
**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, 2007

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 333-59348

MIDWEST GENERATION, LLC

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation
or organization)

33-0868558

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

One Financial Place

440 South LaSalle Street, Suite 3500

Chicago, Illinois

(Address of principal executive offices)

60605

(Zip Code)

Registrant's telephone number, including area code: **(312) 583-6000**

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 units outstanding of the registrant's Membership Interests as of May 9, 2007: 100 units (all units held by an affiliate of the registrant).

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GLOSSARY

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

Ameren	Ameren Corporation
Btu	British thermal units
Commonwealth Edison	Commonwealth Edison Company
EME	Edison Mission Energy
EMMT	Edison Mission Marketing & Trading, Inc.
Exelon Generation	Exelon Generation Company LLC
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
FIN No. 48	Financial Accounting Standards Interpretation No. 48, “Accounting for Uncertainty in Income Taxes”
Fitch	Fitch Ratings
GWh	gigawatt-hours
Illinois Plants	EME’s largest power plants (fossil fuel), located in Illinois
ISO	independent system operator
MD&A	Management’s Discussion and Analysis of Financial Condition and Results of Operations
MEHC	Mission Energy Holding Company
Midwest Generation	Midwest Generation, LLC
MISO	Midwest Independent Transmission System Operator
MMBtu	million British thermal units
Moody’s	Moody’s Investors Service, Inc.
MW	megawatts
MWh	megawatt-hours
PJM	PJM Interconnection, LLC
PRB	Powder River Basin
S&P	Standard & Poor’s Ratings Services
SFAS	Statement of Financial Accounting Standards issued by the FASB
SFAS No. 133	Statement of Financial Accounting Standards No. 133, “Accounting for Derivative Instruments and Hedging Activities”
SFAS No. 155	Statement of Financial Accounting Standards No. 155, “Accounting for Certain Hybrid Financial Instruments”
SFAS No. 157	Statement of Financial Accounting Standards No. 157, “Fair Value Measurements”
SFAS No. 159	Statement of Financial Accounting Standards No. 159, “The Fair Value Option for Financial Assets and Liabilities, Including an Amendment of FASB Statement No. 115”
SO ₂	sulfur dioxide
US EPA	United States Environmental Protection Agency

PART I – FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

MIDWEST GENERATION, LLC AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(In thousands, Unaudited)

	Three Months Ended	
	March 31,	
	<u>2007</u>	<u>2006</u>
Operating Revenues from Marketing Affiliate	\$ 431,408	\$ 345,984
Operating Expenses		
Fuel.....	109,057	93,659
Gain on sale of emission allowances	(4)	(8)
Plant operations	89,286	80,687
Depreciation and amortization	35,793	35,209
Loss (gain) from disposal of assets	(212)	9
Administrative and general.....	4,674	5,604
Total operating expenses.....	<u>238,594</u>	<u>215,160</u>
Operating income.....	<u>192,814</u>	<u>130,824</u>
Other Income (Expense)		
Interest and other income	30,019	29,074
Interest expense	(47,173)	(49,914)
Total other expense	<u>(17,154)</u>	<u>(20,840)</u>
Income before income taxes.....	175,660	109,984
Provision for income taxes	67,097	43,166
Net Income	<u>\$ 108,563</u>	<u>\$ 66,818</u>

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

MIDWEST GENERATION, LLC AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In thousands, Unaudited)

	Three Months Ended March 31,	
	2007	2006
Net Income	\$ 108,563	\$ 66,818
Other comprehensive income (loss), net of tax:		
Pension and postretirement benefits other than pensions:		
Amortization of prior service credit, net of tax expense of \$47	(75)	—
Amortization of actuarial loss, net of tax benefit of \$40	64	—
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 \$(56,108) and \$50,525 for the three months ended March 31, 2007 and 2006, respectively	(88,686)	79,472
Reclassification adjustments included in net income, net of income tax expense (benefit) of \$(1,704) and \$9,108 for the three months ended March 31, 2007 and 2006, respectively	2,693	(14,900)
Other comprehensive income (loss).....	(86,004)	64,572
Comprehensive Income	\$ 22,559	\$ 131,390

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

MIDWEST GENERATION, LLC AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In thousands, Unaudited)

	<u>March 31,</u> <u>2007</u>	<u>December 31,</u> <u>2006</u>
Assets		
Current Assets		
Cash and cash equivalents.....	\$ 209,326	\$ 170,755
Due from affiliates	142,045	104,666
Fuel inventory.....	61,770	64,900
Spare parts inventory.....	20,813	20,390
Loans to affiliate for margin deposits.....	65,360	43,450
Interest receivable from affiliate	27,862	56,097
Derivative assets.....	8,927	132,221
Other current assets	6,970	8,323
Total current assets	<u>543,073</u>	<u>600,802</u>
Property, Plant and Equipment	4,218,074	4,210,743
Less accumulated depreciation	1,026,203	990,409
Net property, plant and equipment.....	<u>3,191,871</u>	<u>3,220,334</u>
Notes receivable from affiliate	1,357,822	1,359,276
Deferred taxes	21,999	46,277
Long-term derivative assets	1,247	19,288
Other assets	36,692	37,593
Total Assets	<u>\$ 5,152,704</u>	<u>\$ 5,283,570</u>
Liabilities and Member's Equity		
Current Liabilities		
Accounts payable	\$ 21,293	\$ 13,228
Accrued liabilities.....	79,348	82,953
Due to affiliates	29,762	21,522
Interest payable.....	58,739	57,072
Derivative liabilities	62,321	50,874
Deferred taxes	7,269	23,391
Current maturities of long-term obligations	3,450	3,450
Current portion of lease financing	114,667	110,956
Total current liabilities.....	<u>376,849</u>	<u>363,446</u>
Lease financing, net of current portion	971,823	1,029,805
Long-term obligations	1,325,233	1,326,096
Long-term derivative liabilities	15,992	6,652
Benefit plans and other long-term liabilities	176,991	176,933
Total Liabilities	<u>2,866,888</u>	<u>2,902,932</u>
Commitments and Contingencies (Note 5)		
Member's Equity		
Membership interests, no par value; 100 units authorized, issued and outstanding ...	—	—
Additional paid-in capital.....	2,745,103	2,862,485
Accumulated deficit.....	(420,960)	(529,524)
Accumulated other comprehensive income (loss)	(38,327)	47,677
Total Member's Equity	<u>2,285,816</u>	<u>2,380,638</u>
Total Liabilities and Member's Equity	<u>\$ 5,152,704</u>	<u>\$ 5,283,570</u>

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

MIDWEST GENERATION, LLC AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands, Unaudited)

	Three Months Ended March 31,	
	2007	2006
Cash Flows From Operating Activities		
Net income.....	\$ 108,563	\$ 66,818
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization.....	38,382	36,536
Loss (gain) on sale of assets.....	(212)	9
Gain on sale of emission allowances.....	(4)	(8)
Deferred taxes.....	(4,971)	41,214
Decrease in due to/from affiliates.....	38,399	102,607
Decrease (increase) in inventory.....	2,707	(18,436)
Decrease (increase) in loans to affiliate for margin deposits.....	(21,910)	104,442
Decrease in interest receivable from affiliate.....	28,235	28,288
Decrease in other current assets.....	1,353	141
Increase in other assets.....	(423)	—
Increase (decrease) in accounts payable.....	8,065	(299)
Increase (decrease) in accrued liabilities.....	(3,605)	893
Increase (decrease) in interest payable.....	1,668	(855)
Increase (decrease) in other liabilities.....	(1,226)	1,671
Decrease (increase) in derivative assets and liabilities.....	21,725	(10,293)
Net cash provided by operating activities.....	216,746	352,728
Cash Flows From Financing Activities		
Issuance of long-term debt.....	30,000	—
Repayment of long-term debt.....	(30,862)	(170,862)
Cash distribution to parent.....	(117,382)	(184,589)
Repayment of capital lease obligation.....	(54,270)	(50,787)
Net cash used in financing activities.....	(172,514)	(406,238)
Cash Flows From Investing Activities		
Capital expenditures.....	(7,331)	(5,651)
Proceeds from sale of assets.....	212	426
Proceeds from sale of emission allowances.....	4	8
Repayment of loan from affiliate.....	1,454	1,286
Net cash used in investing activities.....	(5,661)	(3,931)
Net increase (decrease) in cash and cash equivalents.....	38,571	(57,441)
Cash and cash equivalents at beginning of period.....	170,755	124,118
Cash and cash equivalents at end of period.....	\$ 209,326	\$ 66,677

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

MIDWEST GENERATION, LLC AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2007
(Unaudited)

Note 1. Summary of Significant Accounting Policies

Basis of Presentation

Midwest Generation's significant accounting policies are described in Note 2 to its financial statements as of December 31, 2006 and 2005, included in its annual report on Form 10-K for the year ended December 31, 2006. Midwest Generation follows the same accounting policies for interim reporting purposes, with the exception of the change in accounting for uncertain tax positions (discussed below in "New Accounting Pronouncements"). This quarterly report should be read in connection with such financial statements.

In the opinion of management, all adjustments, including recurring accruals, have been made that are necessary to fairly state the consolidated financial position and results of operations and cash flows in accordance with accounting principles generally accepted in the United States for the periods covered by this quarterly report on Form 10-Q. The results of operations for the three months ended March 31, 2007 are not necessarily indicative of the operating results for the full year.

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

Income Taxes

Midwest Generation is included in the consolidated federal and state income tax returns of Edison International and is party to a tax allocation agreement with its parent Edison Mission Midwest Holdings. As long as Edison International continues to own, directly or indirectly, at least 80% of the voting power of the stock of EME and its existing subsidiaries and at least 80% of the value of such stock, Midwest Generation will be included in the consolidated federal and state income tax returns of Edison International. In accordance with the agreement and the tax-allocation procedures that have been in effect since Midwest Generation's formation, its current tax liability or benefit is generally determined on a separate return basis, except for calculating consolidated state income taxes, for which Midwest Generation uses the long-term state tax apportionment factors of the Edison International group. The amount on the balance sheet associated with this tax-allocation agreement totaled \$23.4 million and \$19.1 million at March 31, 2007 and December 31, 2006, respectively, included in due to affiliates.

Midwest Generation accounts for deferred income taxes using the asset-and-liability method, wherein deferred tax assets and liabilities are recognized for future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities using enacted income tax rates. Interest expense and penalties associated with income taxes are reflected in the caption "Provision for income taxes" on the consolidated statements of income. For further discussion of income taxes, see Note 4—Income Taxes.

New Accounting Pronouncements

Accounting Principles Adopted

Statement of Financial Accounting Standards Interpretation No. 48—

In July 2006, the FASB issued FIN No. 48, which clarifies the accounting for uncertain tax positions. FIN No. 48 requires an enterprise 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. Midwest Generation adopted FIN No. 48 effective January 1, 2007. Based on the current status of discussions with tax authorities related to open tax years under audit and other information currently available, implementation of FIN No. 48 did not result in a cumulative-effect adjustment to accumulated deficit.

Statement of Financial Accounting Standards No. 155—

In February 2006, the FASB issued SFAS No. 155, which amends SFAS No. 133 and SFAS No. 140, “Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities.” SFAS No. 155 allows financial instruments that have embedded derivatives to be accounted for at fair value at acquisition, at issuance, or when a previously recognized financial instrument is subject to a remeasurement event, on an instrument-by-instrument basis, in cases in which a derivative would otherwise have to be bifurcated. SFAS No. 155 is effective for all financial instruments acquired, issued, or subject to remeasurement after January 1, 2007. The fair value election provided for in paragraph 4(c) of this Statement may also be applied upon adoption of this Statement for hybrid financial instruments that had been bifurcated under paragraph 12 of SFAS No. 133 prior to the adoption of this Statement. The adoption of this standard had no effect on Midwest Generation’s consolidated financial statements for the quarter ended March 31, 2007.

Accounting Principles Not Yet Adopted

Statement of Financial Accounting Standards No. 157—

In September 2006, the FASB issued SFAS No. 157 which clarifies the definition of fair value, establishes a framework for measuring fair value and expands the disclosures on fair value measurements. Midwest Generation will adopt SFAS No. 157 on January 1, 2008. Midwest Generation is currently evaluating the impact of adopting SFAS No. 157 on its consolidated financial statements.

Statement of Financial Accounting Standards No. 159—

In February 2007, the FASB issued SFAS No. 159 which provides an option to report eligible financial assets and liabilities at fair value, with changes in fair value recognized in earnings. Upon adoption, the first remeasurement to fair value would be reported as a cumulative-effect adjustment to the opening balance of retained earnings. Midwest Generation will adopt SFAS No. 159 on January 1, 2008. Midwest Generation is currently evaluating the impact of adopting SFAS No. 159 on its consolidated financial statements.

Note 2. Accumulated Other Comprehensive Income (Loss)

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

	Unrealized Gains (Losses) on Cash Flow Hedges	Unrecognized Losses and Prior Service Costs, Net(1)	Accumulated Other Comprehensive Income (Loss)
		(in thousands)	
Balance at December 31, 2006.....	\$ 52,867	\$ (5,190)	\$ 47,677
Current period change.....	(85,993)	(11)	(86,004)
Balance at March 31, 2007.....	<u>\$ (33,126)</u>	<u>\$ (5,201)</u>	<u>\$ (38,327)</u>

(1) For further detail, see Note 3—Compensation and Benefit Plans.

Unrealized losses on cash flow hedges, net of tax, at March 31, 2007, include unrealized losses on commodity hedges primarily related to futures and forward energy sales contracts that qualify for hedge accounting. These losses arise because current forecasts of future electricity prices are greater than Midwest Generation's contract prices. The change from unrealized gains to unrealized losses during the first quarter of 2007 resulted from an increase in market prices for power.

As Midwest Generation's hedged positions are realized, \$27.4 million, after tax, of the net unrealized losses on cash flow hedges at March 31, 2007 are expected to be reclassified into earnings during the next 12 months. Management expects that reclassification of net unrealized losses 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, 2009.

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. Midwest Generation recorded net gains (losses) of \$6 thousand and \$(0.4) million during the first quarters of 2007 and 2006, respectively, representing the amount of cash flow hedges' ineffectiveness, reflected in operating revenues in the consolidated income statements.

Note 3. Compensation and Benefit Plans

Pension Plans and Postretirement Benefits Other Than Pensions

Pension Plans

Midwest Generation previously disclosed in its financial statements for the year ended December 31, 2006 that it expected to contribute approximately \$8.8 million to its pension plans in 2007. As of March 31, 2007, no contributions have been made. Midwest Generation continues to expect to contribute approximately \$8.8 million to its pension plans in 2007.

Components of pension expense are:

	Three Months Ended March 31,	
	2007	2006
	(in thousands)	
Service cost.....	\$ 3,077	\$ 3,203
Interest cost.....	1,370	1,137
Expected return on plan assets.....	(1,274)	(979)
Amortization of prior service cost.....	58	58
Amortization of net actuarial (gain) loss.....	(41)	29
Total expense	<u>\$ 3,190</u>	<u>\$ 3,448</u>

Postretirement Benefits Other Than Pensions

Midwest Generation previously disclosed in its financial statements for the year ended December 31, 2006 that it expected to contribute \$427,000 to its postretirement benefits other than pensions in 2007. As of March 31, 2007, \$107,000 in contributions has been made. Midwest Generation continues to expect to contribute \$427,000 to its postretirement benefits other than pensions in 2007.

Components of postretirement benefits expense are:

	Three Months Ended March 31,	
	2007	2006
	(in thousands)	
Service cost.....	\$ 165	\$ 161
Interest cost.....	383	344
Amortization of prior service credit.....	(179)	(179)
Amortization of net actuarial loss.....	144	166
Total expense	<u>\$ 513</u>	<u>\$ 492</u>

Note 4. Income Taxes

Midwest Generation had an effective income tax provision rate of 38.2% and 39.2% for the quarters ended March 31, 2007 and 2006, respectively. The effective income tax rate was different from the federal statutory rate of 35% primarily due to state income taxes.

The total amount of unrecognized tax benefits as of the date of adoption of FIN No. 48 was \$16.5 million. None of the unrecognized tax benefits as of the date of adoption, if recognized, would affect the effective tax rate. The total amount of accrued interest and penalties was \$3.3 million as of the date of adoption.

Midwest Generation and its subsidiaries remain subject to examination by the Internal Revenue Service, the California Franchise Tax Board, and other state authorities from 1994 to present. Midwest Generation continues its efforts to resolve open tax issues with the Internal Revenue Service and state authorities. The timing for resolving these open tax positions is subject to uncertainty, but it is reasonably possible that some portion of these open tax positions could be resolved in the next twelve months.

Note 5. Commitments and Contingencies

Commitments

Capital Improvements

At March 31, 2007, Midwest Generation had firm commitments to spend approximately \$29.2 million on capital expenditures during the remainder of 2007 and \$24.3 million in 2008 primarily related to environmental improvements. These capital expenditures are planned to be financed by cash generated from operations.

Fuel Supply Contracts

Midwest Generation has entered into additional fuel purchase commitments during the first three months of 2007. These additional commitments are currently estimated to be \$105.8 million in 2008, \$73.5 million in 2009, and \$76.5 million in 2010.

Coal Transportation Agreements

Midwest Generation has contractual agreements for the transport of coal to its facilities. The primary contract is with Union Pacific Railroad (and various delivering carriers) which extends through 2011. Midwest Generation commitments under this agreement are based on actual coal purchases from the PRB. Accordingly, contractual obligations for transportation are based on coal volumes set forth in fuel supply contracts. The increase in transportation commitments entered into during the first three months of 2007 relates to additional volumes of fuel purchases using the terms of existing transportation agreements. These commitments are currently estimated to be \$109.7 million for 2008, \$74.5 million for 2009, and \$76.0 million for 2010.

Interconnection Agreement

Midwest Generation has entered into interconnection agreements with Commonwealth Edison to provide interconnection services necessary to connect the Illinois Plants with its transmission systems. Unless terminated earlier in accordance with their terms, the interconnection agreements will terminate on a date mutually agreed to by both parties. Midwest Generation is required to compensate Commonwealth Edison for all reasonable costs associated with any modifications, additions or replacements made to the interconnection facilities or transmission systems in connection with any modification, addition or upgrade to the Illinois Plants.

Guarantees and Indemnities

Tax Indemnity Agreements

In connection with the sale-leaseback transactions related to the Powerton and Joliet Stations and previously the Collins Station, EME, Midwest Generation and another wholly owned subsidiary of EME entered into tax indemnity agreements. Under these tax indemnity agreements, these entities agreed to indemnify the lessors in the sale-leaseback transactions for specified adverse tax consequences that could result in certain situations set forth in the tax indemnity agreement, 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 obligations, Midwest Generation cannot determine a maximum potential liability which would be triggered by a valid claim from the lessors. Midwest Generation has not recorded a liability related to these indemnities. In connection

with the termination of the Collins Station lease in April 2004, Midwest Generation will continue to have obligations under the tax indemnity agreement with the former lease equity investor.

Indemnity Provided as Part of the Acquisition from Commonwealth Edison

In connection with the acquisition of the Illinois Plants, Midwest Generation agreed to indemnify Commonwealth Edison with respect to specified environmental liabilities before and after December 15, 1999, the date of sale. The indemnification claims are reduced by any insurance proceeds and tax benefits related to such claims and are subject to a requirement that Commonwealth Edison take all reasonable steps to mitigate losses related to any such indemnification claim. Due to the nature of the obligation under this indemnity, a maximum potential liability cannot be determined. This indemnification for environmental liabilities is not limited in term and would be triggered by a valid claim from Commonwealth Edison. Except as discussed below, Midwest Generation has not recorded a liability related to this indemnity.

Midwest Generation entered into a supplemental agreement with Commonwealth Edison and Exelon Generation on February 20, 2003 to resolve a dispute regarding interpretation of its reimbursement obligation for asbestos claims under the environmental indemnities set forth in the Asset Sale Agreement. Under this supplemental agreement, Midwest Generation agreed to reimburse Commonwealth Edison and Exelon Generation for 50% of specific asbestos claims pending as of February 2003 and related expenses less recovery of insurance costs, and agreed to a sharing arrangement for liabilities and expenses associated with future asbestos-related claims as specified in the agreement. As a general matter, Commonwealth Edison and Midwest Generation apportion responsibility for future asbestos-related claims based upon the number of exposure sites that are Commonwealth Edison locations or Midwest Generation locations. The obligations under this agreement are not subject to a maximum liability. The supplemental agreement has a five-year term with an automatic renewal provision (subject to the right of either party to terminate). Payments are made under this indemnity upon tender by Commonwealth Edison of appropriate proof of liability for an asbestos-related settlement, judgment, verdict, or expense. There were approximately 176 cases for which Midwest Generation was potentially liable and that had not been settled and dismissed at March 31, 2007. Midwest Generation had recorded a \$64.1 million liability at March 31, 2007 related to this matter.

The amounts recorded by Midwest Generation for the asbestos-related liability are based upon a number of assumptions. Future events, such as the number of new claims to be filed each year, the average cost of disposing of claims, as well as the numerous uncertainties surrounding asbestos litigation in the United States, could cause the actual costs to be higher or lower than projected.

Contingencies

FERC Notice Regarding Investigatory Proceeding against EMMT

At the end of October 2006, EMMT was advised by the enforcement staff at the FERC that it is prepared to recommend that the FERC initiate a formal investigatory proceeding and seek monetary sanctions against EMMT for alleged violation of the FERC's rules with respect to certain bidding practices employed by EMMT. EMMT is engaged in discussions with the staff to explore the possibility of resolution of this matter. Should a formal proceeding be commenced, EMMT will be entitled to contest any alleged violations before the FERC and an appropriate court. EMMT has advised Midwest Generation that EMMT believes that it has complied with the FERC's rules and that it intends to contest vigorously any allegation of violation. EMMT has further advised Midwest Generation that it

cannot predict at this time the outcome of this matter or estimate the possible liability should the outcome be adverse.

Challenges of Illinois Power Procurement Auction Results

EMMT participated successfully in the first Illinois power procurement auction, held in September 2006 according to rules approved by the Illinois Commerce Commission, and entered into two load requirements services contracts through which it is delivering electricity, capacity and specified ancillary, transmission and load following services necessary to serve a portion of Commonwealth Edison's residential and small commercial customer load, using contracted supply from Midwest Generation.

EMMT has advised Midwest Generation that EMMT believes that its actions in regard to the Illinois auction were appropriate and lawful and that it intends to defend vigorously all of the matters described below. EMMT has further advised Midwest Generation that it cannot predict at this time the outcome of these matters.

FERC Complaint—

On March 16, 2007, the Office of the Attorney General for the State of Illinois filed a complaint at the FERC alleging that the prices resulting from the Illinois auction resulted in unjust and unreasonable rates under the Federal Power Act and that participating wholesale sellers in the Illinois auction had colluded and manipulated the results of the auction. All successful participants in the Illinois auction, including EMMT, were named as respondents. The Office of the Attorney General asked the FERC to order refunds and to revoke the respondents' market-based rate pricing authority.

Class Action Lawsuits—

On April 4, 2007, EMMT was served with a complaint filed in the Circuit Court of Cook County, Illinois, by Saul R. Wexler, individually and on behalf of a class of similarly situated electric ratepayers in Illinois against Commonwealth Edison, Ameren, and all of the successful participants in the Illinois auction, including EMMT. The lawsuit alleges that the defendants, including EMMT, colluded and conspired to manipulate the auction results by price-fixing. The lawsuit seeks unspecified damages. On April 26, 2007, the defendants transferred the complaint to the U.S. District Court for the Northern District of Illinois, Eastern Division.

On March 30, 2007, David Schafer, Tim Perry, Pat Martin and Michael Murray, individually and on behalf of a class of similarly situated electric ratepayers in Illinois, filed a complaint in the Circuit Court of Cook County, Illinois, against Commonwealth Edison, Ameren, and all of the successful participants in the Illinois auction, including EMMT. EMMT has not been formally served in the case. The lawsuit alleges that the defendants, including EMMT, colluded and conspired to manipulate the auction results by price-fixing. The lawsuit seeks unspecified damages. On April 26, 2007, the defendants transferred the complaint to the U.S. District Court for the Northern District of Illinois, Eastern Division.

Environmental Matters and Regulations

The construction and operation of power plants are subject to environmental regulation by federal, state and local authorities. Midwest Generation believes that it is in substantial compliance with existing environmental regulatory requirements. 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. If Midwest Generation fails to comply with applicable environmental laws, it may be subject to injunctive relief or penalties and fines imposed by regulatory authorities.

With respect to Midwest Generation’s potential liabilities arising under CERCLA or similar laws for the investigation and remediation of contaminated property, Midwest Generation accrues a liability to the extent the costs are probable and can be reasonably estimated. Midwest Generation has accrued approximately \$3.6 million at March 31, 2007 for estimated environmental investigation and remediation costs for the Illinois Plants. This estimate is based upon the number of sites, the scope of work and the estimated costs for environmental activity where such expenditures could be reasonably estimated. Future estimated costs may vary based on changes in regulations or requirements of federal, state, or local governmental agencies, changes in technology, and actual costs of disposal. In addition, future remediation costs will be affected by the nature and extent of contamination discovered at the sites that requires remediation. Given the prior history of the operations at its facilities, Midwest Generation cannot be certain that the existence or extent of all contamination at its sites has been fully identified. However, based on available information, management believes that future costs in excess of the amounts disclosed on all known and quantifiable environmental contingencies will not be material to Midwest Generation’s financial position. See “Note 10. Commitments and Contingencies—Environmental Matters and Regulations” in Midwest Generation’s financial statements included in its annual report on Form 10-K for the year ended December 31, 2006 for a more complete discussion of Midwest Generation’s environmental contingencies.

Note 6. Supplemental Statements of Cash Flows Information

	Three Months Ended March 31	
	<u>2007</u>	<u>2006</u>
	(in thousands)	
Cash paid for interest.....	\$ 44,173	\$ 49,434
Cash received for income taxes.....	(3,250)	—

Note 7. Subsequent Event

On May 7, 2007, EME completed a private offering of \$1.2 billion of its 7.00% senior notes due 2017, \$800 million of its 7.20% senior notes due 2019 and \$700 million of its 7.625% senior notes due 2027. EME used a portion of the proceeds of the offering of the senior notes, together with cash on hand, to make an equity contribution (through intermediate holding companies) to Midwest Generation of approximately \$1.385 billion which enabled Midwest Generation to purchase \$999.8 million of its 8.75% second priority senior secured notes due 2034 and to repay the outstanding amount (\$327.8 million) of its senior secured term loan facility. Midwest Generation expects to record a pre-tax loss of approximately \$129 million (approximately \$79 million after tax) on early extinguishment of debt during the second quarter of 2007.

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 Midwest Generation's current expectations and projections about future events based on Midwest Generation'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 Midwest Generation 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 Midwest Generation or its subsidiaries, 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 Midwest Generation's generating units have access;*
- the cost and availability of fuel and fuel transportation services;*
- market volatility and other market conditions that could increase Midwest Generation's obligations to post collateral beyond the amounts currently expected, and the potential effect of such conditions on the ability of Midwest Generation 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 Midwest Generation or the electricity industry generally, including market structure rules;*
- environmental regulations that could require additional expenditures or otherwise affect Midwest Generation's cost and manner of doing business;*
- the ability of Midwest Generation to borrow funds and access capital markets on favorable terms;*
- 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 Midwest Generation's generating facilities and/or increased access by competitors to Midwest Generation's markets as a result of transmission upgrades;*
- the difficulty of predicting wholesale prices, transmission congestion, energy demand, and other aspects of the complex and volatile markets in which Midwest Generation participates;*
- operating risks, including equipment failure, availability, heat rate, output and availability and cost of spare parts and repairs;*
- 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 Midwest Generation’s Annual Report on Form 10-K for the year ended December 31, 2006. Readers are urged to read this entire quarterly report on Form 10-Q and carefully consider the risks, uncertainties and other factors that affect Midwest Generation’s business. Forward-looking statements speak only as of the date they are made, and Midwest Generation is not obligated to publicly update or revise forward-looking statements. Readers should review future reports filed by Midwest Generation with the Securities and Exchange Commission.

This MD&A discusses material changes in the results of operations, financial condition and other developments of Midwest Generation since December 31, 2006, and as compared to the first quarter ended March 31, 2006. This discussion presumes that the reader has read or has access to the MD&A included in Item 7 of Midwest Generation’s annual report on Form 10-K for the year ended December 31, 2006.

This MD&A is presented in four sections:

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Management’s Overview; Critical Accounting Policies.....	14
Results of Operations.....	16
Liquidity and Capital Resources.....	19
Market Risk Exposures	25

MANAGEMENT’S OVERVIEW; CRITICAL ACCOUNTING POLICIES

Management’s Overview

Introduction

Midwest Generation is a Delaware limited liability company formed on July 12, 1999 for the purpose of owning or leasing, making improvements to, and operating and selling the capacity and energy of, the power generation assets it purchased from Commonwealth Edison, which are referred to as the Illinois Plants.

Midwest Generation is currently operating 5,918 MW of power plants consisting of:

- six coal-fired generating plants consisting of 5,613 MW, which include the Powerton, Joliet, Will County, Waukegan, Crawford and Fisk Stations; and
- the Fisk and Waukegan on-site generating peakers consisting of 305 MW, based on PJM installed capability.

Midwest Generation’s power plants are located in the control area managed by PJM.

The energy and capacity from the Illinois Plants are sold under terms, including price and quantity, arranged 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 Midwest Generation’s Operating Performance

Midwest Generation’s net income for the first quarter of 2007 was \$108.6 million, compared to \$66.8 million for the first quarter of 2006. The 2007 increase in earnings was primarily due to an

increase in energy revenues from higher generation and higher average realized energy prices. Partially offsetting these increases was higher plant operations cost due to higher maintenance costs, higher coal costs and an increase in unrealized losses related to non-qualifying hedges under SFAS No. 133.

Financing Activities

On May 7, 2007, EME completed a private offering of \$1.2 billion of its 7.00% senior notes due 2017, \$800 million of its 7.20% senior notes due 2019 and \$700 million of its 7.625% senior notes due 2027. EME used a portion of the proceeds of the offering of the senior notes, together with cash on hand, to make an equity contribution (through intermediate holding companies) to Midwest Generation of approximately \$1.385 billion which enabled Midwest Generation to purchase \$999.8 million of its 8.75% second priority senior secured notes due 2034 and to repay the outstanding amount (\$327.8 million) of its senior secured term loan facility.

Midwest Generation expects to record a pre-tax loss of approximately \$129 million (approximately \$79 million after tax) on early extinguishment of debt during the second quarter of 2007. See “Liquidity and Capital Resources—Financing Activities.”

In addition to the above-mentioned debt refinancing, Midwest Generation plans to replace its existing \$500 million senior secured working capital facility with a new senior secured working capital facility with a longer maturity date and less restrictive covenants. Midwest Generation intends to use its new secured working capital facility to provide credit support for its hedging activities, including through the option to extend power hedges by granting the counterparties a first lien to secure such hedges, and general working capital purposes.

PJM Reliability Pricing Model

In April 2007, PJM completed the first capacity auction under the PJM Reliability Pricing Model. EMMT participated in the auction for the period June 1, 2007 through May 31, 2008. After accounting for previous forward sales of capacity, a net 3,013 MW was sold of capacity from the Illinois Plants. The Illinois Plants are located in the “Rest of Market” area which had a clearing price of \$40.80 per MW-day.

Critical Accounting Policies

For a discussion of Midwest Generation’s critical accounting policies, refer to “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Estimates” of Midwest Generation’s annual report on Form 10-K for the year ended December 31, 2006.

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 Midwest Generation's operations.

	Three Months Ended March 31,	
	2007	2006
Operating Revenues (in millions).....	\$ 431	\$ 346
Statistics – Coal-Fired Generation		
Generation (in GWh)		
Energy only contracts.....	6,698	7,244
Load requirements services contracts(1)	1,932	—
Total	8,630	7,244
Aggregate plant performance		
Equivalent availability(2)	88.0%	86.8%
Capacity factor(3)	71.2%	59.8%
Load factor(4)	80.9%	68.8%
Forced outage rate(5)	5.9%	2.8%
Average realized price/MWh		
Energy only contracts(6).....	\$ 49.06	\$ 45.21
Load requirements services contracts(7)	\$ 61.89	\$ —
Capacity revenue only (in millions)	\$ 2	\$ 6
Average fuel costs/MWh.....	\$ 12.63	\$ 12.92

(1) Represents two load requirements services contracts, awarded as part of an Illinois auction, with Commonwealth Edison that commenced on January 1, 2007.

(2) The equivalent availability factor is defined as the number of MWh the coal plants are available to generate electricity divided by the product of the capacity of the coal plants (in MW) and the number of hours in the period. Equivalent availability reflects the impact of the unit's inability to achieve full load, referred to as derating, as well as outages which result in a complete unit shutdown. The coal plants are not available during periods of planned and unplanned maintenance.

(3) The capacity factor is defined as the actual number of MWh generated by the coal plants divided by the product of the capacity of the coal plants (in MW) and the number of hours in the period.

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

(5) Midwest Generation refers to unplanned maintenance as a forced outage.

(6) The average realized energy price reflects the average price at which energy is sold into the market including the effects of hedges, real-time and day-ahead sales and PJM fees and ancillary services. It is determined by dividing (i) operating revenue less unrealized SFAS No. 133 gains (losses) and other non-energy related revenue by (ii) generation. Revenue related to capacity sales are excluded from the calculation of average realized energy price.

(7) The average realized price reflects the contract price for sales to Commonwealth Edison under load requirements services contracts that include energy, capacity and ancillary services. It is determined by dividing (i) contract revenue less PJM operating and ancillary charges by (ii) generation.

Operating Revenues

Operating revenues increased \$85.4 million for the first quarter of 2007, compared to the first quarter of 2006 primarily due to higher energy revenues. The increase in energy revenues was primarily due to higher generation and higher average realized energy prices.

Included in operating revenues were unrealized gains (losses) of \$(21.7) million and \$10.3 million for the first quarters of 2007 and 2006, respectively. Unrealized gains (losses) are primarily due to power contracts that did not qualify for hedge accounting under SFAS No. 133 (sometimes referred to as economic hedges). These energy contracts were entered into to hedge the price risk related to projected sales of power. During 2007, power prices increased, resulting in mark-to-market losses on economic hedges. The 2007 unrealized losses included \$14.2 million of mark-to-market losses from economic hedges for periods subsequent to March 31, 2007, resulting from an increase in market prices during the first quarter of 2007. See “Market Risk Exposures—Commodity Price Risk” for more information regarding forward market prices.

Seasonal Disclosure

Due to higher electric demand resulting from warmer weather during the summer months and cold weather during the winter months, electric revenues from the Illinois Plants 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 Illinois Plants are seasonal and have significant variability from quarter to quarter. Seasonal fluctuations may also be affected by changes in market prices. See “Market Risk Exposures—Commodity Price Risk—Energy Price Risk” for further discussion regarding market prices.

Operating Expenses

Operating expenses increased \$23.4 million for the first quarter ended March 31, 2007, compared to the first quarter of 2006. Operating expenses consist of fuel, gain on the sale of emission allowances, plant operations, depreciation and amortization, loss (gain) from disposal of assets, and administrative and general expenses. The change in the components of operating expenses is discussed below.

Fuel expenses increased \$15.4 million for the first quarter of 2007, compared to the first quarter of 2006. The increase was primarily attributable to higher coal consumption in 2007, as compared to 2006, resulting from higher generation.

Plant operations expenses increased \$8.6 million for the first quarter ended March 31, 2007, compared to the first quarter of 2006. The 2007 increase was primarily due to higher planned maintenance costs.

Other Income (Expense)

	Three Months Ended March 31,	
	2007	2006
	(in thousands)	
Interest and other income	\$ 1,272	\$ 839
Interest income from affiliate	28,747	28,235
Interest expense	(47,173)	(49,914)
Total other expense	<u>\$ (17,154)</u>	<u>\$ (20,840)</u>

Interest expense decreased \$2.7 million in the first quarter of 2007, compared to the first quarter of 2006, primarily due to lower borrowings under Midwest Generation’s working capital facility in 2007.

Provision For Income Taxes

Midwest Generation had an effective income tax provision rate of 38.2% and 39.2% for the quarters ended March 31, 2007 and 2006, respectively. The effective income tax rate was different from the federal statutory rate of 35% primarily due to state income taxes.

New Accounting Pronouncements

For a discussion of new accounting pronouncements affecting Midwest Generation, see “Midwest Generation, LLC and Subsidiaries Notes to Consolidated Financial Statements—Note 1. Summary of Significant Accounting Policies—New Accounting Pronouncements.”

LIQUIDITY AND CAPITAL RESOURCES

Introduction

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

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Financing Activities	19
Consolidated Cash Flow	19
Capital Expenditures	20
Credit Facility and Other Covenants.....	20
Powerton-Joliet Lease Payments.....	21
Credit Ratings	21
Contractual Obligations and Contingencies	22
Off-Balance Sheet Transactions	24
Environmental Matters and Regulations	24

For a complete discussion of these issues, read this quarterly report on Form 10-Q in conjunction with Midwest Generation's annual report on Form 10-K for the year ended December 31, 2006.

Financing Activities

On May 7, 2007, EME completed a private offering of \$1.2 billion of its 7.00% senior notes due 2017, \$800 million of its 7.20% senior notes due 2019 and \$700 million of its 7.625% senior notes due 2027. EME used a portion of the proceeds of the offering of the senior notes, together with cash on hand, to make an equity contribution (through intermediate holding companies) to Midwest Generation of approximately \$1.385 billion which enabled Midwest Generation to purchase \$999.8 million of its 8.75% second priority senior secured notes due 2034 and to repay the outstanding amount (\$327.8 million) of its senior secured term loan facility. Midwest Generation expects to record a pre-tax loss of approximately \$129 million (approximately \$79 million after tax) on early extinguishment of debt during the second quarter of 2007.

In addition to the above-mentioned debt refinancing, Midwest Generation plans to replace its existing \$500 million senior secured working capital facility with a new senior secured working capital facility with a longer maturity date and less restrictive covenants. Midwest Generation intends to use its new secured working capital facility to provide credit support for its hedging activities, including through the option to extend power hedges by granting the counterparties a first lien to secure such hedges, and general working capital purposes.

Consolidated Cash Flow

At March 31, 2007, Midwest Generation had cash and cash equivalents of \$209.3 million, compared to \$170.8 million at December 31, 2006. Net working capital at March 31, 2007 was \$166.2 million, compared to \$237.4 million at December 31, 2006. The decline in working capital was primarily the result of a decrease in net derivative assets largely driven by an increase in forward power prices. Partially offsetting this decrease was an increase in cash and cash equivalents and receivables from affiliates including loans for margin deposits.

Net cash provided by operating activities decreased \$136.0 million in the first quarter of 2007, compared to the first quarter of 2006. The decrease was primarily due to timing of cash receipts and

disbursements related to working capital items, described above, partially offset by higher profits in 2007.

Net cash used in financing activities decreased \$233.7 million in the first quarter of 2007, compared to the first quarter of 2006. In the first quarter of 2007, Midwest Generation paid a \$117.4 million dividend to its parent and repaid \$30.9 million of long-term debt and \$54.3 million of capital lease obligations. In the first quarter of 2006, Midwest Generation made a \$184.6 million distribution to its parent and repaid \$170.9 million of long-term debt and \$50.8 million of capital lease obligations.

Net cash used in investing activities increased \$1.7 million in the first quarter of 2007, compared to the first quarter of 2006. The increase was primarily due to an increase in capital expenditures.

Midwest Generation's principal sources of liquidity are cash on hand, a \$500 million working capital facility, payments by EME under the intercompany notes issued in connection with the Powerton-Joliet facilities sale-leaseback and future cash flow from operations.

Capital Expenditures

At March 31, 2007, the estimated capital expenditures by Midwest Generation for April through December 2007 and for 2008 and 2009 were as follows:

	<u>April through December 2007</u>	<u>2008</u>	<u>2009</u>
	(in millions)		
Plant capital expenditures	\$ 35.1	\$ 39.9	\$ 49.9
Environmental expenditures.....	<u>20.9</u>	<u>38.5</u>	<u>66.5</u>
Total	<u>\$ 56.0</u>	<u>\$ 78.4</u>	<u>\$ 116.4</u>

Plant capital expenditures relate to non-environmental projects such as upgrades to dust collection/mitigation systems and mill inerting projects. Environmental expenditures relate to various projects to achieve specified emissions reductions such as installation of mercury controls. Midwest Generation plans to finance these expenditures with financings, cash on hand or cash generated from operations. See further discussion regarding these and possible additional capital expenditures under "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Environmental Matters and Regulations—Air Quality Regulation" of Midwest Generation's annual report on Form 10-K for the year ended December 31, 2006.

Credit Facility and Other Covenants

Midwest Generation is bound by the covenants in its credit agreement and certain covenants under the Powerton-Joliet lease documents with respect to Midwest Generation making payments under the leases. These covenants include restrictions on the ability to, among other things, incur debt, create liens on its property, merge or consolidate, sell assets, make investments, engage in transactions with affiliates, make distributions, make capital expenditures, enter into agreements restricting its ability to make distributions, engage in other lines of business or engage in transactions for any speculative purpose. In addition, the credit agreement contains financial covenants binding on Midwest Generation.

Covenants in Credit Agreement

In order for Midwest Generation to make a distribution, it must be in compliance with the covenants specified under its credit agreement, including maintaining the following two financial performance requirements:

- At the end of each fiscal quarter, Midwest Generation’s consolidated interest coverage ratio for the immediately preceding four consecutive fiscal quarters must be at least 1.40 to 1. The consolidated interest coverage ratio is defined as the ratio of consolidated net income (plus or minus specified amounts as set forth in the credit agreement), to consolidated interest expense (as more specifically defined in the credit agreement). During the twelve months ended March 31, 2007, the interest coverage ratio was 5.98 to 1.
- Midwest Generation’s secured leverage ratio for the 12-month period ended on the last day of the immediately preceding fiscal quarter may be no greater than 7.25 to 1. The secured leverage ratio is defined as the ratio of the aggregate principal amount of Midwest Generation secured debt plus all indebtedness of a subsidiary of Midwest Generation, to the aggregate amount of consolidated net income (plus or minus specified amounts as set forth in the credit agreement). During the twelve months ended March 31, 2007, the secured leverage ratio was 1.88 to 1.

Powerton-Joliet Lease Payments

As part of the sale-leaseback of the Powerton and Joliet Stations, Midwest Generation loaned the proceeds (in the original amount of \$1.367 billion) to EME in exchange for promissory notes in the same aggregate amount. EME’s obligations under the promissory notes payable to Midwest Generation are general corporate obligations of EME and are not contingent upon receiving distributions from its subsidiaries. There is no assurance that EME will have sufficient cash flow to meet these obligations. Furthermore, EME has guaranteed Midwest Generation’s lease obligations under these leases. If EME fails to pay under its guarantee, including payments due under the Powerton-Joliet leases in the event that Midwest Generation could not make such payments, this would result in an event of default under the Powerton and Joliet leases. This event would have a material adverse effect on Midwest Generation.

Credit Ratings

Overview

Credit ratings for EME, Midwest Generation and EMMT, at March 31, 2007, were as follows:

	<u>Moody’s Rating</u>	<u>S&P Rating</u>	<u>Fitch Rating</u>
EME	B1	BB-	BB-
Midwest Generation:			
First priority senior secured rating.....	Baa3	BB	BBB-
Second priority senior secured rating.....	Ba2	B+	BB+
EMMT	Not Rated	BB-	Not Rated

Subsequent to March 31, 2007, the rating agencies affirmed the above-mentioned EME ratings in connection with the financing activities discussed above under “Financing Activities” and affirmed the rating for the Midwest Generation first priority secured revolving credit facility, except that S&P increased its rating to BB+ from BB.

Midwest Generation 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. Midwest Generation 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

Midwest Generation sells merchant energy and capacity and purchases its natural gas through EMMT, which currently has a below investment grade credit rating. Midwest Generation is expected to have cash on hand and has a \$500 million working capital facility that can be used to provide credit support for hedging contracts entered into by EMMT related to the Illinois Plants. As of March 31, 2007, \$4.5 million was utilized under this facility.

As of March 31, 2007, Midwest Generation had \$65.4 million in loans receivable from EMMT. EMMT borrows under its revolving credit agreement with Midwest Generation to provide credit support for futures and forward contracts. Loans provided under this revolving credit agreement are repaid by EMMT upon the return of the funds under the terms of the related forward contracts. The amount repaid includes interest earned, if any, under margining agreements supporting such contracts.

Midwest Generation anticipates that sales of its power through EMMT may require additional credit support, depending upon market conditions and the strategies adopted for the sale of this power. Changes in forward market prices and margining requirements and increases in merchant sales could further increase the need for credit support related to hedging activities. Midwest Generation is able to provide collateral to support bilateral contracts for power and fuel to the extent that any such transactions relate to its merchant energy operations. Depending on market conditions and the volume and duration of forward sales, there is no assurance that Midwest Generation will be able to provide sufficient credit support to EMMT.

Contractual Obligations and Contingencies

Contractual Obligations

Capital Improvements

At March 31, 2007, Midwest Generation had firm commitments to spend approximately \$29.2 million on capital expenditures during the remainder of 2007 and \$24.3 million in 2008 primarily related to environmental improvements. These capital expenditures are planned to be financed by cash generated from operations.

Fuel Supply Contracts

Midwest Generation has entered into additional fuel purchase commitments during the first three months of 2007. These additional commitments are currently estimated to be \$105.8 million in 2008, \$73.5 million in 2009, and \$76.5 million in 2010.

Coal Transportation Agreements

Midwest Generation has contractual agreements for the transport of coal to its facilities. The primary contract is with Union Pacific Railroad (and various delivering carriers) which extends through 2011. Midwest Generation commitments under this agreement are based on actual coal purchases from the PRB. Accordingly, contractual obligations for transportation are based on coal volumes set forth in

fuel supply contracts. The increase in transportation commitments entered into during the first three months of 2007 relates to additional volumes of fuel purchases using the terms of existing transportation agreements. These commitments are currently estimated to be \$109.7 million for 2008, \$74.5 million for 2009, and \$76.0 million for 2010.

Contingencies

Challenges of Illinois Power Procurement Auction Results

EMMT participated successfully in the first Illinois power procurement auction, held in September 2006 according to rules approved by the Illinois Commerce Commission, and entered into two load requirements services contracts through which it is delivering electricity, capacity and specified ancillary, transmission and load following services necessary to serve a portion of Commonwealth Edison's residential and small commercial customer load, using contracted supply from Midwest Generation.

EMMT has advised Midwest Generation that EMMT believes that its actions in regard to the Illinois auction were appropriate and lawful and that it intends to defend vigorously all of the matters described below. EMMT has further advised Midwest Generation that it cannot predict at this time the outcome of these matters.

FERC Complaint—

On March 16, 2007, the Office of the Attorney General for the State of Illinois filed a complaint at the FERC alleging that the prices resulting from the Illinois auction resulted in unjust and unreasonable rates under the Federal Power Act and that participating wholesale sellers in the Illinois auction had colluded and manipulated the results of the auction. All successful participants in the Illinois auction, including EMMT, were named as respondents. The Office of the Attorney General asked the FERC to order refunds and to revoke the respondents' market-based rate pricing authority.

Class Action Lawsuits—

On April 4, 2007, EMMT was served with a complaint filed in the Circuit Court of Cook County, Illinois, by Saul R. Wexler, individually and on behalf of a class of similarly situated electric ratepayers in Illinois against Commonwealth Edison, Ameren, and all of the successful participants in the Illinois auction, including EMMT. The lawsuit alleges that the defendants, including EMMT, colluded and conspired to manipulate the auction results by price-fixing. The lawsuit seeks unspecified damages. On April 26, 2007, the defendants transferred the complaint to the U.S. District Court for the Northern District of Illinois, Eastern Division.

On March 30, 2007, David Schafer, Tim Perry, Pat Martin and Michael Murray, individually and on behalf of a class of similarly situated electric ratepayers in Illinois, filed a complaint in the Circuit Court of Cook County, Illinois, against Commonwealth Edison, Ameren, and all of the successful participants in the Illinois auction, including EMMT. EMMT has not been formally served in the case. The lawsuit alleges that the defendants, including EMMT, colluded and conspired to manipulate the auction results by price-fixing. The lawsuit seeks unspecified damages. On April 26, 2007, the defendants transferred the complaint to the U.S. District Court for the Northern District of Illinois, Eastern Division.

Off-Balance Sheet Transactions

For a discussion of Midwest Generation's off-balance sheet transactions, refer to "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Off-Balance Sheet Transactions" of Midwest Generation's annual report on Form 10-K for the year ended December 31, 2006. There have been no significant developments with respect to Midwest Generation's off-balance sheet transactions that affect disclosures presented in Midwest Generation's annual report.

Environmental Matters and Regulations

For a discussion of Midwest Generation'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 Midwest Generation's annual report on Form 10-K for the year ended December 31, 2006. There have been no other significant developments with respect to environmental matters specifically affecting Midwest Generation since the filing of Midwest Generation's annual report, except as follows:

Climate Change

On April 2, 2007, the United States Supreme Court issued an opinion in *Massachusetts et. al. v. Environmental Protection Agency, et. al.*, ruling that US EPA has the authority to regulate greenhouse gas emissions of new motor vehicles under the Clean Air Act and that it has a duty to (i) determine whether greenhouse gas emissions of new motor vehicles contribute to climate change or (ii) offer a reasoned explanation for its failure to make such a determination when presented with a request for a rulemaking on the issue by the state claimants. The Court ruled that US EPA's failure to make the necessary determination or offer a reasonable explanation for its refusal to do so was impermissible. While this case hinged on a provision of the Clean Air Act related to emissions of motor vehicles, a parallel provision of the Clean Air Act applies to stationary sources such as electric generators. Midwest Generation believes that the Court's *Massachusetts* decision may spur additional congressional action to require reductions of greenhouse gas emissions by all material sources, including electric generators.

MARKET RISK EXPOSURES

Introduction

Midwest Generation sells all its energy into wholesale power markets. Midwest Generation's primary market risk exposures arise from fluctuations in electricity, capacity and fuel prices, emission allowances, and transmission rights. Additionally, Midwest Generation's financial results can be affected by fluctuations in interest rates. Midwest Generation 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:

	<u>Page</u>
Commodity Price Risk	25
Accounting for Energy Contracts	30
Derivative Financial Instruments	30
Credit Risk	31
Interest Rate Risk	32
Regulatory Matters	32

For a complete discussion of these issues, read this quarterly report on Form 10-Q in conjunction with Midwest Generation's annual report on Form 10-K for the year ended December 31, 2006.

Commodity Price Risk

Overview

Midwest Generation's revenues and results of operations of its merchant power plants 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. Among the factors that influence the price of energy, capacity and ancillary services in PJM are:

- prevailing market prices for coal, natural gas and fuel oil, and associated transportation;
- 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 Illinois Plants and/or increased access by competitors to Midwest Generation'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 to be established for, and regulatory developments affecting, PJM, including any price limitations and other mechanisms adopted to address volatility or illiquidity in these markets or the physical stability of the system;
- the cost and availability of emission credits or allowances;
- 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.

A discussion of commodity price risk for the Illinois Plants is set forth below.

Introduction

Midwest Generation sells all its energy and capacity into wholesale power markets through EMMT. EMMT enters into forward contracts for Midwest Generation'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.

Midwest Generation'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. Commodity price risks are actively monitored by a risk management committee to ensure compliance with Midwest Generation'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.

In addition to prevailing market prices, Midwest Generation'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. The costs of production of the units vary and, accordingly, depending on market conditions, the amount of generation that will be sold from the units is expected to vary from unit to unit.

EMMT uses "value at risk" to identify, measure, monitor and control Midwest Generation'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, Midwest Generation hedges a portion of its merchant portfolio risk through EMMT. To the extent that Midwest Generation 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,
- forward sales transactions entered into on a bilateral basis with third parties, including utilities and power marketing companies, and
- full requirements services contracts or load requirements services contracts for the procurement of power for electric utilities' customers, with such services including the delivery of a bundled product including, but not limited to, energy, capacity and ancillary services, generally for a fixed unit price.

The extent to which Midwest Generation hedges its market price risk depends on several factors. First, Midwest Generation evaluates over-the-counter market prices to determine whether the types of hedge transactions set forth above at forward market prices are sufficiently attractive compared to

assuming the risk associated with fluctuating spot market sales. Second, Midwest Generation’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 Midwest Generation to identify appropriate counterparties for hedging transactions.

Midwest Generation is permitted to use its working capital facility and cash on hand to provide credit support for hedging transactions related to the Illinois Plants entered into by EMMT. Utilization of this credit facility in support of these hedging transactions provides additional liquidity support for implementation of Midwest Generation’s contracting strategy for the Illinois Plants. See “—Credit Risk,” below.

Energy Price Risk

All the energy and capacity from the Illinois Plants is sold under terms, including price 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. As discussed further below, power generated at the Illinois Plants is generally sold into the PJM market.

Midwest Generation sells its power into PJM at spot prices based upon locational marginal pricing. Hedging transactions related to the generation of the Illinois Plants are generally entered into at the Northern Illinois Hub in PJM, and may also be entered into at other trading hubs, including the AEP/Dayton Hub in PJM and the Cinergy Hub in the MISO. These trading hubs have been the most liquid locations for hedging purposes. However, hedging transactions which settle at points other than the Northern Illinois Hub are subject to the possibility of basis risk. See “—Basis Risk” below for further discussion.

PJM has a short-term market, which establishes an hourly clearing price. The Illinois Plants are situated in the PJM control area and are physically connected to high-voltage transmission lines serving this market.

The following table depicts the average historical market prices for energy per megawatt-hour during the first three months of 2007 and 2006.

	24-Hour Northern Illinois Hub Historical Energy Prices(1)	
	2007	2006
January	\$ 35.75	\$ 42.27
February	56.64	42.66
March	42.04	42.50
Quarterly Average	<u>\$ 44.81</u>	<u>\$ 42.48</u>

(1) Energy prices were calculated at the Northern Illinois Hub delivery point using hourly real-time prices as published by PJM.

Forward market prices at the Northern Illinois 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 Illinois Plants 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 Northern Illinois Hub at March 31, 2007:

2007	24-Hour Northern Illinois Hub Forward Energy Prices(1)
April	\$ 41.80
May	42.14
June	43.97
July	57.28
August.....	59.10
September	42.10
October	41.98
November.....	43.47
December.....	49.32
2008 Calendar “strip”(2)	\$ 47.92

(1) Energy prices were determined by obtaining broker quotes and information from other public sources relating to the Northern Illinois Hub delivery point.

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

The following table summarizes Midwest Generation’s hedge position (primarily based on prices at the Northern Illinois Hub) at March 31, 2007:

	<u>2007</u>	<u>2008</u>	<u>2009</u>
Energy Only Contracts(1)			
MWh.....	11,968,150	10,837,600	2,048,000
Average price/MWh(2)	\$ 48.32	\$ 61.37	\$ 60.00
Load Requirements Services Contracts			
Estimated MWh(3).....	6,449,440	6,209,608	1,805,816
Average price/MWh(4)	\$ 64.29	\$ 64.01	\$ 63.65
Total estimated MWh.....	18,417,590	17,047,208	3,853,816

(1) Primarily at Northern Illinois Hub.

(2) The energy only contracts include forward contracts for the sale of power and futures contracts 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 March 31, 2007 is not directly comparable to the 24-hour Northern Illinois Hub prices set forth above.

(3) Under a load requirements services contract, the amount of power sold is a portion of the retail load of the purchasing utility and thus can vary significantly with variations in that retail load. Retail load depends upon a number of factors, including the time of day, the time of the year and the utility’s number of new and continuing customers. Estimated MWh have been forecast based on historical patterns and on assumptions regarding the factors that may affect retail loads in the future. The actual load will vary from that used for the above estimate, and the amount of variation may be material.

(4) The average price per MWh under a load requirements services contract (which is subject to a seasonal price adjustment) represents the sale of a bundled product that includes, but is not limited to, energy, capacity and ancillary services. Furthermore, as a supplier of a portion of a utility’s load, Midwest Generation will incur charges from PJM as a load serving entity. For these reasons, the average price per MWh under a load requirements services contract is not comparable to the sale of power under an energy only contract. The average price per MWh under a load requirements services contract represents the sale of the bundled product based on an estimated customer load profile.

Basis Risk

Sales made from the Illinois Plants in the real-time or day-ahead market receive the actual spot prices or day-ahead prices, as the case may be, at the busbars (delivery points) of the individual plants. In order to mitigate price risk from changes in spot prices at the individual plant busbars, Midwest Generation 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 individual plant busbars does not exist. A liquid market does exist for a settlement point at the Northern Illinois Hub. Midwest Generation’s hedging activities use this settlement point (and, to a lesser extent, other similar trading hubs) to enter into hedging contracts. Midwest Generation’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 busbar of the plant involved, plus,
- sales to third parties at the price under such hedging contracts at designated settlement points (generally the Northern Illinois 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 past 12 months, the prices at the Northern Illinois Hub were substantially the same as those at the individual busbars of the Illinois Plants.

Coal Price Risk

The Illinois Plants purchase coal primarily obtained from the Southern PRB of Wyoming. Coal purchases are made under a variety of supply agreements extending through 2010. The following table summarizes the amount of coal under contract at March 31, 2007 for the remainder of 2007 and the following three years.

	<u>April through December 2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Amount of coal under contract in millions of tons(1)	12.5	14.6	11.7	11.7

(1) The amount of coal under contract in tons is calculated based on contracted tons and applying an 8,800 Btu equivalent.

Midwest Generation is subject to price risk for purchases of coal that are not under contract. Prices of PRB coal (with 8,800 Btu per pound heat content and 0.8 pounds of SO₂ per MMBtu sulfur content), which is purchased for the Illinois Plants decreased during the first quarter of 2007 from 2006 year-end prices due to continuing high stockpiles and oversupply of the market. The price of PRB coal decreased from \$9.90 per ton at December 15, 2006 to \$8.55 per ton at March 23, 2007, as reported by the Energy Information Administration.

Accounting for Energy Contracts

Midwest Generation uses a number of energy contracts to manage exposure from changes in the price of electricity, including forward sales and purchases of physical power and forward price swaps which settle only on a financial basis (including futures contracts). Midwest Generation follows SFAS No. 133, and under this Standard these energy contracts are generally defined as derivative financial instruments. Importantly, SFAS No. 133 requires changes in the fair value of each derivative financial instrument to be recognized in earnings at the end of each accounting period unless the instrument qualifies for hedge accounting under the terms of SFAS No. 133. For derivatives that do qualify for cash flow hedge accounting, changes in their fair value are recognized in other comprehensive income until the hedged item settles and is recognized in earnings. However, the ineffective portion of a derivative that qualifies for cash flow hedge accounting is recognized currently in earnings. For further discussion of derivative financial instruments, see “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations—Management’s Overview; Critical Accounting Estimates—Critical Accounting Estimates—Derivative Financial Instruments and Hedging Activities” of Midwest Generation’s annual report on Form 10-K for the year ended December 31, 2006.

SFAS No. 133 affects the timing of income recognition, but has no effect on cash flow. To the extent that income varies under SFAS No. 133 from accrual accounting (i.e., revenue recognition based on settlement of transactions), Midwest Generation records unrealized gains or losses. Midwest Generation classifies unrealized gains and losses from energy contracts as part of operating revenues. The results of derivative activities are recorded as part of cash flows from operating activities in the consolidated statements of cash flows. The following table summarizes unrealized gains (losses) for the first quarters of 2007 and 2006:

	Three Months Ended	
	March 31,	
	<u>2007</u>	<u>2006</u>
	(in millions)	
Non-qualifying hedges	\$ (21.7)	\$ 8.6
Ineffective portion of cash flow hedges	—	1.7
Total unrealized gains (losses)	<u>\$ (21.7)</u>	<u>\$ 10.3</u>

Derivative Financial Instruments

The following table summarizes the fair values for outstanding financial instruments used for hedging activities. The decrease in fair value of electricity contracts at March 31, 2007 as compared to December 31, 2006 is attributable to an increase in the average market prices for power as compared to contracted prices at March 31, 2007, which is the valuation date.

	<u>March 31,</u>	<u>December 31,</u>
	2007	2006
	(in thousands)	
Commodity price:		
Electricity contracts	<u>\$ (68,139)</u>	<u>\$ 93,983</u>

In assessing the fair value of Midwest Generation’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 Midwest Generation’s commodity derivative assets and liabilities as of March 31, 2007 (in thousands):

	<u>Total Fair Value</u>	<u>Maturity <1 year</u>	<u>Maturity 1 to 3 years</u>	<u>Maturity 4 to 5 years</u>	<u>Maturity >5 years</u>
Prices actively quoted.....	\$ (68,139)	\$ (53,394)	\$ (14,745)	\$ —	\$ —

Credit Risk

In conducting Midwest Generation’s hedging 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, Midwest Generation 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 Midwest Generation. Midwest Generation’s agreement with EMMT transfers the risk of non-payment of accounts receivable from counterparties to EMMT. Notwithstanding the foregoing, Midwest Generation will not be in default under the credit agreement if it fails to enforce payment from EMMT in the case of nonpayment of an account receivable from a counterparty, so long as the counterparty is rated investment grade.

The obligations of Midwest Generation under the credit agreement are secured by, among other things, an account of EMMT in which EMMT will deposit funds received from third-party counterparties for sales of energy and capacity from the Illinois Plants. For further discussion, refer to “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations—Related Party Transactions—EMMT Agreements” of Midwest Generation’s annual report on Form 10-K for the year ended December 31, 2006.

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 Illinois Plants is purchased from suppliers under contracts which may be for multiple years. A number of the coal suppliers to the Illinois Plants do not currently have an investment grade credit rating and, accordingly, Midwest Generation may have limited recourse to collect damages in the event of default by a supplier. Midwest Generation 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.

Midwest Generation derives a significant source of its operating revenues from electric power sold into the PJM market by EMMT. Sales into PJM accounted for approximately 33% of Midwest Generation's consolidated operating revenues for the three months ended March 31, 2007. Moody's rates PJM's senior unsecured debt Aa3. PJM, an ISO 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. For the three months ended March 31, 2007, a second customer accounted for 21% of Midwest Generation's consolidated operating revenues.

Beginning in January 2007, Midwest Generation also derived a significant source of its revenues from the sale of energy, capacity and ancillary services generated at the Illinois Plants to Commonwealth Edison under load requirements services contracts. Sales under these contracts accounted for 28% of Midwest Generation's consolidated operating revenues during the three months ended March 31, 2007. Commonwealth Edison's senior unsecured debt rating was downgraded below investment grade by S&P in October 2006 and by Moody's in March 2007. Commonwealth Edison has stated that it would face possible bankruptcy if an electric rate freeze, which expired January 1, 2007, was re-introduced through legislation which is currently pending in the Illinois General Assembly. In addition, the Illinois Attorney General and other parties have appeals pending before the Illinois Supreme Court pertaining to the Illinois Commerce Commission orders which authorized Commonwealth Edison and Ameren to procure power through a reverse auction process. Midwest Generation is unable to predict the outcome of the appeals or whether legislation or other policy changes affecting utility rates or procurement practices will be enacted, and, if so, what effect these developments may have on Commonwealth Edison's performance under the load requirement services contracts.

Interest Rate Risk

Interest rate changes can affect earnings and the cost of capital needed to make capital improvements. Midwest Generation has a \$500 million working capital facility, maturing in 2011, which exposes Midwest Generation to the risk of earnings loss resulting from changes in interest rates from any borrowings outstanding.

Regulatory Matters

For a discussion of Midwest Generation's regulatory matters, refer to "Item 1. Business—Description of the Industry—Power Markets" of Midwest Generation's annual report on Form 10-K for the year ended December 31, 2006 and "Item 1. Business—Regulatory Matters" of Midwest Generation's annual report on Form 10-K for the year ended December 31, 2006. There have been no other significant developments with respect to regulatory matters specifically affecting Midwest Generation since the filing of its annual report on Form 10-K for the year ended December 31, 2006.

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 Midwest Generation's annual report on Form 10-K for the year ended December 31, 2006. 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

Midwest Generation's management, under the supervision and with the participation of the company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of Midwest Generation'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 Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of the period, Midwest Generation's disclosure controls and procedures are effective.

Internal Control Over Financial Reporting

There were no changes in Midwest Generation'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, Midwest Generation's internal control over financial reporting.

PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

No material legal proceedings are presently pending against Midwest Generation.

ITEM 1A. RISK FACTORS

For a discussion of the risks, uncertainties, and other important factors which could materially affect Midwest Generation’s business, financial condition, or future results, refer to “Item 1A. Risk Factors” of Midwest Generation’s annual report on Form 10-K for the year ended December 31, 2006. The risks described in Midwest Generation’s annual report on Form 10-K are not the only risks facing Midwest Generation. Additional risks and uncertainties that are not currently known, or that are currently deemed to be immaterial, also may materially adversely affect Midwest Generation’s business, financial condition or future results.

ITEM 6. EXHIBITS

<u>Exhibit No.</u>	<u>Description</u>
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.

