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, 2006

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 is a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of "accelerated filer" and "large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☒

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 8, 2006: Not applicable.

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PART I – FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

EME HOMER CITY GENERATION L.P.
STATEMENTS OF INCOME (LOSS)
(In thousands, Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
Operating Revenues from Marketing Affiliate				
Energy revenues	$ 143,369	$ 133,178	$ 277,056	$ 287,893
Capacity revenues	3,511	5,029	6,135	9,263
Other revenues	253	169	502	201
Gains (losses) from price risk management	947	(2,256)	(12,961)	(4,084)
Total operating revenues	148,080	136,120	270,732	293,273
Operating Expenses				
Fuel	69,148	60,063	129,476	123,793
Gain on sale of emission allowances	—	—	(1,342)	—
Plant operations	28,054	36,478	63,356	59,072
Depreciation and amortization	14,813	15,923	29,630	31,744
Administrative and general	1,437	1,351	2,593	1,912
Total operating expenses	113,452	113,815	223,713	216,521
Operating income	34,628	22,305	47,019	76,752
Other Income (Expense)				
Interest and other income	14,830	428	16,272	1,437
Gain on disposal of assets	(128)	1	(128)	24
Interest expense	(36,438)	(37,145)	(71,892)	(74,050)
Total other expense	(21,736)	(36,716)	(55,748)	(72,589)
Income (loss) before income taxes	12,892	(14,411)	(8,729)	4,163
Provision (benefit) for income taxes	4,158	(6,265)	(4,904)	1,861
Net Income (Loss)	$ 8,734	$ (8,146)	$ (3,825)	$ 2,302

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

EME HOMER CITY GENERATION L.P.
STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(In thousands, Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
Net Income (Loss)	$ 8,734	$ (8,146)	$ (3,825)	$ 2,302
Other comprehensive income (loss), net of tax:				
Unrealized gains (losses) on derivatives qualified as cash flow hedges:				
Other unrealized holding gains (losses) arising during period, net of income tax expense (benefit) of $12,424 and $4,924 for the three months and $89,807 and $(16,932) for the six months ended June 30, 2006 and 2005, respectively	17,018	6,004	123,011	(20,648)
Reclassification adjustments included in net income (loss), net of income tax expense (benefit) of $(6,284) and $(950) for the three months and $4,472 and $815 for the six months ended June 30, 2006 and 2005, respectively	8,608	1,158	(6,125)	(994)
Other comprehensive income (loss)	25,626	7,162	116,886	(21,642)
Comprehensive Income (Loss)	$ 34,360	$ (984)	$ 113,061	$ (19,340)

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

EME HOMER CITY GENERATION L.P.
BALANCE SHEETS
(In thousands, Unaudited)

	June 30, 2006	December 31, 2005
Assets		
Current Assets		
Cash and cash equivalents	$ 111,318	$ 60,248
Fuel inventory	63,504	37,351
Spare parts inventory	24,762	24,616
Deposits under lease swap agreement	—	44,329
Assets under price risk management	50,454	35,755
Deferred taxes	12,248	75,516
Other current assets	20,722	9,428
Total current assets	283,008	287,243
Property, Plant and Equipment	2,143,116	2,140,400
Less accumulated depreciation and amortization	323,364	289,472
Net property, plant and equipment	1,819,752	1,850,928
Deferred taxes	65,432	74,674
Restricted cash	47,124	47,124
Trust deposits	157	157
Long-term assets under price risk management	9,890	1,116
Total Assets	$2,225,363	$2,261,242
Liabilities and Partners' Equity (Deficit)		
Current Liabilities		
Accounts payable	$ 9,005	$ 10,117
Accrued liabilities	25,477	24,835
Due to affiliates	131,709	150,109
Interest payable	25,721	33,510
Interest payable to affiliates	27,738	8,679
Advances under lease swap agreement	16,745	—
Liabilities under price risk management	69,744	213,898
Current portion of lease financing	49,788	47,000
Total current liabilities	355,927	488,148
Long-term debt to affiliate	507,793	438,840
Lease financing, net of current portion	1,259,932	1,309,720
Benefit plans and other	38,564	36,303
Long-term liabilities under price risk management	15,375	53,520
Total Liabilities	2,177,591	2,326,531
Commitments and Contingencies (Note 4)		
Partners' Equity (Deficit)	47,772	(65,289)
Total Liabilities and Partners' Equity (Deficit)	$2,225,363	$2,261,242

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

EME HOMER CITY GENERATION L.P.
STATEMENTS OF PARTNERS' EQUITY (DEFICIT)
(In thousands, Unaudited)

	Chestnut Ridge Energy Company	Mission Energy Westside Inc.	Total Partners' Equity (Deficit)
Balance at December 31, 2005	$ (66,044)	$ 755	$ (65,289)
Net loss	(3,821)	(4)	(3,825)
Other comprehensive income	116,769	117	116,886
Balance at June 30, 2006	$ 46,904	$ 868	$ 47,772

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

EME HOMER CITY GENERATION L.P.
STATEMENTS OF CASH FLOWS
(In thousands, Unaudited)

	Six Months Ended June 30, 2006	Six Months Ended June 30, 2005
Cash Flows From Operating Activities		
Net income (loss)	$ (3,825)	$ 2,302
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	29,630	31,744
Deferred taxes	(12,825)	(15,886)
Gain on sale of emission allowances	(1,342)	—
Gain on asset disposal	128	(24)
Decrease in due to/from affiliates	41,753	1,022
Increase in inventory	(26,300)	(8,188)
Decrease (increase) in other assets	(11,294)	2,617
Increase (decrease) in accounts payable	(1,112)	8,803
Increase in accrued liabilities	642	11,856
Increase (decrease) in interest payable	11,270	(21,349)
Increase in other liabilities	2,262	1,422
Increase (decrease) in net liabilities under price risk management	(3,552)	22,734
Net cash provided by operating activities	25,435	37,053
Cash Flows From Financing Activities		
Advances under lease swap agreement	61,074	58,618
Borrowings from affiliates	8,800	—
Borrowings on long-term obligations from affiliates	—	1,325
Repayments on debt obligations from affiliates	—	(12,161)
Repayments of lease financing	(47,000)	(40,622)
Net cash provided by financing activities	22,874	7,160
Cash Flows From Investing Activities		
Capital expenditures	(6,772)	(12,923)
Proceeds from sale of assets	—	24
Proceeds from sale of emission allowances	5,633	—
Proceeds from settlement claim	3,900	—
Increase in restricted cash	—	(5)
Net cash provided by (used in) investing activities	2,761	(12,904)
Net increase in cash and cash equivalents	51,070	31,309
Cash and cash equivalents at beginning of period	60,248	74,246
Cash and cash equivalents at end of period	$ 111,318	$ 105,555

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

EME HOMER CITY GENERATION L.P.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006
(Unaudited)

Note 1. General

In the opinion of management, all adjustments, including recurring accruals, have been made that are necessary to fairly state the financial position, results of operations and cash flows for the periods covered by this quarterly report on Form 10-Q. The results of operations for the six months ended June 30, 2006 are not necessarily indicative of the operating results for the full year.

EME Homer City Generation L.P.'s (EME Homer City's) significant accounting policies are described in Note 2 to its financial statements as of December 31, 2005 and 2004, included in its annual report on Form 10-K for the year ended December 31, 2005. EME Homer City follows the same accounting policies for interim reporting purposes. This quarterly report should be read in connection with such financial statements. Terms used but not defined in this report are defined in EME Homer City's annual report on Form 10-K for the year ended December 31, 2005.

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

Note 2. Accumulated Other Comprehensive Income (Loss)

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

	Unrealized Gains (Losses) on Cash Flow Hedges	Accumulated Other Comprehensive Income (Loss)
	(in thousands)	
Balance at December 31, 2005	$ (107,052)	$ (107,052)
Current period change	116,886	116,886
Balance at June 30, 2006	$ 9,834	$ 9,834

Unrealized gains on cash flow hedges, net of tax, at June 30, 2006, include unrealized gains on commodity hedges primarily related to futures and forward energy sales contracts that qualify for hedge accounting. These gains arise because current forecasts of future electricity prices are lower than EME Homer City's contract prices. The decrease in the unrealized losses during the six months ended June 30, 2006 resulted from a decrease in market prices for power.

As EME Homer City's hedged positions are realized, approximately $6.6 million, after tax, of the net unrealized gains on cash flow hedges at June 30, 2006 are expected to be reclassified into earnings during the next 12 months. Management expects that reclassification of net unrealized gains will offset 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 cash flow hedge is designated is through December 31, 2008.

Under SFAS No. 133, the portion of a cash flow hedge that does not offset the change in value of the transaction being hedged, which is commonly referred to as the ineffective portion, is immediately recognized in earnings. EME Homer City recorded net gains (losses) of $(5.0) million and $0.8 million during the second quarters of 2006 and 2005, respectively, and $(15.8) million and $(3.2) million during the six months ended June 30, 2006 and 2005, respectively, representing the amount of cash flow hedges' ineffectiveness, reflected in gains (losses) from price risk management in the income statements.

Note 3. Employee Benefit Plans

Pension Plans

EME Homer City previously disclosed in its financial statements for the year ended December 31, 2005 that it expected to contribute $1.6 million to its pension plans in 2006. As of June 30, 2006, $0.4 million in contributions have been made. EME Homer City continues to expect to contribute $1.6 million to its pension plans in 2006.

Components of pension expense are:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
	(in thousands)			
Service cost	$ 498	$ 464	$ 995	$ 928
Interest cost	318	293	636	586
Expected return on plan assets	(244)	(213)	(487)	(426)
Net amortization and deferral	9	44	18	89
Total expense	$ 581	$ 588	$ 1,162	$ 1,177

Postretirement Benefits Other Than Pensions

EME Homer City previously disclosed in its financial statements for the year ended December 31, 2005, that it expected to contribute $96,000 to its postretirement benefits other than pensions in 2006. As of June 30, 2006, $24,000 in contributions have been made. EME Homer City continues to expect to contribute $96,000 to its postretirement benefits other than pensions in 2006.

Components of postretirement benefits expense are:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
	(in thousands)			
Service cost	$ 208	$ 179	$ 416	$ 358
Interest cost	286	250	573	501
Amortization of prior service costs	(26)	(26)	(52)	(52)
Amortization of unrecognized loss	67	5	134	10
Total expense	$ 535	$ 408	$ 1,071	$ 817

Note 4. Commitments and Contingencies

Capital Improvements

At June 30, 2006, EME Homer City had firm commitments to spend approximately $1.4 million on capital expenditures during the remainder of 2006, primarily related to ash removal improvements.

Interconnection Agreement

EME Homer City's general partner, Mission Energy Westside, is a party to an interconnection agreement with New York State Electric & Gas Corporation, which EME Homer City refers to as NYSEG, and Pennsylvania Electric Company, an affiliate of FirstEnergy Corp., which EME Homer City refers to as 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, EME Homer City and its indirect parent, Edison Mission Energy (EME), entered into tax indemnity agreements. Under these tax indemnity agreements, EME 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, EME Homer City cannot determine a maximum potential liability. The indemnities would be triggered by a valid claim from the lessors. EME Homer City has not recorded a liability related to these indemnities.

Indemnity Provided as Part of the Acquisition of the Homer City Facilities

In connection with the acquisition of the Homer City facilities, EME Homer City agreed to indemnify the sellers with respect to specific environmental liabilities before and after the date of sale. EME guaranteed the obligations of EME Homer City. 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. Payments would be triggered under this indemnity by a claim from the sellers. EME Homer City has not recorded a liability related to this indemnity.

Ash Disposal Site

EME 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 Pennsylvania Department of Environmental Protection (PADEP). EME Homer City's permit allows it to dispose of coal combustion by-products, including fly ash, bottom ash and pyrites, 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. EME 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 PADEP on a periodic basis. In the event that a disposal facility's groundwater monitoring identifies degradation in any of its wells, 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 EME Homer City that would require the development of an assessment or abatement plan. EME 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. Management does not believe that the costs of maintaining and closing the ash disposal site will have a material impact on EME Homer City's results of operations or financial position.

Insurance

EME Homer City maintains insurance policies that 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 $1.1 billion. Under the terms of the participation agreements entered into as part of EME Homer City's sale-leaseback transaction, EME Homer City is required to maintain specified minimum insurance coverages 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. Due to the current market environment, the minimum insurance coverage is not commercially available at reasonable prices. EME Homer City has obtained a waiver under the participation agreements which permits it to maintain its current insurance coverage through June 1, 2007.

EME 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.

On January 29, 2006, the main power transformer on Unit 3 of the Homer City facilities failed, resulting in a suspension of operations at this unit. EME Homer City secured a replacement transformer and Unit 3 returned to service on May 5, 2006. The main transformer failure will result in claims under EME Homer City's property and business interruption insurance policies. At June 30, 2006, EME Homer City recorded a $16.8 million receivable, of which $10.8 million relates to business interruption insurance coverage and has been reflected in interest and other income in EME Homer City's income statements.

Tax Matters

EME Homer City is, and may in the future be, under examination by tax authorities with respect to positions it takes in connection with the filing of its tax returns. Matters raised upon tax audit may involve substantial amounts, which, if resolved unfavorably, could possibly be material, though EME Homer City does not believe such an unfavorable resolution is likely to occur. EME Homer City believes it is unlikely that the resolution of any such tax audit matters will have a material adverse effect upon EME Homer City's financial condition or results of operations.

On March 31, 2006, EME Homer City entered into an amendment of its tax-allocation agreement with Edison Mission Holdings to provide for the option, at EME Homer City's discretion, to settle Federal and state income tax liabilities under the tax-allocation agreement through an increase in indebtedness under the subordinated revolving loan agreement with Edison Mission Finance. Pursuant to this amendment, EME Homer City elected this option to settle $60.2 million of intercompany tax liabilities through a loan under the subordinated revolving loan agreement with Edison Mission Finance.

Environmental Matters and Regulations

The construction and operation of power plants are subject to environmental regulation by federal, state and local authorities. EME Homer City believes that it is in substantial compliance with environmental regulatory requirements and that maintaining compliance with current requirements will not materially affect its financial position or results of operations. However, possible future developments, such as the promulgation of more stringent environmental laws and regulations, future proceedings that may be initiated by environmental authorities, and settlements agreed to by other companies could affect the costs and the manner in which EME Homer City conducts its business, and may also cause it to make substantial additional capital expenditures. There is no assurance that EME Homer City would be able to recover these increased costs from its customers or that EME Homer City's financial position and results of operations would not be materially adversely affected as a result.

Typically, environmental laws and regulations require a lengthy and complex process for obtaining licenses, permits and approvals prior to construction, operation or modification of a project or generating facility. Meeting all the necessary requirements can delay or sometimes prevent the completion of a proposed project, as well as require extensive modifications to existing projects, which may involve significant capital expenditures. As a result of the sale-leaseback transaction, a number of permits that EME Homer City held have been transferred to the owner lessors. Other permits have been modified so that they are held jointly with the owner lessors. EME Homer City has no reason to believe that these transfers and modifications will negatively affect its business or results of operations. If EME Homer City fails to comply with applicable environmental laws, it may be subject to injunctive relief or penalties and fines imposed by regulatory authorities.

Note 5. Supplemental Statements of Cash Flows Information

	Six Months Ended June 30, 2006	2005
	(in thousands)	
Cash paid		
Interest	$ 60,365	$ 95,188
Income taxes (receipts)	1,610	2,805
Non-cash investing and financing activities		
Non-cash settlement of intercompany tax liabilities through an increase in the subordinated revolving loan agreement	$ 60,154	$ —

Note 6. Related Party Transactions

During March 2006, EME, through its subsidiary, Edison Mission Finance, advanced funds in the amount of $8.8 million to EME Homer City under the subordinated revolving loan agreement in place between Edison Mission Finance and EME Homer City. The funds were used to assist EME Homer City with a cash shortfall resulting from reduced revenues and higher maintenance expenses caused by the Unit 3 outage. For similar reasons, at the end of March 2006 and April 2006, EMMT made advance payments to EME Homer City in the amounts of $43.5 million and $20 million, respectively, against future deliveries of power to it under its trading arrangements with EME Homer City. The proceeds of the subordinated loans were deposited in EME Homer City's operating account and the prepayment by EMMT was deposited in EME Homer City's revenue account. It is currently anticipated that a substantial portion of the advance payments will be applied against amounts invoiced to EMMT within the next 12 months.

Note 7. New Accounting Pronouncements

Statement of Financial Accounting Standards No. 151

In November 2004, the FASB issued SFAS No. 151, "Inventory Costs." SFAS No. 151 requires that abnormal amounts of idle facility expense, freight, handling costs and spoilage be recognized as current-period charges. Further, SFAS No. 151 requires the allocation of fixed production overheads to inventory based on the normal capacity of the production facilities. Unallocated overheads must be recognized as an expense in the period in which they are incurred. SFAS No. 151 is effective for inventory costs incurred beginning in the first quarter of 2006. The adoption of this standard had no impact on EME Homer City's financial statements.

Statement of Financial Accounting Standards No. 123(R)

A new accounting standard requires companies to use the fair value accounting method for stock-based compensation. EME Homer City implemented the new standard in the first quarter of 2006 and applied the modified prospective transition method. Under the modified prospective method, the new accounting standard was applied effective January 1, 2006 to the unvested portion of awards previously granted and will be applied to all prospective awards. Prior financial statements were not restated under this method. The new accounting standard resulted in the recognition of expense for all stock-based compensation awards. Prior to January 1, 2006, EME Homer City used the intrinsic value method of accounting, which resulted in no recognition of expense for Edison International stock options. The adoption of this standard had an insignificant impact on EME Homer City's financial statements.

FASB Staff Position FIN 46(R)-6

In April 2006, the FASB issued Staff Position FIN 46(R)-6, "Determining Variability to be Considered in Applying FIN 46(R)." FIN 46(R)-6 states that the variability to be considered in applying FIN 46(R) shall be based on an analysis of the design of the entity following a two-step process. The first step is to analyze the nature of the risks in the entity. The second step would be to determine the purpose(s) for which the entity was created and determine the variability (created by the risks identified in Step 1) the entity is designed to create and pass along to its interest holders. The guidance in this FASB Staff Position is effective prospectively beginning July 1, 2006, although companies have until December 31, 2006 to elect retrospective applications. EME Homer City has not yet selected a transition method.

Statement of Financial Accounting Standard Interpretation No. 48

In July 2006, the FASB issued Statement of Financial Accounting Standards Interpretation No. 48, "Accounting for Uncertainty in Income Taxes," that clarifies the accounting for uncertain tax positions. An enterprise would be required to recognize, in its financial statements, the best estimate of the impact of a tax position by determining if the weight of the available evidence indicates it is more likely than not, based solely on the technical merits, that the position will be sustained on audit. The effective date applicable to EME Homer City is January 1, 2007. EME Homer City is currently assessing the potential impact of the proposed interpretation on its financial condition.

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

This Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) contains "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. These statements reflect EME Homer City's current expectations and projections about future events based on EME 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 EME 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, or that otherwise could impact EME Homer City, include but are not limited to:

- *supply and demand for electric capacity and energy, and the resulting prices and dispatch volumes in the wholesale markets to which EME Homer City's generating units have access;*
- *the cost and availability of fuel and fuel transportation services;*
- *market volatility and other market conditions that could increase EME Homer City's obligations to post collateral beyond the amounts currently expected, and the potential effect of such conditions on the ability of EME Homer City to provide sufficient collateral in support of its hedging activities and purchases of fuel;*
- *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;*
- *governmental, statutory, regulatory or administrative changes or initiatives affecting EME Homer City or the electricity industry generally, including market structure rules and environmental regulations that could require additional expenditures or otherwise affect EME Homer City's cost and manner of doing business;*
- *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 EME Homer City's generating facilities and/or increased access by competitors to EME Homer City's markets as a result of transmission upgrades;*
- *the difficulty of predicting wholesale prices, transmission congestion, energy demand, and other activities in the complex and volatile markets in which EME Homer City participates;*
- *operating risks, including equipment failure, availability, heat rate and output;*
- *effects of legal proceedings, changes in or interpretations of tax laws, rates or policies, and changes in accounting standards;*
- *general political, economic and business conditions; and*
- *weather conditions, natural disasters and other unforeseen events.*

Additional information about risks and uncertainties, including more detail about the factors described above, is contained throughout this MD&A and in the "Risk Factors" section included in Part I, Item 1A of EME Homer City's Annual Report on Form 10-K for the year ended December 31, 2005. Readers are urged to read this entire quarterly report on Form 10-Q and carefully consider the risks, uncertainties and other *factors that affect EME Homer City's business. Forward-looking statements speak only as of the date they are made, and EME Homer City is not obligated to publicly update or revise forward-looking statements. Readers should review future reports filed by EME 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 EME Homer City since December 31, 2005, and as compared to the second quarter of 2005 and six months ended June 30, 2005. This discussion presumes that the reader has read or has access to the MD&A included in Item 7 of EME Homer City's annual report on Form 10-K for the year ended December 31, 2005.

This MD&A is presented in four sections:

MANAGEMENT'S OVERVIEW; CRITICAL ACCOUNTING ESTIMATES

Management's Overview

Introduction

EME Homer City is a Pennsylvania limited partnership, formed for the purpose of acquiring, owning and operating three coal-fired electric generating units and related facilities located near Pittsburgh, Pennsylvania with an aggregate capacity of 1,884 MW. EME Homer City does not have any plans to purchase or develop new power plants at this time. In December 2001, EME Homer City completed a sale-leaseback transaction of the Homer City facilities to third-party lessors. The sale-leaseback transaction is accounted for as a lease financing for financial reporting purposes.

The energy and capacity from the Homer City facilities are sold under terms, including price and quantity, negotiated by EMMT, an EME subsidiary engaged in the power marketing and trading business, with customers through a combination of bilateral agreements, forward energy sales and spot market sales. See "Market Risk Exposures" for further discussion of forward market prices.

Overview of EME Homer City's Operating Performance

EME Homer City had net income of $8.7 million in the second quarter of 2006, compared to net loss of $8.1 in the second quarter of 2005, and EME Homer City had net loss of $3.8 million for the first six months of 2006, compared to net income of $2.3 million for the first six months of 2005. The second quarter increase in earnings is primarily attributable to higher energy margin (energy revenues less fuel expenses) resulting from higher average energy prices, lower plant operating costs and estimated insurance recovery related to the Unit 3 outage.

The 2006 year-to-date decrease in earnings was primarily attributable to lower energy margin and higher plant operating costs in 2006 due to an unplanned outage at Unit 3 as discussed further below, partially offset by the estimated insurance recovery. EME Homer City is generally classified as a baseload plant, which means the amount of generation is largely based on the availability of the plant. Accordingly, the Unit 3 outage reduced the amount of generation during the first six months of 2006.

Gains (losses) from price risk management activities were $0.9 million and $(13.0) million for the second quarter of 2006 and six months ended June 30, 2006, respectively, compared to $(2.3) million and $(4.1) million for the corresponding periods of 2005. The 2006 year-to-date increase in losses from price risk management activities is primarily attributable to the ineffective portion of cash flow hedges due to higher basis differential 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 facilities is delivered into the transmission system).

Unit 3 Outage

On January 29, 2006, the main power transformer on Unit 3 of the Homer City facilities failed, resulting in a suspension of operations at this unit. EME Homer City secured a replacement transformer and Unit 3 returned to service on May 5, 2006. EME Homer City has adjusted its previously planned outage schedules for Unit 3 and the other Homer City units in order to minimize to the extent practicable overall outage activities for all units through the first half of 2007. Taking into consideration the impact of the outage, generation for the year is currently expected to be approximately 13 TWh. The actual financial impact and generation levels in 2006 will depend on the effect of market conditions upon the dispatch of the plant and on prevailing power prices during the balance of the year.

The main transformer failure will result in claims under EME Homer City's property and business interruption insurance policies. At June 30, 2006, EME Homer City recorded a $16.8 million receivable related to these claims. Resolution of the claims is subject to a number of uncertainties, including computations of the lost profit during the outage period.

During March 2006, EME, through its subsidiary, Edison Mission Finance, advanced funds in the amount of $8.8 million to EME Homer City under the subordinated revolving loan agreement in place between Edison Mission Finance and EME Homer City. The funds were used to assist EME Homer City with a cash shortfall resulting from reduced revenues and higher maintenance expenses caused by the Unit 3 outage. For similar reasons, at the end of March 2006 and April 2006, EMMT made advance payments to EME Homer City in the amounts of $43.5 million and $20 million, respectively, against future deliveries of power to it under its trading arrangements with EME Homer City. The proceeds of the subordinated loans were deposited in EME Homer City's operating account and the prepayment by EMMT was deposited in EME Homer City's revenue account. It is currently anticipated that a substantial portion of the advance payments will be applied against amounts invoiced to EMMT within the next 12 months.

Critical Accounting Estimates

For a discussion of EME Homer City's critical accounting estimates, refer to "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Estimates" of EME Homer City's annual report on Form 10-K for the year ended December 31, 2005.

RESULTS OF OPERATIONS

Summary

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
Operating Revenues (in millions)				
Energy revenues	$ 143	$ 133	$ 277	$ 288
Capacity revenues	4	5	6	9
Other revenue	—	—	1	—
Net gains (losses) from price risk management	1	(2)	(13)	(4)
Total operating revenues	$ 148	$ 136	$ 271	$ 293
Statistics				
Generation (in GWh)	2,866	3,102	5,387	6,636
Equivalent availability(1)	74.3%	77.1%	73.1%	82.6%
Capacity factor(2)	69.5%	75.2%	65.7%	80.8%
Load factor(3)	93.6%	97.6%	89.9%	97.9%
Forced outage rate(4)	19.9%	3.6%	22.8%	5.6%
Average energy price/MWh	$ 50.02	$ 42.93	$ 51.43	$ 43.38
Average fuel costs/MWh	$ 24.13	$ 19.36	$ 24.03	$ 18.65

(1) The equivalent availability factor is defined as the number of megawatt-hours the coal units are available to generate electricity divided by the product of the capacity of the coal units (in megawatts) 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 units are not available during periods of planned and unplanned maintenance.

(2) The capacity factor is defined as the actual number of megawatt-hours generated by the coal plants divided by the product of the capacity of the coal plants (in megawatts) and the number of hours in the period.

(3) The load factor is determined by dividing capacity factor by the equivalent availability factor.

(4) EME Homer City refers to unplanned maintenance as a forced outage.

Operating Revenues

Operating revenues increased $12.0 million and decreased $22.5 million in the second quarter of 2006 and six months ended June 30, 2006, respectively, compared to the corresponding periods of 2005. The second quarter increase was primarily due to higher average energy prices. The 2006 year-to-date decrease is primarily attributable to lower energy revenues and increased losses related to price risk management activities. During the six months ended June 30, 2006, an unplanned outage at Unit 3 contributed to lower generation and availability which was partially offset by increased average energy prices.

Unit 3 Outage

On January 29, 2006, the main power transformer on Unit 3 of the Homer City facilities failed, resulting in a suspension of operations at this unit. EME Homer City secured a replacement transformer and Unit 3 returned to service on May 5, 2006. EME Homer City has adjusted its previously planned outage schedules for Unit 3 and the other Homer City units in order to minimize to the extent practicable overall outage activities for all units through the first half of 2007.

Price Risk Management

Net gains (losses) from price risk management activities were primarily attributable to the ineffective portion of forward and futures contracts which are derivatives that qualify as cash flow hedges under SFAS No. 133. EME Homer City recorded gains (losses) of $(5.0) million and $0.8 million during the second quarters of 2006 and 2005, respectively, and $(15.8) million and $(3.2) million during the six months ended June 30, 2006 and 2005, respectively, representing the amount of cash flow hedges' ineffectiveness. Losses related to the ineffective portion of hedge contracts were primarily due 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 facilities is delivered into the transmission system). Also included in net gains (losses) from price risk management activities are economic hedges that did not qualify for hedge accounting under SFAS No. 133 of $6.0 million and $(3.0) million in the second quarters of 2006 and 2005, respectively, and $2.8 million and $(0.9) million during the six months ended June 30, 2006 and 2005, respectively. At June 30, 2006, cumulative unrealized losses of $42.0 million (pre-tax) have been recognized on hedge contracts that pertain to the remainder of 2006, 2007 and 2008. See "Market Risk Exposures—Commodity Price Risk" for more information regarding forward market prices.

Operating Expenses

Operating expenses decreased $0.4 million and increased $7.2 million in the second quarter of 2006 and six months ended June 30, 2006, respectively, compared to the corresponding periods of 2005. Operating expenses consisted of expenses for fuel, gain on sale of emission allowances, plant operations, depreciation and amortization, and administrative and general expenses. The change in the components of operating expenses is discussed below.

Fuel expenses increased $9.1 million and $5.7 million in the second quarter of 2006 and six months ended June 30, 2006, respectively, compared to the corresponding periods of 2005. The 2006 increases were due to higher coal costs driven primarily by the use of lower sulfur coal and the expiration in 2005 of certain lower-priced contracts, partially offset by a decrease in the market price of SO2 emission allowances and lower coal consumption attributable to lower generation. The cost of SO2 allowances decreased to $9.0 million and $20.9 million during the second quarter of 2006 and six months ended June 30, 2006, respectively, from $14.1 million and $28.7 million during the second quarter of 2005 and six months ended June 30, 2005. See "Market Risk Exposures—Commodity Price Risk—Emission Allowances Price Risk" for more information regarding the price of SO2 emission allowances.

Income from the sale of emission allowances was $1.3 million during the six months ended June 30, 2006, attributable to excess nitrogen oxide (NOx) allowances sold to an affiliate during the first quarter of 2006.

Plant operations costs decreased $8.4 million and increased $4.3 million in the second quarter of 2006 and six months ended June 30, 2006, respectively, compared to the corresponding periods of 2005. Plant operations costs include labor and overhead, contract services, parts and supplies and other administrative costs. The second quarter decrease was primarily attributable to higher planned equipment maintenance costs and the cost of replacing the catalyst for the pollution control equipment, both in the second quarter of 2005. The 2006 year-to-date increase was primarily attributable to higher maintenance and repair costs for Unit 3 relating to the unplanned outage.

Other Income (Expense)

Interest and other income increased $14.4 million and $14.8 million in the second quarter of 2006 and six months ended June 30, 2006, respectively, compared to the corresponding periods of 2005. The increases were primarily attributable to estimated insurance recovery of $10.8 million related to the Unit 3 outage.

Interest expense decreased $0.7 million and $2.2 million in the second quarter of 2006 and six months ended June 30, 2006, respectively, compared to the corresponding periods of 2005. Interest expense primarily relates to the lease financing of the Homer City facilities that originated in December 2001. Interest expense also includes interest of $10.3 million and $9.4 million in the second quarters of 2006 and 2005, respectively, and $19.1 million and $18.8 million in the six months ended June 30, 2006 and 2005, respectively, on EME Homer City's subordinated revolving loan agreement with Edison Mission Finance.

Provision (Benefit) for Income Taxes

EME Homer City had effective income tax provision (benefit) rates during the first six months of 2006 and 2005 of (56.2)% and 44.7%, respectively. EME Homer City's effective income tax provision (benefit) 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 Pronouncements

For a discussion of new accounting pronouncements affecting EME Homer City, see "EME Homer City Generation L.P. Notes to Financial Statements—Note 7. New Accounting Pronouncements."

LIQUIDITY AND CAPITAL RESOURCES

Introduction

The following discussion of liquidity and capital resources is organized in the following sections:

For a complete discussion of these issues, read this quarterly report on Form 10-Q in conjunction with EME Homer City's annual report on Form 10-K for the year ended December 31, 2005.

Cash Flow

At June 30, 2006, EME Homer City had cash and cash equivalents of $111.3 million, compared to $60.2 million at December 31, 2005. Net working capital at June 30, 2006 was $(72.9) million, compared to $(200.9) million at December 31, 2005. Net working capital increased $128.0 million primarily due to an increase in cash and cash equivalents and a decrease in current net liabilities under price risk management related to electricity contracts.

Net cash provided by operating activities decreased $11.6 million in the first six months of 2006, compared to the corresponding period of 2005. The 2006 decrease was primarily due to losses in 2006 versus income in 2005.

Net cash provided by financing activities increased $15.7 million in the first six months of 2006, compared to the corresponding period of 2005. The 2006 increase was primarily attributable to borrowings under a subordinated revolving loan agreement with Edison Mission Finance in 2006, compared to repayments on affiliate debt in 2005. Partially offsetting the increase was higher repayments of the lease financing in 2006.

Net cash provided by (used in) investing activities was $2.8 million and $(12.9) million in the first six months of 2006 and 2005, respectively. The 2006 increase in net cash provided by investing activities was due to proceeds from the sale of emission allowances to an affiliate, proceeds received in 2006 related to a settlement with Alstom Power in connection with the 2002 outage of Unit 3, and lower capital expenditures incurred during 2006.

The use of EME Homer City's cash generated from operations is restricted by the sale-leaseback agreements. EME Homer City believes that it will have adequate liquidity to meet its obligations as they become due in the next 12 months.

Interim Funding Arrangements

During March 2006, EME, through its subsidiary, Edison Mission Finance, advanced funds in the amount of $8.8 million to EME Homer City under the subordinated revolving loan agreement in place between Edison Mission Finance and EME Homer City. The funds were used to assist EME Homer City with a cash shortfall resulting from reduced revenues and higher maintenance expenses caused by the Unit 3 outage. For similar reasons, at the end of March 2006 and April 2006, EMMT made advance payments to EME Homer City in the amounts of $43.5 million and $20 million, respectively, against future deliveries of power to it under its trading arrangements with EME Homer City. The proceeds of the subordinated loans were deposited in EME Homer City's operating account and the prepayment by EMMT was deposited in EME Homer City's revenue account. It is currently anticipated that a substantial portion of the advance payments will be applied against amounts invoiced to EMMT within the next 12 months.

Capital Expenditures and Lease Covenants

EME Homer City plans to spend $8.2 million in the remaining two quarters of 2006 and $19.9 million and $9.6 million in 2007 and 2008, respectively, for capital expenditures. Included in the estimated expenditures is $2.2 million for the remaining two quarters of 2006 and $9.0 million in 2007 relating to environmental projects such as SCR performance improvements on all three units. The non-environmental portion of planned expenditures relates to upgrades to the coal handling system, ash removal improvements and various other projects.

Under the participation agreements entered into as part of the sale-leaseback transaction, EME 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, EME Homer City's liquidity is substantially based on its ability to generate cash flow from operations. If EME Homer City is unable to generate cash flow from operations necessary to meet its obligations, EME Homer City will have limited ability to obtain additional capital on attractive terms and conditions, unless its partners provide additional funding, which they are under no legal obligation to do.

The rent payments that EME 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, EME 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, 2006, the senior rent service coverage ratio was 2.26 to 1. 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. Net operating cash flow represents revenues less operating expenses as defined in the sale-leaseback documents. Revenue during the twelve months ended June 30, 2006 includes $43.5 million and $20 million from an advance payment from EMMT on March 31, 2006 and April 30, 2006, respectively, against future deliveries of power to it under its trading arrangements with EME Homer City. In addition, if EME Homer City does not meet specified debt service coverage ratios while the lease debt is outstanding, it will not pay the equity portion of the rent to the owner-lessors. Accordingly, the sale-leaseback documentation does not permit the lessor to terminate the lease in the event of non-payment of the equity portion of the rent while the lease debt is outstanding.

EME 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 EME 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. EME Homer City had $40.0 million included in restricted cash at June 30, 2006 related to these reserve accounts.

Distributions to EME

The following table summarizes the payments by EME Homer City under its subordinated revolving loan that constitute permitted distributions pursuant to the terms of the sale-leaseback transaction:

	Six Months Ended June 30,	
	2006	2005
	(in millions)	
Payment of interest	$ —	$ 28.9
Payment of principal	—	12.1
Total payments	$ —	$ 41.0

Credit Ratings

EME Homer City is not currently rated. However, EME 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. The credit ratings for EME and EMMT are as follows:

	Moody's Rating	S&P Rating
EME	B1	B+
EMMT	Not Rated	B+

EME Homer City cannot provide assurance that the 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. EME 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.

EME Homer City's sale-leaseback documents restrict EME Homer City's ability to enter into trading activities, as defined in the documents, with EMMT to sell forward the output of its facilities if EMMT does not have an investment grade credit rating from Standard & Poor's or Moody's or, in the absence of those ratings, if it is not rated as investment grade pursuant to EME's internal credit scoring procedures. These documents include a requirement that the counterparty to such transactions, and EME Homer City, if acting as seller to an unaffiliated third party, be investment grade. EME Homer City, which is not rated, currently sells all the output from its facilities through EMMT, which has a below investment grade credit rating. Therefore, in order for EME Homer City to continue to sell forward the output of its facilities, either: (1) EME Homer City must obtain consent from the sale-leaseback owner participant to permit it to sell directly into the market or through EMMT; or (2) EMMT must provide assurances of performance consistent with the requirements of the sale-leaseback documents. EME Homer City has obtained a consent from the sale-leaseback owner participant that will allow it to enter into such sales, under specified conditions, through December 31, 2006. EME Homer City continues to be in compliance with the terms of the consent; however, the consent is revocable by the sale-leaseback owner participant at any time. The sale-leaseback owner participant has not indicated that it intends to revoke the consent; however, there can be no assurance that it will not do so in the future. Revocation of the consent would not affect trades between EMMT and EME Homer City that had been entered into while the consent was still in effect. EME Homer

City is permitted to sell the output of its facilities into the spot market at any time. See "Market Risk Exposures—Commodity Price Risk."

Environmental Matters and Regulations

For a discussion of EME Homer City's environmental matters, refer to "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Environmental Matters and Regulations" of EME Homer City's annual report on Form 10-K for the year ended December 31, 2005. There have been no other significant developments with respect to environmental matters specifically affecting EME Homer City since the filing of its annual report, except as follows:

Federal—United States of America

Clean Air Act

Mercury Regulation—

As part of its evaluation of environmental control technologies for the Homer City facilities, EME Homer City has obtained cost estimates from an engineering and construction company that are substantially higher than the approximately $350 million to $400 million previously estimated for the 2006-2010 timeframe. The estimated costs have increased for a number of reasons, including increased material costs and greater demand for environmental control equipment scheduled for installation during the same period. In light of higher estimated capital costs, the impact of the recent decline in emissions costs and the continued uncertainty over the final provisions of relevant environmental regulations, EME Homer City has deferred making commitments for the installation of further environmental controls at the Homer City facilities at this time. EME Homer City plans to study alternative environmental technologies while continuing to review and refine the scope of the project, estimated for control equipment and to monitor developments related to mercury and other environmental regulations.

MARKET RISK EXPOSURES

Introduction

EME Homer City's primary market risk exposures arise from fluctuations in electricity, capacity and fuel prices, emission allowances and transmission rights. EME Homer City manages these risks in part by using derivative financial instruments in accordance with established policies and procedures.

This section discusses these market risk exposures under the following headings:

For a complete discussion of these issues, read this quarterly report on Form 10-Q in conjunction with EME Homer City's annual report on Form 10-K for the year ended December 31, 2005.

Commodity Price Risk

Overview

EME Homer City's revenues and results of operations will depend upon prevailing market prices for capacity, energy, ancillary services, emission allowances or credits, coal, natural gas and fuel oil, and associated transportation costs in PJM and in NYISO. Among the factors that influence future market prices for energy, capacity and ancillary services in PJM and NYISO are:

- prevailing market prices for coal, natural gas and fuel oil, and associated transportation;
- the cost and availability of emission credits or allowances;
- 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/or technologies that may be able to produce electricity at a lower cost than the Homer City facilities and/or increased access by competitors to EME Homer City's markets as a result of transmission upgrades;
- transmission congestion in and to each market area and the resulting differences in prices between delivery points;
- the market structure rules established for, and regulatory developments affecting, PJM and NYISO, including any price limitations and other mechanisms adopted to address volatility or illiquidity in these markets or the physical stability of the system;
- the availability, reliability and operation of competing power generation facilities, including nuclear generating plants, where applicable, and the extended operation of such facilities beyond their presently expected dates of decommissioning;
- weather conditions prevailing in surrounding areas from time to time; and
- changes in the demand for electricity or in patterns of electricity usage as a result of factors such as regional economic conditions and the implementation of conservation programs.

Introduction

EME Homer City sells all its energy and capacity into wholesale power markets through EMMT. EMMT enters into forward contracts for EME Homer City's electric output in order to provide more predictable earnings and cash flow. When appropriate, EMMT manages the spread between electric prices and fuel prices through the use of forward contracts, swaps, futures, or options contracts. There is no assurance that contracts to hedge changes in market prices will be effective.

EME Homer City's operations expose it to commodity price risk, which represents the potential loss that can be caused by a change in the market value of a particular commodity. In addition to prevailing market prices, EME Homer City's ability to derive profits from the sale of electricity will be affected by the cost of production, including costs incurred to comply with environmental regulations. Commodity price risks are actively monitored by a risk management committee to ensure compliance with EME Homer City's risk management policies through EMMT. Policies are in place which define risk management processes, and procedures exist which allow for monitoring of all commitments and positions with regular reviews by a risk management committee. Despite this, there can be no assurance that all risks have been accurately identified, measured and/or mitigated.

EMMT uses "value at risk" to identify, measure, monitor and control EME Homer City's overall market risk exposure. The use of value at risk allows management to aggregate overall commodity risk, compare risk on a consistent basis and identify the risk factors. Value at risk measures the possible loss over a given time interval, under normal market conditions, at a given confidence level. Given the inherent limitations of value at risk and relying on a single risk measurement tool, EMMT supplements this approach with the use of stress testing and worst-case scenario analysis for key risk factors, as well as stop loss limits and counterparty credit exposure limits.

Hedging Strategy

To reduce its exposure to market risk, EME Homer City hedges a portion of its merchant portfolio risk through EMMT. To the extent that EME Homer City does not hedge its merchant portfolio, the unhedged portion will be subject to the risks and benefits of spot market price movements. Hedge transactions are primarily implemented through the use of contracts cleared on the Intercontinental Trading Exchange and the New York Mercantile Exchange. Hedge transactions are also entered into as forward sales to utilities and power marketing companies. Credit support for hedging transactions has generally been provided by EME pursuant to intercompany arrangements between it and EMMT. See "—Credit Risk," below.

The extent to which EME Homer City hedges its market price risk depends on several factors. First, EME Homer City evaluates over-the-counter market prices to determine whether sales at forward market prices are sufficiently attractive compared to assuming the risk associated with fluctuating spot market sales. Second, EME Homer City's ability to enter into hedging transactions depends upon its and EMMT's credit capacity and upon the forward sales markets having sufficient liquidity to enable EME Homer City to identify appropriate counterparties for hedging transactions.

Energy Price Risk

Electric power generated at the Homer City facilities is generally sold into the PJM market. PJM has a short-term market, which establishes an hourly clearing price. The Homer City facilities are situated in the PJM control area and are physically connected to high-voltage transmission lines serving both the PJM and NYISO markets.

The following table depicts the average historical market prices for energy per megawatt-hour at the Homer City busbar and in PJM West Hub during the first six months of 2006 and 2005:

	Historical Energy Prices(1) 24-Hour PJM			
	Homer City		West Hub	
	2006	2005	2006	2005
January	$ 48.67	$ 45.82	$ 54.57	$ 49.53
February	49.54	39.40	56.39	42.05
March	53.26	47.42	58.30	49.97
April	48.50	44.27	49.92	44.55
May	44.71	43.67	48.55	43.64
June	38.78	46.63	45.78	53.72
Six-Month Average	$ 47.24	$ 44.54	$ 52.25	$ 47.24

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

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 table below.

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, 2006:

	24-Hour PJM West Hub Forward Energy Prices(1)
2006	
July	$ 59.69
August	63.18
September	49.56
October	48.23
November	53.15
December	65.25
2007 Calendar "strip"(2)	$ 63.80
2008 Calendar "strip"(2)	$ 62.58

(1) Energy prices were determined by obtaining broker quotes and information from other public sources relating to the PJM West Hub delivery point. Forward prices at PJM West Hub are generally higher than the prices at the Homer City busbar.

(2) Market price for energy purchases for the entire calendar year, as quoted for sales into the PJM West Hub.

The following table summarizes EME Homer City's hedge position at June 30, 2006:

	2006	2007	2008
Megawatt hours	4,415,900	7,590,000	2,371,200
Average price/MWh(1)	$ 54.07	$ 64.35	$ 66.01

(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 position at June 30, 2006 is not directly comparable to the 24-hour PJM West Hub prices set forth above.

The average price/MWh for EME Homer City's hedge position is based on PJM West Hub. Energy prices at the Homer City busbar have been lower than energy prices at the PJM West Hub. See "—Basis Risk" below for a discussion of the difference.

Basis Risk

Sales made from the Homer City facilities in the real-time or day-ahead market receive the actual spot prices at the Homer City busbar. In order to mitigate price risk from changes in spot prices at the Homer City busbar, EME Homer City may enter into cash settled futures contracts as well as forward contracts with counterparties for energy to be delivered in future periods. Currently, a liquid market for entering into these contracts at the Homer City busbar does not exist. A liquid market does exist at the PJM West Hub. EME Homer City's price risk management activities use this settlement point to enter into hedging contracts. EME Homer City's revenues with respect to such forward contracts include:

- sales of actual generation in the amounts covered by the forward contracts with reference to PJM spot prices at the Homer City busbar, plus,
- sales to third parties at the price under such hedging contracts at designated settlement points (generally the PJM West Hub) less the cost of power at spot prices at the same designated settlement points.

Under PJM's market design, locational marginal pricing, which establishes market prices at specific locations throughout PJM by considering factors including generator bids, load requirements, transmission congestion and losses, can cause the price of a specific delivery point to be higher or lower relative to other locations depending on how the point is affected by transmission constraints. To the extent that, on the settlement date of a hedge contract, spot prices at the relevant busbar are lower than spot prices at the settlement point, the proceeds actually realized from the related hedge contract are effectively reduced by the difference. This is referred to as "basis risk." During the six months ended June 30, 2006, transmission congestion in PJM has resulted in prices at the Homer City busbar being lower than those at the PJM West Hub (EME Homer City's primary trading hub) by an average of 10%, compared to 6% during the six months ended June 30, 2005. The monthly average difference during the twelve months ended June 30, 2006 ranged from 3% to 20%, which occurred in August 2005.

By entering into cash settled futures contracts and forward contracts using the PJM West Hub as the settlement point, EME Homer City is exposed to basis risk as described above. In order to mitigate basis risk, EME Homer City purchased 7.8 TWh of financial transmission rights and basis swaps in PJM for EME Homer City during the period July 1, 2006 through May 31, 2007, and may continue to purchase financial transmission rights and basis swaps in the future. A financial transmission right is a financial instrument that entitles the holder to receive the difference of actual spot prices for two delivery points in exchange for a fixed amount. Accordingly, EME Homer City's price risk management activities include using financial transmission rights alone or in combination with forward contracts and basis swap contracts to manage basis risk.

Coal Price and Transportation Risk

The Homer City facilities use approximately 5 million to 6 million tons of coal annually, obtained primarily from mines located near the facilities in Pennsylvania. Coal purchases are made under a variety of supply agreements with terms ranging from one year to five years. The following table summarizes the percent of expected coal requirements for the next five years that were under contract at June 30, 2006.

	2006(1)	2007	2008	2009	2010
Percent of coal requirements under contract	99%	97%	39%	15%	0%

(1) The percentage in 2006 is calculated based on coal supply and expected generation requirements for a full year.

EME Homer City is subject to price risk for purchases of coal that are not under contract. Prices of Northern Appalachian (NAPP) coal, which is related to the price of coal purchased for the Homer City facilities, increased considerably during 2005. The price of NAPP coal (with 13,000 British Thermal units (Btu) per pound heat content and <3.0 pounds of SO2 per MMBtu sulfur content) fluctuated between $44 per ton and $57 per ton during 2005, with a price of $45 per ton at December 30, 2005, as reported by the Energy Information Administration. The 2005 overall increase in the NAPP coal price was largely attributed to greater demand from domestic power producers and increased international shipments of coal to Asia. During the first six months of 2006, the price of NAPP coal decreased to $37.50 per ton at June 23, 2006, as reported by the Energy Information Administration, due to the combined effects of a mild winter, easing natural gas prices and improving eastern stockpiles.

Emission Allowances Price Risk

The federal Acid Rain Program requires electric generating stations to hold SO2 allowances, and Pennsylvania regulations implemented the federal NOx SIP Call requirement. Under these programs, EME Homer City purchases (or sells) emission allowances based on the amounts required for actual generation in excess of (or less than) the amounts allocated under these programs. As part of the acquisition of the Homer City facilities, EME Homer City obtained the rights to the emission allowances that have been or are allocated to these facilities.

The price of emission allowances, particularly SO2 allowances issued through the federal Acid Rain Program, decreased during the first half of 2006 from 2005 year-end prices. The average price of purchased SO2 allowances decreased to $899 per ton during the six months ended June 30, 2006 from $1,219 per ton during 2005. The decrease in the price of SO2 allowances during the six months ended June 30, 2006 from 2005 year-end prices has been attributed to lower loads in January 2006 and a decline in natural gas prices. The price of SO2 allowances, determined by obtaining broker quotes and information from other public sources, was $750 per ton as of July 31, 2006.

For a discussion of environmental regulations related to emissions, refer to "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Environmental Matters and Regulations" of EME Homer City's annual report on Form 10-K for the year ended December 31, 2005.

Credit Risk

In conducting EME Homer City's price risk management activities, EMMT contracts with a number of utilities, energy companies, financial institutions, and other companies, collectively referred to as counterparties. In the event a counterparty were to default on its trade obligation, EME Homer City would be exposed to the risk of possible loss associated with re-contracting the product at a price different from the original contracted price if the non-performing counterparty were unable to pay the resulting liquidated damages owed to EME Homer City. Further, EME Homer City would be exposed to the risk of non-payment of accounts receivable accrued for products delivered prior to the time a counterparty defaulted.

To manage credit risk, EMMT looks at the risk of a potential default by counterparties. Credit risk is measured by the loss that would be incurred if counterparties failed to perform pursuant to the terms of their contractual obligations. EMMT measures, monitors and mitigates credit risk to the extent possible. To mitigate credit risk from counterparties, master netting agreements are used whenever possible and counterparties may be required to pledge collateral when deemed necessary. EMMT also takes other appropriate steps to limit or lower credit exposure. Processes have also been established to determine and monitor the creditworthiness of counterparties. EMMT manages the credit risk on the portfolio based on credit ratings using published ratings of counterparties and other publicly disclosed information, such as financial statements, regulatory filings, and press releases, to guide it in the process of setting credit levels, risk limits and contractual arrangements, including master netting agreements. A risk management committee regularly reviews the credit quality of EMMT's counterparties. Despite this, there can be no assurance that these efforts will be wholly successful in mitigating credit risk or that collateral pledged will be adequate.

In addition, coal for the Homer City facilities is purchased from suppliers under contracts which may be for multiple years. A number of the coal suppliers to the Homer City facilities do not currently have an investment grade credit rating and, accordingly, EME Homer City may have limited recourse to collect damages in the event of default by a supplier. EME Homer City seeks to mitigate this risk through diversification of its coal suppliers and through guarantees and other collateral arrangements when available. Despite this, there can be no assurance that these efforts will be successful in mitigating credit risk from coal suppliers.

EME 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 83% of EME Homer City's operating revenues for the six months ended June 30, 2006. Moody's Investors Service rates PJM's senior unsecured debt Aa3. PJM, an independent system operator with over 300 member companies, maintains its own credit risk policies and does not extend unsecured credit to non-investment grade companies. Any losses due to a PJM member default are shared by all other members based upon a predetermined formula.

Interest Rate Risk

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

Derivative Financial Instruments

The following table summarizes the fair values for outstanding financial instruments used for price risk management activities. The increase in fair value of electricity contracts at June 30, 2006 as compared to December 31, 2005 is attributable to a decline in the average market prices for power as compared to contracted prices at June 30, 2006, which is the valuation date.

	June 30, 2006	December 31, 2005
	(in thousands)	
Commodity price:		
Electricity contracts	$(24,775)	$(230,546)

In assessing the fair value of EME Homer City's derivative financial instruments, EMMT uses a variety of methods and assumptions based on the market conditions and associated risks existing at each balance sheet date. The fair value of commodity price contracts takes into account quoted market prices, time value of money, volatility of the underlying commodities and other factors. The following table summarizes the maturities and the related fair value, based on actively traded prices, of EME Homer City's commodity price risk management assets and liabilities as of June 30, 2006 (in thousands):

	Total Fair Value	Maturity <1 year	Maturity 1 to 3 years	Maturity 4 to 5 years	Maturity >5 years
Prices actively quoted	$(24,775)	$(19,290)	$(5,485)	$ —	$ —

Regulatory Matters

For a discussion of EME Homer City's regulatory matters, refer to "Item 1. Business—Regulatory Matters" of EME Homer City's annual report on Form 10-K for the year ended December 31, 2005. There have been no other significant developments with respect to regulatory matters specifically affecting EME Homer City since the filing of EME Homer City's annual report on Form 10-K for the year ended December 31, 2005, except as follows:

PJM Reliability Pricing Model

On August 31, 2005, PJM filed under sections 205 and 206 of the Federal Power Act a proposal for a reliability pricing model (RPM) to replace its existing capacity construct. The proposal offers RPM as a new capacity construct to address the deficiencies in PJM's current structure in a comprehensive and integrated manner. On April 20, 2006, the FERC issued an Initial Order on RPM, finding that as a result of a combination of factors, PJM's existing capacity construct is unjust and unreasonable as a long-term capacity solution, because it fails to set prices adequate to ensure energy resources to meet its reliability responsibilities. Although the FERC did not find that the RPM proposal, as filed by PJM, is the just and reasonable replacement for the current capacity construct because some elements of the proposal need further development and elaboration, it did find that certain elements of the RPM proposal, with some adjustment and clarification, may form the basis for a just and reasonable capacity market. Accordingly, in the order the FERC provided guidance on PJM's RPM proposal, as well as other features that need to be included in a just and reasonable capacity market, and established further proceedings to resolve these issues.

FERC Order Regarding PJM Marginal Losses

On May 1, 2006, the FERC issued an order in response to a complaint filed by Pepco Holdings, Inc. against PJM regarding marginal losses for transmission. The FERC concluded that PJM had violated its tariff by not implementing marginal losses and further directed PJM to implement marginal losses by October 2, 2006. Implementation of marginal losses will adjust the algorithm that calculates locational marginal prices to include a marginal loss component in addition to the already included congestion component. This may have an adverse impact on sellers in the Western PJM and Northern Illinois regions. On June 19, 2006, the FERC issued an order delaying implementation of marginal losses in PJM until June 1, 2007, and at this time, it is not possible to predict how the prospective effect of the order will affect the prices at which EME Homer City will be able to sell its power.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

For a discussion of market risk sensitive instruments, refer to "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—Market Risk Exposures" of EME Homer City's annual report on Form 10-K for the year ended December 31, 2005. Refer to "Market Risk Exposures" in Item 2 of this quarterly report on Form 10-Q for an update to that disclosure.

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

EME Homer City's management, with the participation of the partnership's principal executive officer and principal financial officer, has evaluated the effectiveness of EME Homer City's disclosure controls and procedures (as such 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, EME Homer City's disclosure controls and procedures are effective.

Internal Control Over Financial Reporting

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

PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

No material legal proceedings are presently pending against EME Homer City.

ITEM 1A. RISK FACTORS

For a discussion of the risks, uncertainties, and other important factors which could materially affect EME Homer City's business, financial condition, or future results, refer to "Item 1A. Risk Factors" of EME Homer City's annual report on Form 10-K for the year ended December 31, 2005. The risks described in EME Homer City's annual report on Form 10-K are not the only risks facing EME Homer City. Additional risks and uncertainties that are not currently known, or that are currently deemed to be immaterial, also may materially adversely affect EME 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.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

EME HOMER CITY GENERATION L.P.

By: Mission Energy Westside Inc., as General Partner

By: /s/ W. James Scilacci

W. James Scilacci
Director and Vice President

Date: August 8, 2006