UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For the Quarterly Period Ended June 30, 2008

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	**33-0868558**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
One Financial Place **440 South LaSalle Street, Suite 3500** **Chicago, Illinois**	**60605**
(Address of principal executive offices)	(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, a non-accelerated filer or a smaller reporting company. See the definitions of "accelerated filer," "large accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

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

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

Number of units outstanding of the registrant's Membership Interests as of August 8, 2008: 100 units (all units held by an affiliate of the registrant).

TABLE OF CONTENTS

		Page
	Glossary	ii
	PART I – Financial Information	
Item 1.	Financial Statements	1
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	16
Item 3.	Quantitative and Qualitative Disclosures about Market Risk	38
Item 4T.	Controls and Procedures	38
	PART II – Other Information	
Item 1.	Legal Proceedings	40
Item 1A.	Risk Factors	40
Item 6.	Exhibits	40
	Signatures	41

GLOSSARY

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

Btu	British thermal units
CAIR	Clean Air Interstate Rule
Commonwealth Edison	Commonwealth Edison Company
CONE	cost of new entry
EME	Edison Mission Energy
EMMT	Edison Mission Marketing & Trading, Inc.
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
FIN No. 39-1	Financial Accounting Standards Board Staff Position No. 39-1, "Amendment of FASB Interpretation No. 39"
Fitch	Fitch Ratings
FSP SFAS No. 142-3	Financial Accounting Standards Board Staff Position SFAS No. 142-3, "Determination of the Useful Life of Intangible Assets"
GHG	greenhouse gas
GWh	gigawatt-hours
Illinois Plants	EME's largest power plants (fossil fuel), located in Illinois
MD&A	Management's Discussion and Analysis of Financial Condition and Results of Operations
Midwest Generation	Midwest Generation, LLC
MMBtu	million British thermal units
Moody's	Moody's Investors Service, Inc.
MW	megawatts
MWh	megawatt-hours
NOV	Notice of Violation
NOx	nitrogen oxide
PJM	PJM Interconnection, LLC
PRB	Powder River Basin
RPM	Reliability Pricing Model
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. 157	Statement of Financial Accounting Standards No. 157, "Fair Value Measurements"
SFAS No. 161	Statement of Financial Accounting Standards No. 161, "Disclosures About Derivative Instruments and Hedging Activities" (an amendment of FASB No. 133)
SIP(s)	state implementation plan(s)
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 (LOSS)
(In millions, Unaudited)

	Three Months Ended June 30, 2008	Three Months Ended June 30, 2007	Six Months Ended June 30, 2008	Six Months Ended June 30, 2007
Operating Revenues from Marketing Affiliate	$ 391	$ 334	$ 859	$ 765
Operating Expenses				
Fuel	106	85	224	194
Gain on sale of emission allowances	—	(8)	(1)	(8)
Plant operations	125	127	219	216
Depreciation and amortization	36	35	72	71
Gain on buyout of contract and (gain) loss on sale of assets (Note 6)	—	1	(16)	1
Administrative and general	5	6	11	10
Total operating expenses	272	246	509	484
Operating income	119	88	350	281
Other Income (Expense)				
Interest and other income	29	31	64	61
Interest expense	(17)	(32)	(39)	(79)
Loss on early extinguishment of debt	—	(128)	—	(128)
Total other income (expense)	12	(129)	25	(146)
Income (loss) before income taxes	131	(41)	375	135
Provision (benefit) for income taxes	48	(18)	140	49
Net Income (Loss)	$ 83	$ (23)	$ 235	$ 86

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	**2007**	**2008**	**2007**
Net Income (Loss)	$ 83	$ (23)	$ 235	$ 86
Other comprehensive income (loss), net of tax:				
Unrealized gains (losses) on derivatives qualified as cash flow hedges:				
Other unrealized holding gains (losses) arising during period, net of income tax expense (benefit) of $(116) million and $26 million for the three months and $(170) million and $(30) million for the six months ended June 30, 2008 and 2007, respectively	(182)	42	(267)	(47)
Reclassification adjustments included in net income (loss), net of income tax benefit of $57 million and $1 million for the three months and $55 million and $3 million for the six months ended June 30, 2008 and 2007, respectively	89	1	86	4
Other comprehensive income (loss)	(93)	43	(181)	(43)
Comprehensive Income (Loss)	$ (10)	$ 20	$ 54	$ 43

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

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

	June 30, 2008	December 31, 2007
Assets		
Current Assets		
Cash and cash equivalents	$ 40	$ 65
Due from affiliates	164	108
Fuel inventory	64	69
Spare parts inventory	24	23
Loans to affiliate for margin deposits	151	54
Interest receivable from affiliate	56	56
Derivative assets	8	3
Deferred taxes	72	16
Intangible assets	4	3
Other current assets	14	12
Total current assets	597	409
Property, Plant and Equipment	4,243	4,204
Less accumulated depreciation	1,167	1,095
Net property, plant and equipment	3,076	3,109
Notes receivable from affiliate	1,354	1,356
Long-term derivative assets	1	3
Long-term intangible assets	51	19
Other assets	15	16
Total Assets	$ 5,094	$ 4,912
Liabilities and Member's Equity		
Current Liabilities		
Accounts payable	$ 38	$ 29
Book overdrafts	10	2
Accrued liabilities	88	95
Due to affiliates	55	82
Interest payable	32	34
Derivative liabilities	262	29
Current portion of lease financing	122	118
Total current liabilities	607	389
Lease financing, net of current portion	850	912
Long-term obligations	50	—
Deferred taxes	14	68
Long-term derivative liabilities	142	68
Benefit plans and other long-term liabilities	136	158
Total Liabilities	1,799	1,595
Commitments and Contingencies (Note 6)		
Member's Equity		
Membership interests, no par value; 100 units authorized, issued and outstanding	—	—
Additional paid-in capital	3,511	3,587
Accumulated earnings (deficit)	9	(226)
Accumulated other comprehensive loss	(225)	(44)
Total Member's Equity	3,295	3,317
Total Liabilities and Member's Equity	$ 5,094	$ 4,912

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

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

	Six Months Ended June 30, 2008	Six Months Ended June 30, 2007
Cash Flows From Operating Activities		
Net income	$ 235	$ 86
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	74	75
Gain on buyout of contract and (gain) loss on sale of assets	(16)	1
Gain on sale of emission allowances	(1)	(8)
Deferred taxes	6	7
Loss on early extinguishment of debt	—	128
Decrease (increase) in due to/from affiliates	(83)	8
Decrease in inventory	4	—
Increase in loans to affiliate for margin deposit	(97)	(25)
Decrease (increase) in other current assets	(2)	4
Decrease (increase) in other assets	1	(1)
Increase in intangible assets	(33)	(3)
Increase in accounts payable and other current liabilities	10	20
Decrease in interest payable	(2)	(21)
Decrease in other liabilities	(9)	(2)
Decrease in derivative assets and liabilities	8	18
Net cash provided by operating activities	95	287
Cash Flows From Financing Activities		
Borrowings on long-term debt	175	205
Repayments of long-term debt	(125)	(1,505)
Capital contributions from parent	—	1,385
Cash distributions to parent	(76)	(295)
Repayment of capital lease obligation	(58)	(54)
Premium paid on extinguishment of debt and financing costs	—	(109)
Net cash used in financing activities	(84)	(373)
Cash Flows From Investing Activities		
Capital expenditures	(40)	(24)
Proceeds from sale of assets	1	—
Proceeds from sale of emission allowances	2	—
Increase in restricted cash	(1)	—
Repayment of loan to affiliate	2	2
Net cash used in investing activities	(36)	(22)
Net decrease in cash and cash equivalents	(25)	(108)
Cash and cash equivalents at beginning of period	65	171
Cash and cash equivalents at end of period	$ 40	$ 63

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

MIDWEST GENERATION, LLC AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2008
(Unaudited)

Note 1. Summary of Significant Accounting Policies

Basis of Presentation

Midwest Generation's significant accounting policies are described in Note 1 to its consolidated financial statements included in its annual report on Form 10-K for the year ended December 31, 2007. Midwest Generation follows the same accounting policies for interim reporting purposes, with the exception of accounting principles adopted as of January 1, 2008 as discussed below in "—New Accounting Pronouncements." This quarterly report should be read in conjunction with such financial statements.

In the opinion of management, all adjustments, including recurring accruals, have been made that are necessary to fairly state the consolidated financial position and results of operations and cash flows in accordance with accounting principles generally accepted in the United States of America for the periods covered by this quarterly report on Form 10-Q. The results of operations for the six months ended June 30, 2008 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.

Related Party

Included in interest and other income on Midwest Generation's consolidated statements of income (loss) is $28 million and $29 million for the second quarters of 2008 and 2007, respectively, and $57 million and $58 million for the six months ended June 30, 2008 and 2007, respectively, related to interest income from affiliates.

Restricted Cash

Certain cash balances are restricted to provide collateral for fuel suppliers. The total restricted cash included on Midwest Generation's consolidated balance sheets, composed entirely of collateral reserves, was $4 million at June 30, 2008 and $3 million at December 31, 2007.

New Accounting Pronouncements

Accounting Principles Adopted

FASB Staff Position FIN No. 39-1—

In April 2007, the FASB issued FIN No. 39-1. This pronouncement permits companies to offset fair value amounts recognized for the right to reclaim cash collateral (a receivable) or the obligation to return cash collateral (a payable) against fair value amounts recognized for derivative instruments executed with the same counterparty under a master netting arrangement. In addition, upon the adoption, companies were permitted to change their accounting policy to offset or not offset fair value amounts recognized for derivative instruments under master netting agreements. Midwest Generation adopted FIN No. 39-1 effective January 1, 2008. The adoption of FIN No. 39-1 had no effect on Midwest Generation's consolidated financial statements.

Statement of Financial Accounting Standards No. 159—

In February 2007, the FASB issued SFAS No. 159, "Fair Value Option for Financial Assets and Liabilities, Including an Amendment of FASB Statement No. 115," which provides an option to report eligible financial assets and liabilities at fair value, with changes in fair value recognized in earnings. Midwest Generation adopted this pronouncement effective January 1, 2008. The adoption had no impact because Midwest Generation did not make an optional election to report additional financial assets and liabilities at fair value.

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 adopted SFAS No. 157 effective January 1, 2008. The adoption did not result in any retrospective adjustment to its consolidated financial statements. The accounting requirements for employers' pension and other postretirement benefit plans are effective at the end of 2008, which is the next measurement date for these benefit plans. The effective date will be January 1, 2009 for nonfinancial assets and liabilities which are measured or disclosed on a non-recurring basis. For further discussion see Note 2—Fair Value Measurements.

Accounting Principles Not Yet Adopted

Statement of Financial Accounting Standards No. 161—

In March 2008, the FASB issued SFAS No. 161, which requires additional disclosures related to derivative instruments, including how and why an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for and how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. SFAS No. 161 is effective for fiscal years beginning after November 15, 2008, with early adoption permitted. Midwest Generation will adopt SFAS No. 161 in the first quarter of 2009. SFAS No. 161 will impact disclosures only and will not have an impact on Midwest Generation's consolidated results of operations, financial condition or cash flows.

FSP SFAS No. 142-3—

In April 2008, the FASB issued FSP SFAS No. 142-3 which amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, "Goodwill and Other Intangible Assets." The intent of the position is to improve the consistency between the useful life of a recognized intangible asset under SFAS No. 142 and the period of expected cash flows used to measure the fair value of the asset under SFAS No. 141(R) and other U.S. generally accepted accounting principles. Midwest Generation will adopt FSP SFAS No. 142-3 on January 1, 2009. Midwest Generation is currently evaluating the impact, if any, that the adoption of this position could have on its consolidated financial statements.

Note 2. Fair Value Measurements

SFAS No. 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (referred to as an "exit price" in SFAS No. 157). SFAS No. 157 clarifies that a fair value measurement for a liability should reflect the entity's nonperformance risk.

The standard establishes a hierarchy for fair value measurements. Financial assets and liabilities carried at fair value on a recurring basis are classified and disclosed in the three categories outlined below:

- Level 1 – Observable inputs that reflect quoted market prices (unadjusted) for identical assets and liabilities in active markets;

- Level 2 – Inputs other than quoted market prices included in Level 1 that are observable for the asset or liability either directly or indirectly; and

- Level 3 – Unobservable inputs using data that is not corroborated by market data and primarily based on internal company analysis.

Midwest Generation's assets and liabilities carried at fair value primarily consist of derivative positions. These positions may include forward sales and purchases of physical power, options and forward price swaps which settle only on a financial basis (including futures contracts). In assessing the fair value of Midwest Generation's derivative financial instruments, Midwest Generation uses quoted market prices and forward market prices adjusted for credit risk. 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.

Level 1 includes derivatives that are exchange traded in active markets. The fair values are determined using quoted exchange transaction market prices.

Level 2 includes traded derivatives using over-the-counter markets and exchange traded derivatives not classified as Level 1. The fair value of these derivatives is determined using forward market prices adjusted for credit risk. The majority of Level 2 derivatives are entered into for hedging purposes.

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

In circumstances where Midwest Generation cannot verify fair value with observable market transactions, it is possible that a different valuation model could produce a materially different estimate of fair value. As markets continue to develop and more pricing information becomes available, Midwest Generation continues to assess valuation methodologies used to determine fair value.

When appropriate, valuations are adjusted for various factors including liquidity, bid/offer spreads and credit considerations. Such adjustments are generally based on available market evidence. In the absence of such evidence, management's best estimate is used.

The following table sets forth Midwest Generation's financial assets and liabilities that were accounted for at fair value as of June 30, 2008 by level within the fair value hierarchy.

	Level 1	Level 2	Level 3	Total at June 30, 2008
		(in millions)		
Assets at Fair Value				
Derivative contracts	$ —	$ —	$ 3	$ 3
Liabilities at Fair Value				
Derivative contracts	$ —	$(395)	$ (3)	$(398)

The following table sets forth a summary of changes in the fair value of Midwest Generation's Level 3 derivative contracts, net for the three months ended June 30, 2008.

	(in millions)
Fair value of derivative contracts, net at April 1, 2008	$ (7)
Total realized/unrealized gains (losses):	
Included in earnings(1)	3
Included in accumulated other comprehensive loss	1
Purchases and settlements, net	—
Transfers in or out of Level 3	3
Fair value of derivative contracts, net at June 30, 2008	$ —

The change during the quarter in unrealized gains (losses) related to derivative contracts, net held at June 30, 2008 were immaterial.

The following table sets forth a summary of changes in the fair value of Midwest Generation's Level 3 derivative contracts, net for the six months ended June 30, 2008.

	(in millions)
Fair value of derivative contracts, net at January 1, 2008	$ 3
Total realized/unrealized gains (losses):	
Included in earnings(1)	(11)
Included in accumulated other comprehensive loss	(3)
Purchases and settlements, net	8
Transfers in or out of Level 3	3
Fair value of derivative contracts, net at June 30, 2008	$ —
Change during the six months ended June 30, 2008 in unrealized gains (losses) related to derivative contracts, net held at June 30, 2008(1)	$ 1

(1) Reported in "Operating Revenues" on Midwest Generation's consolidated statements of income (loss).

Note 3. Accumulated Other Comprehensive Loss

Accumulated other comprehensive loss consisted of the following:

	Unrealized Losses on Cash Flow Hedges	Unrecognized Gains and Prior Service Costs, Net(1)	Accumulated Other Comprehensive Loss
		(in millions)	
Balance at December 31, 2007	$ (45)	$ 1	$ (44)
Current period change	(181)	—	(181)
Balance at June 30, 2008	$ (226)	$ 1	$ (225)

(1) For further detail, see Note 4—Compensation and Benefit Plans.

Unrealized losses on cash flow hedges, net of tax, at June 30, 2008, included unrealized losses on commodity hedges related to futures and forward electricity contracts that qualify for hedge accounting. These losses arise because current forecasts of future electricity prices are greater than the contract prices. As Midwest Generation's hedged positions are realized, $151 million, after tax, of the net unrealized losses on cash flow hedges at June 30, 2008 are expected to be reclassified into earnings during the next 12 months. Management expects that reclassification of net unrealized losses will decrease 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, 2011.

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 losses of $8 million and $1 million during the second quarters of 2008 and 2007, respectively, and $15 million and $1 million during the six months ended June 30, 2008 and 2007, respectively, representing the amount of cash flow hedges' ineffectiveness, reflected in operating revenues in Midwest Generation's consolidated income statements.

Note 4. Compensation and Benefit Plans

Pension Plans and Postretirement Benefits Other Than Pensions

Pension Plans

As of June 30, 2008, Midwest Generation had made approximately $2 million in contributions to its pension plans and estimates to make $8 million of contributions in the last six months of 2008. Expected contribution funding in 2008 could vary from anticipated amounts, depending on the funded status at year-end and tax-deductible funding limitations.

The following are components of pension expense:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
	(in millions)			
Service cost	$ 3.0	$ 3.1	$ 6.1	$ 6.2
Interest cost	1.5	1.3	3.1	2.7
Expected return on plan assets	(1.6)	(1.2)	(3.1)	(2.5)
Amortization of prior service credit	—	—	0.1	0.1
Amortization of net gain	—	—	(0.1)	(0.1)
Total expense	$ 2.9	$ 3.2	$ 6.1	$ 6.4

Postretirement Benefits Other Than Pensions

As of June 30, 2008, Midwest Generation had made approximately $0.3 million in contributions to its postretirement benefits other than pensions and estimates to make $0.2 million of contributions in the last six months of 2008. Expected contribution funding in 2008 could vary from anticipated amounts, depending on the funded status at year-end and tax-deductible funding limitations.

The following are components of postretirement benefits expense:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
	(in millions)			
Service cost	$ 0.1	$ 0.1	$ 0.3	$ 0.3
Interest cost	0.4	0.4	0.9	0.8
Amortization of prior service costs	(0.1)	(0.2)	(0.3)	(0.4)
Amortization of net loss	0.2	0.2	0.3	0.3
Total expense	$ 0.6	$ 0.5	$ 1.2	$ 1.0

Note 5. Income Taxes

Midwest Generation had an effective income tax provision rate of 37% for both the six months ended June 30, 2008 and 2007. Midwest Generation's effective income tax rate varies from the federal statutory rate of 35% primarily due to state income taxes and estimated benefits from a federal deduction related to qualified domestic production activities under Section 199 of the Internal Revenue Code.

Note 6. Commitments and Contingencies

Commitments

Capital Improvements

At June 30, 2008, Midwest Generation had firm commitments to spend approximately $55 million on capital expenditures during the remainder of 2008 primarily related to superheater tubes replacement, generator stator rewinds, 4kV switchgear, facilities improvements, and environmental improvements. These capital expenditures are planned to be financed by cash generated from operations.

Fuel Supply Contracts

In connection with the acquisition of the Illinois Plants, Midwest Generation had assumed a long-term coal supply contract and recorded a liability to reflect the fair value of this contract. In March 2008, Midwest Generation entered into an agreement to buyout its coal obligations for the years 2009 through 2012 under this contract with a one-time payment to be made in January 2009. Midwest Generation recorded a pre-tax gain of $15 million ($9 million, after tax) during the first quarter of 2008. The remaining payments due under this contract are $18 million.

Other Contractual Obligations

Midwest Generation had entered into contractual agreements during the first six months of 2008 to purchase materials for environmental controls equipment. These commitments are currently estimated to be $170 million, summarized as follows: remainder of 2008—$7 million, 2009—$29 million, 2010—$40 million, 2011—$40 million, 2012—$39 million, and thereafter—$15 million.

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 Agreement

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. Although the Collins Station lease terminated in April 2004, Midwest Generation's tax indemnity agreement with the former lease equity investor is still in effect. 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 potential 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.

Indemnities 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 takes 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. By letter dated August 8, 2007, Commonwealth Edison advised Midwest Generation that Commonwealth Edison believes it is entitled to indemnification for all liabilities, costs, and expenses that it may be required to bear as a result of the NOV discussed below under "Contingencies—New Source Review Notice of Violation." By letter dated August 16, 2007, Commonwealth Edison tendered a request for indemnification to Midwest Generation for all liabilities, costs, and expenses that Commonwealth Edison may be required to bear if the environmental groups were to file suit. 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 Company LLC 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 had an initial five-year term with an automatic renewal provision for subsequent one-year terms (subject to the right of either party to terminate); pursuant to the automatic renewal provision, it has been extended until February 2009. 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 230 cases for which Midwest Generation was potentially liable and that had not been settled and dismissed at June 30, 2008. Midwest Generation had recorded a $53 million liability at June 30, 2008 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

RPM Buyers' Complaint

On May 30, 2008, a group of entities referring to themselves as the "RPM Buyers" filed a complaint at the FERC asking that PJM's RPM, as implemented through the transitional base residual auctions establishing capacity payments for the period from June 1, 2008 through May 31, 2011, be found to have produced unjust and unreasonable capacity prices. The RPM Buyers alleged that the absence of price discipline provided by new capacity resources, together with the ability of existing resources to withhold some capacity within the RPM rules, produced capacity prices in the transition period that are not comparable to those that would have been produced in a competitive market or determined under cost-based regulation, and have requested that the FERC order refunds based on that difference.

On July 10, 2008, EME responded to the RPM Buyers' complaint asking that the same be dismissed based upon various legal precedents. In particular EME argued that the complaint represents little more than a collateral attack on the FERC's orders approving the RPM settlement and rules and that all of the major factors the RPM Buyers alleged produced unjust and unreasonable prices in the base residual auctions were previously litigated and adjudicated in the contested proceedings involving the RPM settlement. A number of other parties, including PJM, also responded to the RPM Buyers' complaint asking that the same be dismissed. This matter is currently pending before the FERC. Midwest Generation cannot predict the outcome of this matter.

New Source Review Notice of Violation

On August 3, 2007, Midwest Generation received an NOV from the US EPA alleging that, beginning in the early 1990s and into 2003, Midwest Generation or Commonwealth Edison performed repair or replacement projects at six Illinois coal-fired electric generating stations in violation of the Prevention of Significant Deterioration requirements and of the New Source Performance Standards of the Clean Air Act, including alleged requirements to obtain a construction permit and to install best available control technology at the time of the projects. The US EPA also alleges that Midwest Generation and Commonwealth Edison violated certain operating permit requirements under Title V of the Clean Air Act. Finally, the US EPA alleges violations of certain opacity and particulate matter standards at the Illinois Plants. The NOV does not specify the penalties or other relief that the US EPA seeks for the alleged violations. Midwest Generation, Commonwealth Edison, the US EPA, and the United States Department of Justice (DOJ) are in talks designed to explore the possibility of a settlement. If the settlement talks fail and the DOJ files suit, litigation could take many years to resolve the issues alleged in the NOV. As a result, Midwest Generation is investigating the claims made by the US EPA in the NOV and has identified several defenses which it will raise if the government files suit. Midwest Generation cannot predict the outcome of this matter or estimate the impact on its facilities, its results of operations, financial position or cash flows.

On August 13, 2007, Midwest Generation and Commonwealth Edison received a letter signed by several Chicago-based environmental action groups stating that, in light of the NOV, the groups are examining the possibility of filing a citizen suit against Midwest Generation and Commonwealth Edison based presumably on the same or similar theories advanced by the US EPA in the NOV.

By letter dated August 8, 2007, Commonwealth Edison advised Midwest Generation that Commonwealth Edison believes it is entitled to indemnification for all liabilities, costs, and expenses that it may be required to bear as a result of the NOV. By letter dated August 16, 2007, Commonwealth Edison tendered a request for indemnification to Midwest Generation for all liabilities, costs, and expenses that Commonwealth Edison may be required to bear if the environmental groups were to file suit. Midwest Generation and Commonwealth Edison are cooperating with one another in responding to the NOV.

Insurance

At June 30, 2008, Midwest Generation had a $10 million receivable recorded related to insurance claims from unplanned outages, of which $6 million related to business interruption insurance coverage recorded during the first quarter of 2008 and has been reflected in interest and other income in Midwest Generation's consolidated statements of income (loss).

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. However, possible future developments, such as the promulgation of more stringent environmental laws and regulations, future proceedings that may be initiated by environmental and other regulatory authorities, cases in which new theories of liability are recognized, and settlements agreed to by other companies that establish precedent or expectations for the power industry, could affect the costs and the manner in which Midwest Generation conducts its businesses and could require substantial additional capital or operational expenditures or the ceasing of operations at certain of its facilities. There is no assurance that Midwest Generation's financial position and results of operations would not be materially adversely affected. Midwest Generation is unable to predict the precise extent to which additional laws and regulations may affect its future operations and capital expenditure 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 or operational expenditures. If Midwest Generation fails to comply with applicable environmental laws, it may be subject to injunctive relief or penalties and fines imposed by federal and state regulatory authorities.

With respect to Midwest Generation's potential liabilities arising under the Comprehensive Environmental Response, Compensation and Liability Act of 1980, also known as 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 had accrued approximately $5 million at June 30, 2008 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 investigation and/or remediation 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.

In July 2008, the District of Columbia Circuit Court of Appeals vacated the US EPA's CAIR and remanded it to the US EPA. Midwest Generation cannot predict whether the US EPA or any other party will seek a rehearing or appeal of the decision. The decision raises significant questions as to whether the US EPA will be able to design cap-and-trade programs for NO_X and SO_2 that are authorized and consistent with the Clean Air Act provisions that address upwind contributions to downwind states' noncompliance with national ambient air quality standards for ozone and fine particulate matter. Because the CAIR was vacated, the court's decision means that the existing "SIP Call" ozone season NO_X cap-and-trade program, which was due to be replaced by the CAIR, will continue (assuming the decision is upheld).

Midwest Generation is in the process of evaluating the impact of the D.C. Circuit's decision. Because Illinois promulgated its regulations in response to the CAIR, there is substantial uncertainty as to the impact of the decision on these regulations. Illinois adopted the CAIR emissions trading programs, but also requires Midwest Generation to achieve reductions of NO_X and SO_2 (and mercury) through environmental control retrofits and plant shutdowns pursuant to a Combined Pollutant Standard. However, if the US EPA is required to propose a new regulation to address interstate transport of air pollution, Midwest Generation cannot be certain that the emissions reductions currently required by the Combined Pollutant Standard will be sufficient to meet such revised regulations. In addition, the US EPA has allowed states to rely on compliance with the CAIR to satisfy obligations under other Clean Air Act programs, including regional haze regulations and reasonably available control technology requirements. Depending on what happens with respect to CAIR, the Illinois Plants may be subject to additional requirements pursuant to these programs. For further discussion, see Note 8. Commitments and Contingencies—Environmental Matters and Regulations—Air Quality Regulation—Clean Air Interstate Rule" in Midwest Generation's financial statements included in its annual report on Form 10-K for the year ended December 31, 2007.

Based on the CAIR requirements, Midwest Generation purchased \$48 million of annual NO_X allowances under the new CAIR annual NO_X program which was vacated by the court ruling discussed above. As a result of this decision, the annual NO_X allowances may no longer be required. Midwest Generation is currently evaluating the above decision including whether the purchased annual NO_X allowances are impaired which could result in a charge against income during the third quarter ending September 30, 2008.

Note 7. Supplemental Cash Flows Information

	Six Months Ended June 30,	
	2008	**2007**
	(in millions)	
Cash paid (received)		
Interest	$ 35	$ 98
Income taxes	149	(3)

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

This MD&A contains "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. These statements reflect 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 laws and regulations, at both the state and federal levels, 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, 2007. 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, 2007, and as compared to the second quarter of 2007 and six months ended June 30, 2007. 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, 2007.

This MD&A is presented in four sections:

	Page
Management's Overview; Critical Accounting Policies	17
Results of Operations	20
Liquidity and Capital Resources	24
Market Risk Exposures	30

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 5,776 MW of power plants, based on installed capacity acknowledged by PJM, consisting of:

- six coal-fired generating plants consisting of 5,471 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.

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.

Industry Developments

Commodity Prices

The 24-hour average market prices for energy at the Northern Illinois Hub increased 18% during the six months ended June 30, 2008, compared to the corresponding period in 2007. In addition, the forward energy market price for 2009 at the Northern Illinois Hub increased 21% at June 30, 2008 from December 31, 2007. At June 30, 2008, Midwest Generation had entered into hedge contracts that are recorded at fair value in its consolidated financial statements. Since forward energy prices have increased at June 30, 2008, the hedge contracts are reflected as a liability, with the effective portion of the contracts recorded as a reduction of member's equity ($226 million after tax). Subsequent to June 30, 2008, forward energy market prices decreased (forward market prices for 2009 at July 29, 2008 decreased 18% at the Northern Illinois Hub from June 30, 2008) reflecting the volatile nature of commodity prices. See "Market Risk Exposures—Commodity Price Risk" for further discussion. During the three-month period ended June 30, 2008 of historically high forward energy market prices, Midwest Generation increased its hedge position by approximately 8.4 million megawatt hours.

Regulatory Developments

In July 2008, the District of Columbia Circuit Court of Appeals vacated the US EPA's CAIR and remanded it to the US EPA. In addition, because Illinois promulgated its regulations in response to the CAIR, there is substantial uncertainty as to the impact of the Court's decision on these regulations. Notwithstanding these developments, the Illinois Plants continue to be governed by state rules as well as the existing "SIP Call" ozone season NO_X cap-and-trade program (which was due to be replaced by the CAIR). For further discussion, see "Liquidity and Capital Resources—Environmental Matters and Regulations—Air Quality Regulation—Clean Air Interstate Rule."

Based on the CAIR requirements, Midwest Generation purchased $48 million of annual NO_X allowances under the new CAIR annual NO_X program which was vacated by the court ruling discussed above. As a result of this decision, the annual NO_X allowances may no longer be required. Midwest Generation is currently evaluating the above decision including whether the purchased annual NO_X allowances are impaired which could result in a charge against income during the third quarter ending September 30, 2008.

Overview of Midwest Generation's Operating Performance

Midwest Generation's net income for the quarter and six months ended June 30, 2008 increased $106 million and $149 million, respectively, compared to the corresponding periods of 2007. During the second quarter of 2007, Midwest Generation recorded a loss on early extinguishment of debt of $79 million, after tax. Excluding this item, net income for the quarter and six months ended June 30, 2008 increased $27 million and $70 million, respectively, compared to the corresponding periods of 2007. The increases in earnings were primarily attributable to higher gross margin, as compared to 2007, and lower interest expense in 2008 due to the repayment of debt in May 2007. The increase in gross margin was due to higher generation and higher average realized energy and capacity prices, partially offset by higher coal and transportation costs per megawatt hour in 2008 mainly due to cost escalations included in the transportation contracts. Earnings for the six months ended June 30, 2008 were also higher due to a gain recorded during the first quarter of 2008 related to a buyout of a fuel contract (see "Liquidity and Capital Resources—Contractual Obligations—Fuel Supply Contracts" for further discussion).

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 Policies" of Midwest Generation's annual report on Form 10-K for the year ended December 31, 2007.

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 June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Operating Revenues (in millions)	$ 391	$ 334	$ 859	$ 765
Statistics				
Generation (in GWh):				
Energy only contracts	5,533	4,445	12,071	11,143
Load requirements services contracts	1,287	1,681	3,132	3,613
Total	6,820	6,126	15,203	14,756
Aggregate plant performance:				
Equivalent availability(1)	72.6%	61.5%	77.5%	74.7%
Capacity factor(2)	57.2%	50.0%	63.7%	60.5%
Load factor(3)	78.7%	81.3%	82.2%	81.1%
Forced outage rate(4)	6.5%	6.0%	9.3%	6.0%
Average realized price/MWh:				
Energy only contracts(5)	$ 52.67	$ 49.04	$ 52.94	$ 49.06
Load requirements services contracts(6)	$ 62.48	$ 62.58	$ 62.40	$ 62.21
Capacity revenue only (in millions)	$ 20	$ 4	$ 29	$ 6
Average fuel costs/MWh	$ 15.56	$ 13.82	$ 14.74	$ 13.13

(1) 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.

(2) 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.

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

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

(5) 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 (plus) 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.

	Three Months Ended June 30		Six Months Ended June 30	
	2008	2007	2008	2007
	(in millions)			
Operating revenues	$ 391	$ 334	$ 859	$ 765
Less (plus):				
Load requirements services contracts	(81)	(105)	(196)	(224)
Unrealized losses (gains)	3	(4)	8	18
Other revenues	(22)	(7)	(32)	(12)
Realized revenues	$ 291	$ 218	$ 639	$ 547
Generation (in GWh)	5,533	4,445	12,071	11,143
Average realized energy price/MWh	$ 52.67	$ 49.04	$ 52.94	$ 49.06

(6) 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 $57 million and $94 million for the second quarter and six months ended June 30, 2008, respectively, compared to the corresponding periods of 2007, primarily due to higher energy and capacity revenues. The increase in energy revenues was attributable to higher generation and higher average realized energy prices.

Included in operating revenues were unrealized gains (losses) of $(3) million and $4 million for the second quarters of 2008 and 2007, respectively, and $(8) million and $(18) million for the six months ended June 30, 2008 and 2007, respectively. In 2008, unrealized losses were primarily attributable to the ineffective portion of forward and futures contracts which are derivatives that qualify as cash flow hedges under SFAS No. 133. The ineffective portion of hedge contracts at the Illinois Plants was primarily attributable to changes in the difference between energy prices at NiHub (the settlement point under forward or futures contracts) and the energy prices at the Illinois Plants busbars (the delivery point where power generated by the Illinois Plants is delivered into the transmission system) resulting from marginal losses. In 2007, unrealized gains (losses) were 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. At June 30, 2008, unrealized losses of $26 million were recognized primarily from the ineffective portion of cash flow hedges related to subsequent periods and to a lesser extent from economic hedges. See "Market Risk Exposures—Commodity Price Risk" for more information regarding forward market prices.

Powerton Station Outage

On December 18, 2007, Unit 6 at the Powerton Station had a duct failure resulting in a suspension of operations at this unit through February 12, 2008. Scheduled maintenance work for the spring of 2008 was accelerated to minimize the aggregate impact of the outage. The duct failure resulted in claims under Midwest Generation's property and business interruption insurance policies. At June 30, 2008, Midwest Generation had a $10 million receivable recorded primarily related to these claims.

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 $26 million and $25 million for the second quarter and six months ended June 30, 2008, respectively, compared to the corresponding periods of 2007. Operating expenses consist of fuel, gain on the sale of emission allowances, plant operations, gain from buyout of contract and (gain) loss on sale of assets, depreciation and amortization, and administrative and general expenses. The change in the components of operating expenses is discussed below.

Fuel expenses increased $21 million and $30 million for the second quarter and six months ended June 30, 2008, respectively, compared to the corresponding periods of 2007. The increases were primarily attributable to higher coal prices and higher transportation costs in 2008 due to cost escalations included in contracts and higher generation.

Gain on sale of emission allowances was none and $8 million for the second quarters of 2008 and 2007, respectively, and $1 million and $8 million for the six months ended June 30, 2008 and 2007, respectively. Midwest Generation primarily sold excess SO_2 emission allowances to an affiliate.

Gain on buyout of contract and (gain) loss on sale of assets for the six months ended June 30, 2008 includes a $15 million gain related to the buyout of a fuel contract. See "Liquidity and Capital Resources—Contractual Obligations—Fuel Supply Contracts" for further discussion.

Other Income (Expense)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
	(in millions)			
Interest and other income	$ 1	$ 2	$ 7	$ 3
Interest income from affiliates	28	29	57	58
Interest expense	(17)	(32)	(39)	(79)
Loss on early extinguishment of debt	—	(128)	—	(128)
Total other expense	$ 12	$(129)	$ 25	$(146)

Interest and other income increased $4 million for the six months ended June 30, 2008, compared to the corresponding period of 2007, primarily due to $6 million recorded in other income in 2008 for business interruption coverage related to insurance claims from unplanned outages.

Interest expense decreased $15 million and $40 million for the second quarter and six months ended June 30, 2008, respectively, compared to the corresponding periods of 2007, primarily due to repayment of debt in May 2007.

Loss on early extinguishment of debt for the second quarter of 2007 and six months ended June 30, 2007 related to the early repayment of Midwest Generation's 8.75% second priority senior secured notes due May 1, 2034.

Provision For Income Taxes

Midwest Generation had an effective income tax provision rate of 37% for both the six months ended June 30, 2008 and 2007. Midwest Generation's effective income tax rate varies from the federal statutory rate of 35% primarily due to state income taxes and estimated benefits from a federal deduction related to qualified domestic production activities under Section 199 of the Internal Revenue Code.

New Accounting 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:

	Page
Consolidated Cash Flow	24
Capital Expenditures	25
Credit Facility and Other Covenants	25
Equity Distributions and Tax Payments	25
Powerton-Joliet Lease Payments	26
Credit Ratings	26
Contractual Obligations and Contingencies	27
Off-Balance Sheet Transactions	28
Environmental Matters and Regulations	28

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, 2007.

Consolidated Cash Flow

At June 30, 2008, Midwest Generation had cash and cash equivalents of $40 million, compared to $65 million at December 31, 2007. Net working capital at June 30, 2008 was $(10) million, compared to $20 million at December 31, 2007. The decrease in working capital was primarily attributable to higher net derivative liabilities partially offset by an increase in loans to EMMT for margin deposits, both due to the effects of increased forward market prices. Receivables from EMMT increased $53 million at June 30, 2008 from December 31, 2007 due to higher energy revenues in June 2008 as compared to December 2007.

Net cash provided by operating activities decreased $192 million in the first six months of 2008, compared to the first six months of 2007. The 2008 decrease was primarily due to tax payments to its affiliate of $149 million in 2008, the purchase of additional NO_X emission allowances, and the timing of cash receipts and disbursements related to working capital items as described in the preceding paragraph.

Net cash used in financing activities decreased $289 million in the first six months of 2008, compared to the first six months of 2007. The decrease was primarily due to Midwest Generation's lower equity distributions to its parent in 2008 of $76 million as compared to $295 million in 2007. In 2007, Midwest Generation paid $109 million of fees related to the early extinguishment of debt.

Net cash used in investing activities increased $14 million in the first six months of 2008, compared to the first six months of 2007. The 2008 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. As of June 30, 2008, $53 million had been utilized under the working capital facility.

Capital Expenditures

At June 30, 2008, the estimated capital expenditures by Midwest Generation through 2010 were as follows:

	July through December 2008	2009	2010
	(in millions)		
Plant capital expenditures	$ 40	$ 78	$ 27
Environmental expenditures	47	61	263
Total	$ 87	$ 139	$ 290

Plant capital expenditures relate to non-environmental projects such as superheater tubes replacements, generator stator rewinds, 4kV switchgear 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 fund these expenditures with its working capital facility, 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, 2007.

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, enter into swap agreements, or engage in transactions for any speculative purpose. In order for Midwest Generation to make a distribution, it must be in compliance with the covenants specified under its credit agreement, including maintaining a debt to capitalization ratio of no greater than 0.60 to 1. At June 30, 2008, the debt to capitalization ratio was 0.23 to 1.

Equity Distributions and Tax Payments

The following table summarizes the payments by Midwest Generation as equity distributions through Edison Mission Midwest Holdings and payments made pursuant to tax-allocation agreements:

	Six Months Ended June 30,	
	2008	2007
	(in millions)	
Equity distributions	$ 76	$ 295
Tax payments (receipts) under tax-allocation agreements	149	(3)
Total payments	$ 225	$ 292

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 June 30, 2008, were as follows:

	Moody's Rating	S&P Rating	Fitch Rating
EME	B1	BB−	BB−
Midwest Generation	Baa3	BB+	BBB−
EMMT	Not Rated	BB−	Not Rated

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 June 30, 2008, $53 million was utilized under this facility.

As of June 30, 2008, Midwest Generation had $151 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 June 30, 2008, Midwest Generation had firm commitments to spend approximately $55 million on capital expenditures during the remainder of 2008 primarily related to superheater tubes replacement, generator stator rewinds, 4kV switchgear, facilities improvements, and environmental improvements. These capital expenditures are planned to be financed by cash generated from operations.

Fuel Supply Contracts

In connection with the acquisition of the Illinois Plants, Midwest Generation had assumed a long-term coal supply contract and recorded a liability to reflect the fair value of this contract. In March 2008, Midwest Generation entered into an agreement to buyout its coal obligations for the years 2009 through 2012 under this contract with a one-time payment to be made in January 2009. Midwest Generation recorded a pre-tax gain of $15 million ($9 million, after tax) during the first quarter of 2008. The remaining payments due under this contract are $18 million.

Other Contractual Obligations

Midwest Generation had entered into contractual agreements during the first six months of 2008 to purchase materials for environmental controls equipment. These commitments are currently estimated to be $170 million, summarized as follows: remainder of 2008—$7 million, 2009—$29 million, 2010—$40 million, 2011—$40 million, 2012—$39 million, and thereafter—$15 million.

Contingencies

RPM Buyers' Complaint

On May 30, 2008, a group of entities referring to themselves as the "RPM Buyers" filed a complaint at the FERC asking that PJM's RPM, as implemented through the transitional base residual auctions establishing capacity payments for the period from June 1, 2008 through May 31, 2011, be found to have produced unjust and unreasonable capacity prices. The RPM Buyers alleged that the absence of price discipline provided by new capacity resources, together with the ability of existing resources to withhold some capacity within the RPM rules, produced capacity prices in the transition period that are not comparable to those that would have been produced in a competitive market or determined under cost-based regulation, and have requested that the FERC order refunds based on that difference.

On July 10, 2008, EME responded to the RPM Buyers' complaint asking that the same be dismissed based upon various legal precedents. In particular EME argued that the complaint represents little more than a collateral attack on the FERC's orders approving the RPM settlement and rules and that all of the major factors the RPM Buyers alleged produced unjust and unreasonable prices in the base residual auctions were previously litigated and adjudicated in the contested proceedings involving the RPM settlement. A number of other parties, including PJM, also responded to the RPM Buyers' complaint asking that the same be dismissed. This matter is currently pending before the FERC. Midwest Generation cannot predict the outcome of this matter.

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, 2007. 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, 2007 and the notes to the consolidated financial statements set forth therein. There have been no significant developments with respect to environmental matters specifically affecting Midwest Generation since the filing of Midwest Generation's annual report, except as follows:

Air Quality Regulation

On July 1, 2008, EME began operating activated carbon injection technology to reduce mercury emissions at the Fisk, Crawford, and Waukegan stations. EME anticipates that the same technology will be implemented at the rest of the Illinois Plants in the third quarter of 2009.

Ambient Air Quality Standards

On March 12, 2008, the US EPA signed a final rule that implements revisions to the primary and secondary national ambient air quality standards for ozone, originally proposed on July 11, 2007. With regard to the primary standard for ozone, the US EPA has reduced the 8-hour standard to 0.075 parts per million (ppm) from the current standard of 0.84 ppm. The rule became effective on May 27, 2008. Attainment dates for the new standards range between 2013 and 2030, depending on the severity of the non-attainment. Based on 2005-2007 data, Chicago is likely to be in non-attainment with the new standard. Midwest Generation intends to consider the new standards as part of its overall plan for environmental compliance.

Clean Air Interstate Rule

In July 2008, the District of Columbia Circuit Court of Appeals vacated the US EPA's CAIR and remanded it to the US EPA. Midwest Generation cannot predict whether the US EPA or any other party will seek a rehearing or appeal of the decision. The decision raises significant questions as to whether the US EPA will be able to design cap-and-trade programs for NO_X and SO_2 that are authorized and consistent with the Clean Air Act provisions that address upwind contributions to downwind states' noncompliance with national ambient air quality standards for ozone and fine particulate matter. Because the CAIR was vacated, the court's decision means that the existing "SIP Call" ozone season NO_X cap-and-trade program, which was due to be replaced by the CAIR, will continue (assuming the decision is upheld).

Midwest Generation is in the process of evaluating the impact of the D.C. Circuit's decision. Because Illinois promulgated its regulations in response to the CAIR, there is substantial uncertainty as to the impact of the decision on these regulations. Illinois adopted the CAIR emissions trading programs, but also requires Midwest Generation to achieve reductions of NO_X and SO_2 (and mercury) through environmental control retrofits and plant shutdowns pursuant to a Combined Pollutant Standard. However, if the US EPA is required to propose a new regulation to address interstate transport of air pollution, Midwest Generation cannot be certain that the emissions reductions currently required by the Combined Pollutant Standard will be sufficient to meet such revised regulations. In addition, the US EPA has allowed states to rely on compliance with the CAIR to satisfy obligations under other Clean Air Act programs, including regional haze regulations and reasonably available control technology requirements. Depending on what happens with respect to CAIR, the Illinois Plants may be subject to additional requirements pursuant to these programs.

Based on the CAIR requirements, Midwest Generation purchased $48 million of annual NO_X allowances under the new CAIR annual NO_X program which was vacated by the court ruling discussed above. As a result of this decision, the annual NO_X allowances may no longer be required. Midwest Generation is currently evaluating the above decision including whether the purchased annual NO_X allowances are impaired which could result in a charge against income during the third quarter ending September 30, 2008.

MARKET RISK EXPOSURES

Introduction

Midwest Generation's primary market risk exposures are associated with the sale of electricity and capacity from, and the procurement of fuel for, its merchant power plants. These market risks 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:

	Page
Commodity Price Risk	30
Accounting for Energy Contracts	35
Derivative Financial Instruments	36
Credit Risk	36
Interest Rate Risk	38
Regulatory Matters	38

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, 2007.

Commodity Price Risk

Introduction

Midwest Generation sells all of 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.

EMMT uses "earnings at risk" to identify, measure, monitor and control Midwest Generation's overall market risk exposure with respect to hedge positions at the Illinois Plants. The use of this measure allows management to aggregate overall commodity risk, compare risk on a consistent basis and identify the risk factors. Earnings at risk measures the potential change in value of an asset or position, in each case over a given time interval, under normal market conditions, at a given confidence level. Given the inherent limitations of this measure and reliance on a single type of 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 electricity sales through EMMT. To the extent that Midwest Generation does not hedge its electricity sales, 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 electric utilities and power marketing companies,
- 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, and
- participation in capacity auctions.

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. In addition, Midwest Generation may grant liens on its property in support of hedging transactions associated with 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 or the AEP/Dayton Hub, both in PJM, or may be entered into at other trading hubs, including the Cinergy Hub in the Midwest Independent Transmission System Operator (MISO).

These trading hubs have been the most liquid locations for hedging purposes. 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 six months of 2008 and 2007.

	24-Hour Northern Illinois Hub Historical Energy Prices(1)	
	2008	**2007**
January	$ 47.09	$ 35.75
February	54.46	56.64
March	58.58	42.04
April	53.87	48.91
May	44.49	44.49
June	56.06	39.76
Six-Month Average	$ 52.42	$ 44.60

(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 June 30, 2008:

	24-Hour Northern Illinois Hub Forward Energy Prices(1)
2008	
July	$ 81.00
August	77.04
September	62.27
October	59.88
November	56.23
December	64.39
2009 Calendar "strip"(2)	$ 62.17

(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 at June 30, 2008:

	2008		2009		2010		2011	
	GWh	Average price/ MWh	GWh	Average price/ MWh	GWh	Average price/ MWh	GWh	Average price/ MWh
Energy Only Contracts(1)								
Northern Illinois Hub—AEP/ Dayton Hub	5,427	$ 61.30	11,378	$ 66.53	7,961	$ 67.39	203	$ 76.20
Load Requirements Services Contracts(2)(3)								
Northern Illinois Hub	2,220	64.37	1,571	63.65	—	—	—	—
Total estimated GWh	7,647		12,949		7,961		203	

(1) 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 positions at June 30, 2008 are not directly comparable to the 24-hour Northern Illinois Hub prices set forth above.

(2) 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 GWh 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.

(3) 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.

Capacity Price Risk

On June 1, 2007, PJM implemented the RPM for capacity. The purpose of the RPM is to provide a long-term pricing signal for capacity resources. The RPM provides a mechanism for PJM to satisfy the region's need for generation capacity, the cost of which is allocated to load-serving entities through a locational reliability charge.

The following table summarizes the status of capacity sales for Midwest Generation at June 30, 2008:

	July 1, 2008 to May 31, 2009	June 1, 2009 to May 31, 2010	June 1, 2010 to May 31, 2011	June 1, 2011 to May 31, 2012
Fixed Price Capacity Sales				
Through RPM Auction, Net				
MW	2,978	4,614	4,929	4,582
Price per MW-day	$ 122.36(1)	$ 102.04	$ 174.29	$ 110.00
Non-unit Specific Capacity Sales				
MW	880	715	—	—
Price per MW-day	$ 64.35	$ 71.46	$ —	$ —

(1) The original price of $111.92 was affected by Midwest Generation's participation in a supplemental RPM auction during the first quarter of 2008 which resulted in purchasing certain capacity amounts at a price of $10 per MW-day, thereby reducing the aggregate forward capacity sales for this period and increasing the effective capacity price to $122.36.

Revenues from the sale of capacity from Midwest Generation beyond the periods set forth above will depend upon the amount of capacity available and future market prices either in PJM or nearby markets if Midwest Generation has an opportunity to capture a higher value associated with those markets. Under PJM's RPM system, the market price for capacity is generally determined by aggregate market-based supply conditions and an administratively set aggregate demand curve. Among the factors influencing the supply of capacity in any particular market are plant forced outage rates, plant closings, plant delistings (due to plants being removed as capacity resources and/or to export capacity to other markets), capacity imports from other markets, and the CONE.

Midwest Generation entered into hedge transactions in advance of the RPM auctions with counterparties that are settled through PJM. In addition, the load service requirements contracts entered into by Midwest Generation with Commonwealth Edison include energy, capacity and ancillary services (sometimes referred to as a "bundled product"). Under PJM's business rules, Midwest Generation sells all of its available capacity (defined as unit capacity less forced outages) into the RPM and is subject to a locational reliability charge for the load under these contracts. This means that the locational reliability charge generally offsets the related amounts sold in the RPM, which Midwest Generation presents on a net basis in the table above.

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 settlement points at the Northern Illinois Hub and the AEP/Dayton 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 or AEP/Dayton 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. Effective June 1, 2007, PJM implemented marginal losses which adjusts the algorithm that calculates locational marginal prices to include a component for marginal transmission losses in addition to the component included for congestion. 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, although the implementation of marginal losses on June 1, 2007 has lowered energy prices at the Illinois Plants busbars.

Coal and Transportation 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 June 30, 2008 for the remainder of 2008 and the following two years.

	July through December 2008	2009	2010
Amount of coal under contract in millions of tons(1) . . .	10.3	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 SO_2 per MMBtu sulfur content) purchased for the Illinois Plants increased during the first six months of 2008 from 2007 year-end prices. The price of PRB coal increased to $12.75 per ton at June 27, 2008 from $11.50 per ton at December 21, 2007, as reported by the Energy Information Administration.

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 is exposed to price risk related to higher transportation rates after the expiration of its existing transportation contracts. Current transportation rates for PRB coal are higher than the existing rates under contract (transportation costs are more than 50% of the delivered cost of PRB coal to the Illinois Plants).

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, refer to "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—Management's Overview; Critical Accounting Policies—Critical Accounting Policies—Derivative Financial Instruments and Hedging Activities" of Midwest Generation's annual report on Form 10-K for the year ended December 31, 2007.

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 second quarters of 2008 and 2007 and six months ended June 30, 2008 and 2007:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
	(in millions)			
Non-qualifying hedges	$ 2	$ 4	$ 2	$ (18)
Ineffective portion of cash flow hedges	(5)	—	(10)	—
Total unrealized gains (losses)	$ (3)	$ 4	$ (8)	$ (18)

At June 30, 2008, unrealized losses of $26 million were recognized from non-qualifying hedge contracts or the ineffective portion of cash flow hedges related to subsequent periods ($12 million for the remainder of 2008, $7 million for 2009, and $7 million for 2010).

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 June 30, 2008 as compared to December 31, 2007 is attributable to an increase in the average market prices for power as compared to contracted prices at June 30, 2008, which is the valuation date.

	June 30, 2008	December 31, 2007
	(in millions)	
Commodity price:		
Electricity contracts	$(395)	$ (91)

In assessing the fair value of Midwest Generation's derivative financial instruments, EMMT uses quoted market prices and forward market prices adjusted for credit risk. 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, primarily based on actively traded prices, of Midwest Generation's commodity derivative assets and liabilities as of June 30, 2008:

	Total Fair Value	Maturity <1 year	Maturity 1 to 3 years	Maturity 4 to 5 years	Maturity >5 years
	(in millions)				
Prices actively quoted	$ (395)	$ (255)	$ (140)	$ —	$ —
Price based on models and other valuation methods	—	1	(1)	—	—
Total	$ (395)	$ (254)	$ (141)	$ —	$ —

Prices actively quoted in the preceding table includes derivatives whose fair value is based on quoted market prices and forward market prices adjusted for credit risk.

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, 2007.

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 52% of Midwest Generation's consolidated operating revenues for the six months ended June 30, 2008. Moody's rates PJM's debt Aa3. PJM, an independent system operator with over 300 member companies, maintains its own credit risk policies and does not extend unsecured credit to non-investment grade companies. Any losses due to a PJM member default are shared by all other members based upon a predetermined formula.

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 23% of Midwest Generation's consolidated operating revenues during the six months ended June 30, 2008. Commonwealth Edison's senior unsecured debt ratings are BBB- by S&P and Ba1 by Moody's.

Interest Rate Risk

Interest rate changes can affect earnings and the cost of capital for capital improvements. Midwest Generation has a $500 million working capital facility, maturing in 2012, which exposes Midwest Generation to the risk of earnings loss resulting from changes in interest rates from any borrowings outstanding. At June 30, 2008, Midwest Generation had $50 million of 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, 2007 and "Item 1. Business—Regulatory Matters" of Midwest Generation's annual report on Form 10-K for the year ended December 31, 2007. There have been no 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, 2007, except as follows:

On April 4, 2008, the FERC issued an order rejecting PJM's request to revise its RPM to reflect PJM's claimed rise in its CONE values. CONE is one of the two components used by PJM to determine its Variable Resource Requirement curve for the RPM auction. PJM also proposed to add a new section to its tariff permitting PJM to unilaterally request a CONE increase for use in its May 2008 RPM auction for the 2011/2012 delivery year. In rejecting the proposal, the FERC found that PJM had not met timing provisions in its existing tariff to provide sufficient time for stakeholder review of the analysis and advance planning and that it had also failed to establish that its proposal to revise that provision was necessary on a one-time emergency basis to ensure reliable service.

The effect of FERC's actions on future RPM auctions cannot be determined at this time. The CONE as established for the May 2008 RPM auction for the 2011/2012 delivery year is lower than the PJM request.

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, 2007. Refer to "Market Risk Exposures" in Item 2 of this quarterly report on Form 10-Q for an update to that disclosure.

ITEM 4T. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Midwest Generation's management, 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 that term is defined in Rules 13a-15(e) or 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")), as of the end of the period covered by this report. Based on that evaluation, the 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 that term is defined in Rules 13a-15(f) or 15d-15(f) under the Exchange Act) during the period to which this report relates that have materially affected, or are reasonably likely to materially affect, Midwest Generation's internal control over financial reporting.

PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

For a discussion of Midwest Generation's legal proceedings, refer to "Item 3. Legal Proceedings" of Midwest Generation's annual report on Form 10-K for the year ended December 31, 2007. There have been no significant developments with respect to legal proceedings specifically affecting Midwest Generation since the filing of Midwest Generation's annual report on Form 10-K for the year ended December 31, 2007.

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, 2007. 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

Exhibit No.	Description
31.1	Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act.
31.2	Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act.
32	Statement Pursuant to 18 U.S.C. Section 1350.

SIGNATURES

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

MIDWEST GENERATION, LLC

By: John P. Finneran, Jr.

John P. Finneran, Jr.
Manager and Vice President

Date: August 8, 2008