011

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 May 2, 2011: Not applicable.

TABLE OF CONTENTS

GLOSSARY	iv
PART I – FINANCIAL INFORMATION	1
ITEM 1. FINANCIAL STATEMENTS	1
STATEMENTS OF OPERATIONS	1
STATEMENTS OF COMPREHENSIVE INCOME (LOSS)	2
BALANCE SHEETS	3
STATEMENTS OF PARTNERS’ EQUITY	4
STATEMENTS OF CASH FLOWS	5
NOTES TO FINANCIAL STATEMENTS	6
Note 1. Summary of Significant Accounting Policies	6
Basis of Presentation	6
Cash Equivalents	6
New Accounting Guidance	6
Accounting Guidance Adopted in 2011	6
<i>Fair Value Measurements and Disclosures</i>	6
Note 2. Fair Value Measurements	6
Valuation Techniques used to Determine Fair Value	7
Level 1	7
Level 2	7
Level 3	8
Long-term Debt	8
Note 3. Derivative Instruments and Hedging Activities	8
Notional Volumes of Derivative Instruments	9
Fair Value of Derivative Instruments	10
Income Statement Impact of Derivative Instruments	10
Note 4. Income Taxes	11
Note 5. Compensation and Benefit Plans	11
Pension Plans and Postretirement Benefits Other Than Pensions	11
Pension Plans	11
Postretirement Benefits Other Than Pensions	11
Note 6. Commitments and Contingencies	12
Commitments	12
Fuel Supply Contracts	12
Capital Expenditures	12
Guarantees and Indemnities	12
Environmental Indemnity Related to the Homer City Plant	12
Indemnities Provided under Sale-Leaseback Agreement	12
Contingencies	13
New Source Review Lawsuit	13
Ash Disposal Site	13
Insurance	14
Note 7. Environmental Developments	14
Note 8. Accumulated Other Comprehensive Income (Loss)	15

Note 9. Supplemental Cash Flows Information	15
ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS	16
MANAGEMENT'S OVERVIEW	17
Highlights of Operating Results	17
Homer City Outage	18
US EPA Developments	18
RESULTS OF OPERATIONS	19
Summary	19
Reconciliation of Non-GAAP Disclosures and Statistical Definitions	19
Average Realized Energy Price	19
Statistical Definitions	20
Seasonality	20
Operating Income	20
Income Taxes	21
New Accounting Guidance	21
LIQUIDITY AND CAPITAL RESOURCES	22
Liquidity	22
Bonus Depreciation Impact	22
Capital Investment Plan	22
Cash Flow	23
Credit Ratings	23
Overview	23
Credit Rating of EMMT	23
Payments Made Under Subordinated Revolving Loan and Tax Payments	23
Key Ratio Affecting Distributions	24
Contractual Obligations and Contingencies	24
Fuel Supply Contracts	24
New Source Review Lawsuit	24
Environmental Matters and Regulations	24
MARKET RISK EXPOSURES	25
Derivative Instruments	25
Unrealized Gains and Losses	25
Fair Value Disclosures	25
Commodity Price Risk	25
Energy Price Risk	25
Capacity Price Risk	27
Basis Risk	27
Coal Price Risk	27
Emission Allowances Price Risk	28

Credit Risk	28
Interest Rate Risk	28
CRITICAL ACCOUNTING ESTIMATES AND POLICIES	28
ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK . . .	29
ITEM 4. CONTROLS AND PROCEDURES	29
Disclosure Controls and Procedures	29
Internal Control Over Financial Reporting	29
PART II – OTHER INFORMATION	30
ITEM 1. LEGAL PROCEEDINGS	30
ITEM 1A. RISK FACTORS	30
ITEM 6. EXHIBITS	30
SIGNATURES	31

GLOSSARY

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

Btu	British thermal units
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
GWh	gigawatt-hours
MD&A	Management's Discussion and Analysis of Financial Condition and Results of Operations
MMBtu	million British thermal units
Moody's	Moody's Investors Service, Inc.
MW	megawatts
MWh	megawatt-hours
PADEP	Pennsylvania Department of Environmental Protection
PJM	PJM Interconnection, LLC
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 OPERATIONS

(in millions, unaudited)

	Three Months Ended March 31,	
	2011	2010
Operating Revenues from Marketing Affiliate	\$ 115	\$ 175
Operating Expenses		
Fuel	52	70
Plant operations	47	38
Depreciation and amortization	17	16
Administrative and general	2	1
Total operating expenses	118	125
Operating income (loss)	(3)	50
Other Income (Expense)		
Interest expense	(31)	(32)
Total other expense	(31)	(32)
Income (loss) before income taxes	(34)	18
Provision (benefit) for income taxes	(14)	7
Net Income (Loss)	\$ (20)	\$ 11

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 March 31,	
	2011	2010
Net Income (Loss)	\$ (20)	\$ 11
Other comprehensive income, net of tax		
Unrealized gains (losses) on derivatives qualified as cash flow hedges		
Unrealized holding gains arising during period, net of income tax expense of \$1 and \$17 for the three months ended March 31, 2011 and 2010, respectively	4	24
Reclassification adjustments included in net income (loss), net of income tax benefit of \$2 and \$8 for the three months ended March 31, 2011 and 2010, respectively	(3)	(11)
Other comprehensive income	1	13
Comprehensive Income (Loss)	\$ (19)	\$ 24

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

EME HOMER CITY GENERATION L.P.

BALANCE SHEETS

(in millions, unaudited)

	March 31, 2011	December 31, 2010
Assets		
Current Assets		
Cash and cash equivalents	\$ 147	\$ 132
Due from affiliates	9	—
Fuel inventory	83	76
Spare parts inventory	32	33
Deferred taxes	5	2
Derivative assets	11	8
Intangible assets	23	29
Other current assets	11	10
Total current assets	321	290
Property, plant and equipment, less accumulated depreciation of \$626 and \$609 at respective dates	1,617	1,630
Deferred taxes	114	117
Restricted deposits	27	27
Long-term intangible assets	21	15
Total Assets	\$ 2,100	\$ 2,079
Liabilities and Partners' Equity		
Current Liabilities		
Accounts payable	\$ 36	\$ 20
Accrued liabilities	15	10
Due to affiliates	27	50
Interest payable	42	21
Interest payable to affiliate	19	9
Current portion of lease financing	79	79
Total current liabilities	218	189
Long-term debt to affiliate	489	479
Lease financing, net of current portion	1,006	1,006
Benefit plans and other long-term liabilities	54	53
Long-term derivative liabilities	6	6
Total Liabilities	1,773	1,733
Commitments and Contingencies (Notes 6 and 7)		
Partners' Equity	327	346
Total Liabilities and Partners' Equity	\$ 2,100	\$ 2,079

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, 2010	\$ 345	\$ 1	\$ 346
Net loss	(20)	—	(20)
Other comprehensive income	1	—	1
Balance at March 31, 2011	\$ 326	\$ 1	\$ 327

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

EME HOMER CITY GENERATION L.P.

STATEMENTS OF CASH FLOWS

(in millions, unaudited)

	Three Months Ended March 31,	
	2011	2010
Cash Flows From Operating Activities		
Net income (loss)	\$ (20)	\$ 11
Adjustments to reconcile income (loss) to net cash provided by operating activities:		
Depreciation and amortization	17	17
Deferred taxes	—	(4)
Increase in due to/from affiliates	(32)	(4)
Increase in inventory	(6)	(8)
(Increase) decrease in other current assets	(1)	1
Increase in accounts payable and other current liabilities	21	20
Increase in interest payable	31	32
Increase in other liabilities	1	2
(Increase) decrease in derivative assets and liabilities	(3)	2
Net cash provided by operating activities	8	69
Cash Flows From Financing Activities		
Borrowings on long-term obligation to affiliate	10	21
Net cash provided by financing activities	10	21
Cash Flows From Investing Activities		
Capital expenditures	(3)	(7)
Net cash used in investing activities	(3)	(7)
Net increase in cash and cash equivalents	15	83
Cash and cash equivalents at beginning of period	132	121
Cash and cash equivalents at end of period	\$ 147	\$ 204

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

EME HOMER CITY GENERATION L.P.
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2011
(Unaudited)

Note 1. Summary of Significant Accounting Policies

Basis of Presentation

EME Homer City Generation L.P.'s (Homer City's) significant accounting policies were described in "Note 1—Summary of Significant Accounting Policies" on page 52 of Homer City's annual report on Form 10-K for the year ended December 31, 2010. Homer City follows the same accounting policies for interim reporting purposes, with the exception of accounting principles adopted as of January 1, 2011 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 three months ended March 31, 2011 are not necessarily indicative of the operating results for the full year.

The December 31, 2010 condensed balance sheet data was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America.

Cash Equivalents

Cash equivalents included money market funds totaling \$41 million and \$31 million at March 31, 2011 and December 31, 2010, respectively. The carrying value of cash equivalents equals the fair value as all investments have maturities of less than three months.

New Accounting Guidance

Accounting Guidance Adopted in 2011

Fair Value Measurements and Disclosures

The Financial Accounting Standards Board (FASB) issued an accounting standards update modifying the disclosure requirements related to fair value measurements. Under these requirements, purchases and settlements for Level 3 fair value measurements are presented on a gross basis, rather than net. Homer City adopted this guidance effective January 1, 2011.

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 of an asset or a liability should consider assumptions that market participants would use in pricing the asset or liability, including assumptions about nonperformance risk. The fair value of derivative assets' nonperformance risk was not material as of March 31, 2011 and December 31, 2010.

Homer City categorizes financial assets and liabilities into a fair value hierarchy based on valuation inputs used to derive fair value. 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 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)	March 31, 2011				
	Level 1	Level 2	Level 3	Netting ¹	Total
Assets at Fair Value					
Money market funds ²	\$ 41	\$ —	\$ —	\$ —	\$ 41
Electricity contracts	—	9	—	2	11
Liabilities at Fair Value					
Electricity contracts	\$ —	\$ 4	\$ —	\$ 2	\$ 6
December 31, 2010					
Assets at Fair Value					
Money market funds ²	\$ 31	\$ —	\$ —	\$ —	\$ 31
Electricity contracts	—	5	—	3	8
Liabilities at Fair Value					
Electricity contracts	\$ —	\$ 3	\$ —	\$ 3	\$ 6

¹ 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.

² Money market funds are included in cash and cash equivalents on Homer City's balance sheets.

Homer City determines the fair value of transfers in and out of each level at the end of each reporting period. There were no significant transfers between levels during the first quarters of 2011 and 2010.

Valuation Techniques used to Determine Fair Value

Level 1

Level 1 includes assets and liabilities where unadjusted quoted prices in active markets are available at the measurement date for identical assets and liabilities. Financial assets and liabilities classified as Level 1 include exchange-traded derivatives and money market funds.

Level 2

Level 2 pricing inputs 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. Financial assets and liabilities utilizing Level 2 inputs include over-the-counter derivatives.

Derivative contracts that are over-the-counter traded are valued using pricing models and are generally classified as Level 2. Inputs to the pricing models include forward published or posted clearing prices from exchanges (New York Mercantile Exchange and Intercontinental Exchange) for similar instruments and discount rates. Forward market prices are developed based on the source that best

represents trade activity in each market. 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 believed to provide the most liquid market for the commodity. Broker quotes are incorporated when corroborated with other information which may include a combination of prices from exchanges, other brokers, and comparison to executed trades.

Level 3

Level 3 includes financial assets and liabilities where fair value is determined using techniques that require significant unobservable inputs. Over-the-counter options, bilateral contracts, capacity contracts, qualifying facilities contracts, derivative contracts that trade infrequently (such as financial transmission rights and over-the-counter derivatives at illiquid locations), long-term power agreements, and derivative contracts with counterparties that have significant nonperformance risks are classified as Level 3. In circumstances where Edison Mission Marketing & Trading, Inc. (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.

For derivative contracts that trade infrequently (illiquid financial transmission rights), changes in fair value are based on the hypothetical sale of illiquid positions. Objective criteria are reviewed, including system congestion and other underlying drivers and fair value is adjusted when it is concluded that a change in objective criteria would result in a new valuation that better reflects fair value. For illiquid long-term power agreements, fair value is based upon a discounting of future electricity and natural gas prices derived from a proprietary model using the risk free discount rate for a similar duration contract, adjusted for credit risk and market liquidity. Changes in fair value are based on changes to forward market prices, including forecasted prices for illiquid forward periods. The fair value of the majority of Homer City's derivatives that are classified as Level 3 is determined using uncorroborated non-binding broker quotes and models that may require EMMT to extrapolate short-term observable inputs in order to calculate fair value. Broker quotes are obtained from several brokers and compared against each other for reasonableness.

Long-term Debt

The carrying amount of Homer City's subordinated loan with an affiliate was \$489 million at March 31, 2011 and \$479 million at December 31, 2010. 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 plant.

The carrying amount of trade receivables and payables approximates fair value.

Note 3. Derivative Instruments and Hedging Activities

Homer City uses derivative instruments to reduce its exposure to market risks that arise from price fluctuations of electricity, capacity, fuel, emission allowances, and transmission rights. The derivative financial instruments vary in duration, ranging from a few days to several years, depending upon the instrument. 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 on the statements of operations. For derivative instruments that qualify for hedge accounting 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 (loss) until the related forecasted transaction occurs. The results of derivative activities are recorded in cash flows from operating activities on the statements of cash flows.

Where Homer City's derivative instruments are subject to a master netting agreement and the criteria of authoritative guidance are met, Homer City presents its derivative assets and liabilities on a net basis on its balance sheets.

Notional Volumes of Derivative Instruments

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

March 31, 2011					
Commodity	Instrument	Classification	Unit of Measure	Cash Flow Hedges	Economic Hedges
Electricity	Forwards/Futures	Sales	GWh	2,252 ¹	6,846 ³
Electricity	Forwards/Futures	Purchases	GWh	—	7,272 ³
Electricity	Capacity	Sales	MW-Day (in thousands)	40 ²	—
Electricity	Capacity	Purchases	MW-Day (in thousands)	21 ²	—
Electricity	Congestion	Sales	GWh	—	136 ⁴
Electricity	Congestion	Purchases	GWh	—	285 ⁴

December 31, 2010					
Commodity	Instrument	Classification	Unit of Measure	Cash Flow Hedges	Economic Hedges
Electricity	Forwards/Futures	Sales	GWh	2,767 ¹	8,845 ³
Electricity	Forwards/Futures	Purchases	GWh	—	8,865 ³
Electricity	Capacity	Sales	MW-Day (in thousands)	44 ²	—
Electricity	Capacity	Purchases	MW-Day (in thousands)	8 ²	—
Electricity	Congestion	Sales	GWh	—	136 ⁴
Electricity	Congestion	Purchases	GWh	—	503 ⁴

¹ Homer City's hedge products include forward and futures contracts that qualify for hedge accounting. This category excludes power contracts for the Homer City plant which meet the normal purchases and sales exception and are accounted for on the accrual method.

² Homer City's hedge transactions for capacity result from bilateral trades. Capacity sold in the PJM Reliability Pricing Model (RPM) auction is not accounted for as a derivative.

³ 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.

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:

March 31, 2011

(in millions)	Derivative Assets			Derivative Liabilities			Net Assets
	Short-term	Long-term	Subtotal	Short-term	Long-term	Subtotal	
Cash flow hedges	\$ 11	\$ —	\$ 11	\$ 2	\$ 6	\$ 8	\$ 3
Economic hedges	37	—	37	35	—	35	2
	48	—	48	37	6	43	5
Netting ¹	(37)	—	(37)	(37)	—	(37)	—
Total	\$ 11	\$ —	\$ 11	\$ —	\$ 6	\$ 6	\$ 5

December 31, 2010

Cash flow hedges	\$ 11	\$ —	\$ 11	\$ 4	\$ 6	\$ 10	\$ 1
Economic hedges	51	—	51	50	—	50	1
	62	—	62	54	6	60	2
Netting ¹	(54)	—	(54)	(54)	—	(54)	—
Total	\$ 8	\$ —	\$ 8	\$ —	\$ 6	\$ 6	\$ 2

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 information about the changes in the fair value of cash flow hedges, to the extent effective, and reclassification from accumulated other comprehensive income into results of operations:

(in millions)	Cash Flow Hedge Activity ¹ Three Months Ended March 31,		Income Statement Location
	2011	2010	
Accumulated other comprehensive income derivative gain at January 1	\$ 7	\$ 66	
Effective portion of changes in fair value	5	41	
Reclassification from accumulated other comprehensive income to net income	(5)	(19)	Operating revenues
Accumulated other comprehensive income derivative gain at March 31	\$ 7	\$ 88	

¹ Unrealized derivative gains are before income taxes. The after-tax amounts recorded in accumulated other comprehensive income at March 31, 2011 and 2010 were \$4 million and \$51 million, respectively.

For additional information related to accumulated other comprehensive income, see Note 8—Accumulated Other Comprehensive Income (Loss).

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 of \$1 million during each of the first quarters of 2011 and 2010 in operating revenues on the statements of operations representing the amount of cash flow hedge ineffectiveness.

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

(in millions)	Income Statement Location	Three Months Ended March 31,	
		2011	2010
Economic hedges	Operating revenues	\$ 4	\$ (3)

Note 4. Income Taxes

Homer City had an effective income tax rate of 41% and 39% for the first quarters of 2011 and 2010, respectively. Homer City's effective income tax rate varies from the federal statutory rate of 35% due to state income taxes.

Note 5. Compensation and Benefit Plans

Pension Plans and Postretirement Benefits Other Than Pensions

Pension Plans

Contributions to Homer City's pension plans were \$0.4 million during the quarter ended March 31, 2011, and Homer City estimates \$2.2 million in contributions for the remainder of 2011.

The following were components of pension expense:

(in millions)	Three Months Ended March 31,	
	2011	2010
Service cost	\$ 0.4	\$ 0.4
Interest cost	0.5	0.5
Expected return on plan assets	(0.5)	(0.4)
Total expense	\$ 0.4	\$ 0.5

Postretirement Benefits Other Than Pensions

Contributions to Homer City's postretirement benefits other than pensions were \$0.2 million during the quarter ended March 31, 2011, and Homer City estimates \$0.6 million in contributions for the remainder of 2011.

The following were components of postretirement benefits expense:

(in millions)	Three Months Ended March 31,	
	2011	2010
Service cost	\$ 0.2	\$ 0.1
Interest cost	0.5	0.4
Amortization of prior service credit	(0.1)	(0.1)
Amortization of unrecognized net loss	0.1	0.1
Total expense	\$ 0.7	\$ 0.5

Note 6. Commitments and Contingencies

Commitments

Fuel Supply Contracts

At March 31, 2011, Homer City had commitments to purchase coal from third-party suppliers at fixed prices, subject to adjustment clauses. These commitments are estimated to aggregate \$390 million, summarized as follows: \$220 million for the remainder of 2011, \$121 million in 2012 and \$49 million in 2013.

Capital Expenditures

At March 31, 2011, Homer City had firm commitments to spend approximately \$3 million for capital expenditures during the remainder of 2011 related to non-environmental improvements. Homer City intends to fund these expenditures with cash generated from operations.

Guarantees and Indemnities

Environmental Indemnity Related to the Homer City Plant

In connection with the acquisition of the Homer City plant, 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 plant, Homer City agreed to indemnify the lessors for specified environmental liabilities. Due to the nature of the obligations under these indemnity provisions, they are not subject to a maximum potential liability and do not have expiration dates. For a discussion of the New Source Review lawsuit filed against Homer City, see “—Contingencies—New Source Review Lawsuit.” Homer City has not recorded a liability related to this indemnity.

Indemnities Provided under Sale-Leaseback Agreement

In connection with the sale-leaseback transaction related to the Homer City plant, Homer City and its indirect parent, Edison Mission Energy (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 these potential obligations, 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.

Contingencies

New Source Review Lawsuit

In January 2011, the United States Environmental Protection Agency (US EPA) filed a complaint in the Western District of Pennsylvania against Homer City, the sale-leaseback owner participants of the Homer City plant, and two prior owners of the Homer City plant. The complaint alleges violations of the Prevention of Significant Deterioration (PSD) and Title V provisions of the Clean Air Act (CAA) and its implementing regulations, including requirements contained in the Pennsylvania State Implementation Plan (SIP), as a result of projects in the 1990s performed by prior owners without PSD permits and the subsequent failure to incorporate emissions limitations that meet best available control technology (BACT) into the station's Title V operating permit. In addition to seeking penalties ranging from \$32,500 to \$37,500 per violation, per day, the complaint calls for an injunction ordering Homer City to install controls sufficient to meet BACT emissions rates at all units subject to the complaint; to obtain new PSD or New Source Review permits for those units; to amend its applications under Title V of the CAA; to conduct audits of its operations to determine whether any additional modifications have occurred; and to offset and mitigate the harm to public health and the environment caused by the alleged CAA violations. Pennsylvania Department of Environmental Protection (PADEP), the State of New York and the State of New Jersey have intervened in the lawsuit.

Also in January 2011, two residents filed a complaint in the Western District of Pennsylvania, on behalf of themselves and all others similarly situated, against Homer City, the sale-leaseback owner participants of the Homer City plant, two prior owners of the Homer City plant, EME, and Edison International, claiming that emissions from the Homer City plant had adversely affected their health and property values. The plaintiffs seek to have their suit certified as a class action and request injunctive relief, the funding of a health assessment study and medical monitoring, compensatory and punitive damages.

In April 2011, Homer City filed motions to dismiss both complaints. An adverse decision could involve penalties, remedial actions and damages that could have a material adverse impact on the financial condition and results of operations of Homer City. Homer City cannot predict the outcome of these matters or estimate the impact on its facilities, its results of operations, financial position or cash flows.

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. Some of the insurers providing Homer City's insurance do not meet the minimum ratings required under the participation agreements. 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.

Note 7. Environmental Developments

In March 2011, the US EPA issued draft "National Emission Standards for Hazardous Air Pollutants," limiting emissions of hazardous air pollutants (HAPs) from coal- and oil-fired electrical generating units. The regulations are expected to be finalized by November 2011. The proposed standards, like the pending Clean Air Transport Rule, will require additional reductions in and controls for sulfur dioxide (SO₂) emissions.

In March 2011, the US EPA issued draft standards under the federal Clean Water Act which would affect cooling water intake structures at generating facilities. The standards are intended to protect aquatic organisms by reducing capture in screens attached to cooling water intake structures (impingement) and in the water volume brought into the facilities (entrainment). The regulations are expected to be finalized by July 2012. Homer City is still evaluating the proposed standards but believes, from a preliminary review, that compliance with the proposed standards will be achievable without incurring material additional capital expenditures or operating costs.

Note 8. Accumulated Other Comprehensive Income (Loss)

Accumulated other comprehensive income (loss) consisted of the following:

(in millions)	Unrealized Gains on Cash Flow Hedges	Unrecognized Losses and Prior Service Adjustments, Net ¹	Accumulated Other Comprehensive Loss
Balance at December 31, 2010	\$ 3	\$ (5)	\$ (2)
Current period change	1	—	1
Balance at March 31, 2011	\$ 4	\$ (5)	\$ (1)

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

Unrealized gains on cash flow hedges, net of tax, at March 31, 2011, 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 \$6 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 revenues 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 May 31, 2014.

Note 9. Supplemental Cash Flows Information

(in millions)	Three Months Ended March 31,	
	2011	2010
Cash paid		
Income taxes	\$ 1	\$ —

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

This quarterly report on Form 10-Q 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;
- 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 adopted by independent system operators and regional transmission organizations;
- 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;
- 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;

- 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 16 of Homer City's annual report on Form 10-K for the year ended December 31, 2010. Readers are urged to read this entire quarterly report on Form 10-Q and the annual report on Form 10-K for the year ended December 31, 2010, including the information incorporated by reference, and to 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, 2010, and as compared to the first quarter ended March 31, 2010. 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, 2010.

MANAGEMENT'S OVERVIEW

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 and related facilities located near Pittsburgh, Pennsylvania with an aggregate capacity of 1,884 MW. The profitability of Homer City is expected to be significantly lower in 2011 as a result of lower realized energy prices driven by the expiration of hedge contracts, higher fuel costs and unplanned outages at the Homer City plant during the first quarter. For discussion of energy and fuel price risks, see "Market Risk Exposures—Commodity Price Risk" and refer to "Item 1A. Risk Factors—Market Risks" on page 17 of Homer City's annual report on Form 10-K for the year ended December 31, 2010. As a result, Homer City may incur net losses during 2011 and in subsequent years unless energy prices recover or its costs decline.

Highlights of Operating Results

Homer City's first quarter 2011 net loss was \$20 million, compared to \$11 million net income in the first quarter of 2010. The decrease in earnings of \$31 million was primarily due to lower generation resulting from the Unit 1 and 2 unplanned outages. Unit 1 returned to service in early April, and Unit 2 is expected to return to service in the second quarter of 2011.

Homer City Outage

On February 10, 2011, a steam pipe ruptured at Unit 1 of the Homer City plant, taking the unit off line. Homer City took Unit 2 off line, which has the same design and operating conditions, to further evaluate the equipment due to the risk of a similar failure. On April 5, 2011, Unit 1 returned to service after making needed repairs, including replacing all pipes similar to the ruptured pipe. Unit 2 is undergoing similar repairs and is expected to return to service in the second quarter of 2011.

The unplanned outages at Units 1 and 2 and the continuation of low power prices have impacted Homer City's liquidity. As a result, in order to have sufficient working capital available for operating expenses and to pay the equity portion of Homer City's rent payment that was due April 1, 2011 to the owner-lessors, Homer City had to defer certain fuel deliveries, arrange for accelerated payments by EMMT for future energy deliveries under an intercompany arrangement in place between EMMT and Homer City, and draw \$12 million from the \$20 million equity rent reserve established under its sale-leaseback transaction documents. Homer City must restore the equity rent reserve account and continue to make equity rent payments in order to be entitled to make future distributions. The advance payments made and currently anticipated in April are expected to total approximately \$30 million. It is currently anticipated that all such amounts will be applied against amounts invoiced by EMMT under an intercompany arrangement within the next six months, but the actual rate at which such advance payments will be applied will depend upon prevailing power prices and other factors. To further stabilize Homer City's liquidity, effective April 1, 2011, EMMT assigned to Homer City the benefit of an arrangement that allows EMMT to deliver power into the NYISO from Homer City. Accordingly, effective April 1, 2011, these revenues will now be recorded as part of Homer City's revenues in lieu of their prior classification as EMMT trading revenues. EMMT realized trading revenues of \$28 million under this arrangement in 2010.

The actions described above also resulted in Homer City being in compliance with the covenant requirements under the sale-leaseback documents at March 31, 2011. Under these documents, the rent payments 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 certain circumstances).

For additional information, see "Liquidity and Capital Resources—Payments Made Under Subordinated Revolving Loan and Tax Payments—Key Ratio Affecting Distributions" and refer to "Liquidity Risks" on page 19 of Homer City's annual report on Form 10-K for the year ended December 31, 2010.

US EPA Developments

For information regarding recent developments in environmental regulations, see "EME Homer City Generation L.P. Notes to Financial Statements—Note 7. Environmental Developments."

RESULTS OF OPERATIONS

Summary

The table below summarizes total revenues as well as key performance measures related to coal-fired generation, which represents the majority of Homer City's operations.

	Three Months Ended March 31,	
	2011	2010
Operating Revenues (in millions)	\$ 115	\$ 175
Statistics		
Generation (in GWh)	1,943	2,954
Equivalent availability	59.2%	80.2%
Capacity factor	47.8%	72.4%
Load factor	80.7%	90.3%
Forced outage rate	27.1%	10.4%
Average realized energy price/MWh	\$ 45.31	\$ 50.17
Capacity revenues only (in millions)	\$ 24	\$ 29
Average fuel costs/MWh	\$ 26.96	\$ 23.57

Reconciliation of Non-GAAP Disclosures and Statistical Definitions

Average Realized Energy Price

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 revenues less unrealized gains (losses) and other non-energy related revenues by (ii) generation as shown in the table below. Revenues related to capacity sales are excluded from the calculation of average realized energy price.

(in millions)	Three Months Ended March 31,	
	2011	2010
Operating revenues	\$ 115	\$ 175
Less:		
Unrealized (gains) losses	(2)	2
Capacity and other revenues	(25)	(29)
Realized revenues	\$ 88	\$ 148
Generation (in GWh)	1,943	2,954
Average realized energy price/MWh	\$ 45.31	\$ 50.17

The average realized energy price is presented as an aid in understanding the operating results of the Homer City plant. 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.

Statistical Definitions

- 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 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.
- The capacity factor indicates how much power a unit generated compared to the maximum amount of power that could be generated according to its rating. It 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 indicates how much power a unit generated compared to the maximum amount of power that a unit was available to generate electricity. It is determined by dividing capacity factor by the equivalent availability factor.
- The forced outage rate refers to forced outages and deratings excluding events outside of management's control as defined by NERC. Examples include floods, tornado damage and transmission outages.

Seasonality

Due to fluctuations in electric demand resulting from warm weather during the summer months and cold weather during the winter months, electric revenues from the Homer City plant 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 plant 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 Income

Operating income from the Homer City plant decreased \$53 million for the first quarter of 2011, compared to the first quarter of 2010. The 2011 decrease in operating income was attributable to lower energy revenues, driven by lower generation, and higher plant maintenance costs from unplanned outages at Units 1 and 2, partially offset by lower fuel costs. The decline in fuel costs was primarily due to lower generation, partially offset by higher coal costs. Included in fuel costs were \$0.3 million and \$4 million related to the net cost of emission allowances during the first quarters of 2011 and 2010, respectively.

Included in operating revenues were unrealized gains (losses) from hedge activities of \$2 million and \$(2) million for the first quarters of 2011 and 2010, respectively. Unrealized gains (losses) were attributable to both economic hedge contracts that are accounted for at fair value with offsetting changes recorded on the statements of operations and the ineffective portion of forward and futures contracts which are derivatives that qualify as cash flow hedges. The ineffective portion of hedge contracts at Homer City was attributable to changes in the difference between energy prices at 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 plant is delivered into the transmission system).

Income Taxes

Homer City had an effective income tax rate of 41% and 39% for the first quarters of 2011 and 2010, respectively. Homer City's effective income tax rate varies from the federal statutory rate of 35% due to state income taxes.

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."

LIQUIDITY AND CAPITAL RESOURCES

Liquidity

The use of Homer City's cash generated from operations is restricted by the sale-leaseback agreements. For a discussion of the impact of Homer City's outages on liquidity, see "Management's Overview."

Bonus Depreciation Impact

The Small Business Jobs Act of 2010 and the Tax Relief, Unemployment Insurance Reauthorization and Job Creation Act of 2010 (2010 Tax Relief Act) extended 50% bonus depreciation for qualifying property through 2012 and created a new 100% bonus depreciation for qualifying property placed in service between September 9, 2010 and December 31, 2011. Subject to updated Internal Revenue Service regulations clarifying the definitions of capital expenditures that qualify for 100% bonus depreciation, Homer City's capital expenditures are expected to qualify, accelerating federal tax deductions in 2010 and 2011.

Capital Investment Plan

At March 31, 2011, forecasted capital expenditures through 2013 by Homer City were as follows:

(in millions)	April through December 2011	2012	2013
Plant capital expenditures	\$ 13	\$ 26	\$ 16
Environmental expenditures	—	—	—
Total	\$ 13	\$ 26	\$ 16

Plant capital expenditures relate to non-environmental projects such as upgrades to boiler and turbine controls, replacement of major boiler components, development of a coal-cleaning plant refuse site and a new ash disposal site, and main power transformer replacement. 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.

The capital investment plan set forth in the previous table does not include environmental capital expenditures for Homer City. However, depending on upcoming and future regulatory developments, Homer City may be required to undertake capital projects to install additional pollution control equipment, which will be dependent on lessor decisions and on obtaining available funding for these expenditures. Homer City projects that if SO₂ reduction technology becomes required, it may need to make capital commitments for such equipment several years in advance of the effective date of such requirements. Homer City continues to review technologies available to reduce SO₂ and mercury emissions and to monitor developments related to hazardous pollutants and other environmental regulations. The timing, selection of technology and required capital costs remain uncertain. 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, and Homer City may need third-party capital to fund such activities in order to continue operating, the availability of which cannot be assured. EME has no legal obligation to provide funding. Accordingly, final decisions on whether to install controls, to install particular kinds of controls, and to actually expend capital have not been made. For a discussion of environmental regulations, refer to "Item 1. Environmental Matters and Regulations" on page 10 and "Regulatory and

Environmental Risks” on page 16 of Homer City’s annual report on Form 10-K for the year ended December 31, 2010.

Cash Flow

At March 31, 2011, Homer City had cash and cash equivalents of \$147 million compared to \$132 million at December 31, 2010. Net cash provided by operating activities decreased \$61 million in the first quarter of 2011, compared to the first quarter of 2010. The 2011 decrease was primarily due to a net loss in 2011 compared to net income in 2010 and lower energy prepayments by EMMT due to lower market energy prices in March 2011 as compared to December 2010.

Net cash provided by financing activities decreased \$11 million in the first quarter of 2011, compared to the first quarter of 2010, due to lower borrowings under the affiliate subordinated revolving loan agreement.

Net cash used in investing activities decreased \$4 million in the first quarter of 2011 compared to the first quarter of 2010 due to lower capital expenditures.

Credit Ratings

Overview

Homer City is not currently rated. Credit ratings for EME and EMMT as of March 31, 2011 were as follows:

	Moody’s Rating	Standard & Poor’s Rating	Fitch Rating
EME ¹	B3	B-	B-
EMMT	Not Rated	B-	Not Rated

¹ Senior unsecured rating.

All the above ratings are on negative outlook. Homer City cannot provide assurance that the current credit ratings above will remain in effect for any given period of time or that one or more of these ratings will not be lowered. Homer City notes that these credit ratings are not recommendations to buy, sell or hold securities and may be revised at any time by a rating agency.

Credit Rating of EMMT

For a discussion of the effect of EMMT’s credit rating on Homer City’s ability to sell forward the output of its plant through EMMT, refer to “Credit Ratings” in Item 7 on page 32 of Homer City’s annual report on Form 10-K for the year ended December 31, 2010.

Payments Made Under Subordinated Revolving Loan and Tax Payments

During the first quarters of 2011 and 2010, Homer City did not make any payments 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 or any payments made pursuant to tax-allocation agreements.

Key Ratio Affecting Distributions

Set forth below is the key ratio required under the lease covenants contained in Homer City's sale-leaseback agreements for the 12 months ended March 31, 2011:

<u>Financial Ratio</u>	<u>Covenant</u>	<u>Actual</u>
Senior Rent Service Coverage Ratio	Greater than 1.7 to 1	1.87 to 1

To pay dividends, Homer City must meet the senior rent service coverage ratio. In addition, Homer City is restricted from paying dividends until the Homer City equity reserve account is replenished. For additional information, see "Management's Overview—Homer City Outage."

For a more detailed description of the restrictions binding Homer City refer to "Capital Expenditures and Lease Covenants" in Item 7 on page 29 of Homer City's annual report on Form 10-K for the year ended December 31, 2010.

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 6. Commitments and Contingencies—Commitments—Fuel Supply Contracts."

New Source Review Lawsuit

For a discussion of the New Source Review Lawsuit, see "EME Homer City Generation L.P. Notes to Financial Statements—Note 6. Commitments and Contingencies—Contingencies—New Source Review Lawsuit."

Environmental Matters and Regulations

For a discussion of Homer City's environmental matters, refer to "Environmental Matters and Regulations" in Item 1 on page 10 of Homer City's annual report on Form 10-K for the year ended December 31, 2010. 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. 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 34 of Homer City's annual report on Form 10-K for the year ended December 31, 2010.

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 following table summarizes unrealized gains (losses):

(in millions)	Three Months Ended March 31,	
	2011	2010
Non-qualifying hedges	\$ 1	\$ —
Ineffective portion of cash flow hedges	1	(2)
Total unrealized gains (losses)	\$ 2	\$ (2)

At March 31, 2011, cumulative unrealized losses of \$2 million were recognized from non-qualifying hedge contracts or the ineffective portion of cash flow hedges related to subsequent periods (\$1 million for the remainder of 2011 and \$1 million for 2012).

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 Hedging Activities," respectively.

Commodity Price Risk

Energy Price Risk

Energy and capacity from the Homer City plant 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 plant are generally entered into at the PJM West Hub.

The following table depicts the quarterly average historical market prices for energy per megawatt-hour at the locations indicated for the first quarters of 2011 and 2010:

	24-Hour Average Historical Market Prices ¹	
	2011	2010
PJM West Hub	\$ 45.77	\$ 44.53
Homer City Busbar	41.47	39.33

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 March 31, 2011:

	24-Hour Forward Energy Prices ¹ PJM West Hub
2011	
April	\$ 40.01
May	39.74
June	43.44
July	48.86
August	50.28
September	42.66
October	40.65
November	41.65
December	45.92
2012 calendar “strip” ²	\$ 46.20

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 plant 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 plant to hedge the risk of future change in the price of electricity. The following table summarizes Homer City’s hedge positions (including load

requirements services contracts and forward contracts accounted for on the accrual basis) at March 31, 2011 for electricity expected to be generated during the remainder of 2011 and in 2012 and 2013:

	2011	2012	2013
MWh (in thousands)	632	1,020	204
Average price/MWh ^{1,2}	\$ 62.35	\$ 51.17	\$ 51.85

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.

² The average price/MWh includes 182 to 191 MW of capacity for periods ranging from April 1, 2011 to May 31, 2012 sold in conjunction with load requirements services contracts.

Capacity Price Risk

The following table summarizes the status of capacity sales for Homer City at March 31, 2011:

	Installed Capacity MW	Unsold Capacity ¹ MW	Capacity Sold ² MW	RPM Capacity Sold in Base Residual Auction		Other Capacity Sales, Net of Purchases ³		Aggregate Average Price per MW-day
				MW	Price per MW-day	MW	Average Price per MW-day	
April 1, 2011 to May 31, 2011	1,884	(261)	1,623	1,813	\$ 174.29	(190)	\$ 53.95	\$ 188.38
June 1, 2011 to May 31, 2012	1,884	(163)	1,721	1,771	110.00	(50)	30.00	112.32
June 1, 2012 to May 31, 2013	1,884	(232)	1,652	1,736	133.37	(84)	16.46	139.31
June 1, 2013 to May 31, 2014	1,884	(104)	1,780	1,780	226.15	—	—	221.03 ⁴

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 Excludes 182 to 191 MW of capacity for periods ranging from April 1, 2011 to May 31, 2012 sold in conjunction with load requirements services contracts.

³ 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.

⁴ Includes the impact of a 100 MW capacity swap transaction executed prior to the base residual auction at \$135 per MW-day.

Basis Risk

During the three months ended March 31, 2011 and 2010, prices at the Homer City busbar were lower than the PJM West Hub by an average of 9% and 12%, respectively, due to transmission congestion in PJM.

Coal Price Risk

The Homer City plant purchases 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 March 31, 2011 for the remainder of 2011 and the following two years:

	April through December 2011	2012	2013
Amount of Coal Under Contract in Millions of Equivalent Tons ¹	3.5	1.9	0.8

¹ The amount of coal under contract in equivalent 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 plant, increased during 2011 from 2010 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 \$76.15 per ton at April 1, 2011, compared to a price of \$70 per ton at December 31, 2010, as reported by the Energy Information Administration.

Emission Allowances Price Risk

The federal Acid Rain Program requires electric generating stations to hold SO₂ allowances sufficient to cover their annual emissions. Pursuant to Pennsylvania's implementation of the Clean Air Interstate Rule (CAIR), coal plants are required to hold seasonal and annual nitrogen oxide (NO_x) allowances.

In the event that actual emissions 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 decreased to \$10 per ton during the first quarter of 2011 from \$50 per ton in 2010. Based on broker's quotes and information from public sources, the spot price for SO₂ allowances was \$5 per ton at March 31, 2011.

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 93% of Homer City's operating revenues for the three months ended March 31, 2011.

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 Estimates and Policies" in Item 7 on page 39 of Homer City's annual report on Form 10-K for the year ended December 31, 2010.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

For a discussion of market risk sensitive instruments, refer to “Market Risk Exposures” on page 34 in Item 7 of Homer City’s annual report on Form 10-K for the year ended December 31, 2010. For an update to that disclosure, see “Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations—Market Risk Exposures.”

ITEM 4. 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 concluded that, as of the end of the period, Homer City’s disclosure controls and procedures were 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 “Contingencies” on page 80 of Homer City’s annual report on Form 10-K for the year ended December 31, 2010. 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, 2010.

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 16 of Homer City’s annual report on Form 10-K for the year ended December 31, 2010. 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 President 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 March 31, 2011, filed on May 2, 2011, formatted in XBRL: (i) the Statements of Operations, (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.

