

CMS ENERGY CORP
Form 10-Q
April 24, 2014
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2014
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
1-9513

Registrant; State of Incorporation;
Address; and Telephone Number
CMS ENERGY CORPORATION
(A Michigan Corporation)
One Energy Plaza, Jackson, Michigan 49201
(517) 788-0550

IRS Employer
Identification No.
38-2726431

1-5611

CONSUMERS ENERGY COMPANY
(A Michigan Corporation)
One Energy Plaza, Jackson, Michigan 49201
(517) 788-0550

38-0442310

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.

CMS Energy Corporation: Yes No **Consumers Energy Company:** Yes No

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data file required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files).

CMS Energy Corporation: Yes No **Consumers Energy Company:** Yes No

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

CMS Energy Corporation:

Large accelerated filer Accelerated filer Non-Accelerated filer Smaller reporting company

(Do not check if a smaller reporting company)

Consumers Energy Company:

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Large accelerated filer Accelerated filer Non-Accelerated filer Smaller reporting company

(Do not check if a smaller reporting company)

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

CMS Energy Corporation: Yes No **Consumers Energy Company:** Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock at April 4, 2014:

CMS Energy Corporation:

CMS Energy Common Stock, \$0.01 par value
(including 1,091,320 shares owned by Consumers Energy Company) 269,490,029

Consumers Energy Company:

Consumers Common Stock, \$10 par value, privately held by CMS Energy Corporation 84,108,789

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CMS Energy Corporation
Consumers Energy Company

Quarterly Reports on Form 10-Q to the Securities and Exchange Commission for the Period Ended

March 31, 2014

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Certain terms used in the text and financial statements are defined below.

2008 Energy Law	Comprehensive energy reform package enacted in Michigan in 2008
2013 Form 10-K	Each of CMS Energy's and Consumers' Annual Report on Form 10-K for the year ended December 31, 2013
ABATE	Association of Businesses Advocating Tariff Equity
Bay Harbor	A residential/commercial real estate area located near Petoskey, Michigan, in which CMS Energy sold its interest in 2002
bcf	Billion cubic feet
Big Rock	Big Rock Point nuclear power plant, formerly owned by Consumers
CAIR	The Clean Air Interstate Rule
Cantera Gas Company	Cantera Gas Company LLC, a non-affiliated company, formerly known as CMS Field Services
Cantera Natural Gas, Inc.	Cantera Natural Gas, Inc., a non-affiliated company that purchased CMS Field Services
CCR	Coal combustion residual
CEO	Chief Executive Officer
CERCLA	Comprehensive Environmental Response, Compensation, and Liability Act of 1980
CFO	Chief Financial Officer
Clean Air Act	Federal Clean Air Act of 1963, as amended
Clean Water Act	Federal Water Pollution Control Act of 1972, as amended
CMS Capital	CMS Capital, L.L.C., a wholly owned subsidiary of CMS Energy
CMS Energy	CMS Energy Corporation, the parent of Consumers and CMS Enterprises
CMS Enterprises	CMS Enterprises Company, a wholly owned subsidiary of CMS Energy
CMS ERM	CMS Energy Resource Management Company, formerly known as CMS MST, a wholly owned subsidiary of CMS Enterprises

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CMS Field Services	CMS Field Services, Inc., a former wholly owned subsidiary of CMS Gas Transmission
CMS Gas Transmission	CMS Gas Transmission Company, a wholly owned subsidiary of CMS Enterprises
CMS Land	CMS Land Company, a wholly owned subsidiary of CMS Capital
CMS MST	CMS Marketing, Services and Trading Company, a wholly owned subsidiary of CMS Enterprises, whose name was changed to CMS ERM in 2004
Consumers	Consumers Energy Company, a wholly owned subsidiary of CMS Energy
CSAPR	The Cross-State Air Pollution Rule
DB SERP	Defined Benefit Supplemental Executive Retirement Plan
Dodd-Frank Act	Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010
DOE	U.S. Department of Energy
DOJ	U.S. Department of Justice
DTE Electric	DTE Electric Company, a non-affiliated company
EBITDA	Earnings before interest, taxes, depreciation, and amortization
EnerBank	EnerBank USA, a wholly owned subsidiary of CMS Capital
Entergy	Entergy Corporation, a non-affiliated company
Environmental Mitigation Projects	Environmentally beneficial projects that a party agrees to undertake as part of the settlement of an enforcement action, but which the party is not otherwise legally required to perform
EPA	U.S. Environmental Protection Agency
EPS	Earnings per share
Exchange Act	Securities Exchange Act of 1934, as amended
FDIC	Federal Deposit Insurance Corporation
FERC	The Federal Energy Regulatory Commission
fine particulate matter	Particulate matter that is 2.5 microns or less in diameter

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FLI Liquidating Trust	Trust formed in Missouri bankruptcy court to accomplish the liquidation of Farmland Industries, Inc., a non-affiliated entity
FMB	First mortgage bond
FOV	Finding of Violation
GAAP	U.S. Generally Accepted Accounting Principles
GCR	Gas cost recovery
Health Care Acts	Comprehensive health care reform enacted in March 2010, comprising the Patient Protection and Affordable Care Act and the related Health Care and Education Reconciliation Act
kWh	Kilowatt-hour, a unit of energy equal to one thousand watt-hours
Ludington	Ludington pumped-storage plant, jointly owned by Consumers and DTE Electric
MACT	Maximum Achievable Control Technology, which is the emission control that is achieved in practice by the best-controlled similar source
MATS	Mercury and Air Toxics Standards, which limit mercury, acid gases, and other toxic pollution from coal-fueled and oil-fueled power plants
MD&A	Management's Discussion and Analysis of Financial Condition and Results of Operations
MDEQ	Michigan Department of Environmental Quality
MDL	A pending multi-district litigation case in Nevada arising out of several consolidated cases
MGP	Manufactured gas plant
MISO	The Midcontinent Independent System Operator, Inc.
mothball	To place a generating unit into a state of extended reserve shutdown in which the unit is inactive and unavailable for service for a specified period, during which the unit can be brought back into service after receiving appropriate notification and completing any necessary maintenance or other work; generation owners in MISO must request approval to mothball a unit, and MISO then evaluates the request for reliability impacts

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MPSC	Michigan Public Service Commission
MW	Megawatt, a unit of power equal to one million watts
NAV	Net asset value
NERC	The North American Electric Reliability Corporation, a non-affiliated company responsible for developing and enforcing reliability standards, monitoring the bulk power system, and educating and certifying industry personnel
NOV	Notice of Violation
NPDES	National Pollutant Discharge Elimination System, a permit system for regulating point sources of pollution under the Clean Water Act
NREPA	Part 201 of the Michigan Natural Resources and Environmental Protection Act, a statute that covers environmental activities including remediation
NSR	New Source Review, a construction-permitting program under the Clean Air Act
NYMEX	The New York Mercantile Exchange
OPEB	Other Post-Employment Benefits
OPEB Plan	Defined benefit postretirement health-care and life insurance plans of CMS Energy, Consumers, and Panhandle
Palisades	Palisades nuclear power plant, sold by Consumers to Entergy in 2007
Panhandle	Panhandle Eastern Pipe Line Company, a former wholly owned subsidiary of CMS Gas Transmission
PCB	Polychlorinated biphenyl
PSCR	Power supply cost recovery
PSD	Prevention of Significant Deterioration
REC	Renewable energy credit established under the 2008 Energy Law
ReliabilityFirst Corporation	ReliabilityFirst Corporation, a non-affiliated company responsible for the preservation and enhancement of bulk power system reliability and security
Renewable Operating Permit	Michigan's Title V permitting program under the Clean Air Act
Resource Conservation and Recovery Act	Federal Resource Conservation and Recovery Act of 1976

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RMRR	Routine maintenance, repair, and replacement
ROA	Retail Open Access, which allows electric generation customers to choose alternative electric suppliers pursuant to a Michigan statute enacted in 2000
SEC	U.S. Securities and Exchange Commission
Securitization	A financing method authorized by statute and approved by the MPSC which allows a utility to sell its right to receive a portion of the rate payments received from its customers for the repayment of securitization bonds issued by a special-purpose entity affiliated with such utility
Sherman Act	Sherman Antitrust Act of 1890
Smart Energy	Consumers Smart Energy grid modernization project, which includes the installation of smart meters that transmit and receive data, a two-way communications network, and modifications to Consumers existing information technology system to manage the data and enable changes to key business processes
Title V	A federal program under the Clean Air Act designed to standardize air quality permits and the permitting process for major sources of emissions across the U.S.
Trunkline	Trunkline Gas Company, LLC, a non-affiliated company and wholly owned subsidiary of Panhandle

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FILING FORMAT

This combined Form 10-Q is separately filed by CMS Energy and Consumers. Information in this combined Form 10-Q relating to each individual registrant is filed by such registrant on its own behalf. Consumers makes no representation regarding information relating to any other companies affiliated with CMS Energy other than its own subsidiaries. None of CMS Energy, CMS Enterprises, nor any of CMS Energy's other subsidiaries (other than Consumers) has any obligation in respect of Consumers' debt securities and holders of such debt securities should not consider the financial resources or results of operations of CMS Energy, CMS Enterprises, nor any of CMS Energy's other subsidiaries (other than Consumers and its own subsidiaries (in relevant circumstances)) in making a decision with respect to Consumers' debt securities. Similarly, none of Consumers nor any other subsidiary of CMS Energy has any obligation in respect of debt securities of CMS Energy.

This report should be read in its entirety. No one section of this report deals with all aspects of the subject matter of this report. This report should be read in conjunction with the consolidated financial statements and related notes and with MD&A included in the 2013 Form 10-K.

FORWARD-LOOKING STATEMENTS AND INFORMATION

This Form 10-Q and other written and oral statements that CMS Energy and Consumers make may contain forward-looking statements as defined by the Private Securities Litigation Reform Act of 1995. The use of might, may, could, should, anticipates, believes, estimates, intends, plans, projects, forecasts, predicts, assumes, and other similar words is intended to identify forward-looking statements that involve risk and uncertainty. This discussion of potential risks and uncertainties is designed to highlight important factors that may impact CMS Energy's and Consumers' businesses and financial outlook. CMS Energy and Consumers have no obligation to update or revise forward-looking statements regardless of whether new information, future events, or any other factors affect the information contained in the statements. These forward-looking statements are subject to various factors that could cause CMS Energy's and Consumers' actual results to differ materially from the results anticipated in these statements. These factors include, but are not limited to, the following, all of which are potentially significant:

- the impact of new regulation by the MPSC or FERC and other applicable governmental proceedings and regulations, including any associated impact on electric or gas rates or rate structures;
- potentially adverse regulatory treatment or failure to receive timely regulatory orders affecting Consumers that are or could come before the MPSC, FERC, or other governmental authorities;
- changes in the performance of or regulations applicable to MISO, Michigan Electric Transmission Company, pipelines, railroads, or other service providers that CMS Energy, Consumers, or any of their affiliates rely on to serve their customers;
- the adoption of federal or state laws or regulations or changes in applicable laws, rules, regulations, principles, or practices, or in their interpretation, including those related to energy policy and ROA, the environment, regulation or deregulation, health care reforms (including the

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Health Care Acts), taxes, accounting matters, and other business issues that could have an impact on CMS Energy's or Consumers' businesses or financial results, including laws or regulations regarding climate change and air emissions and potential effects of the Dodd-Frank Act and related regulations on CMS Energy, Consumers, or any of their affiliates;

- potentially adverse regulatory or legal interpretations or decisions regarding environmental matters, or delayed regulatory treatment or permitting decisions that are or could come before the

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MDEQ, EPA, and/or U.S. Army Corps of Engineers, and potential environmental remediation costs associated with these interpretations or decisions, including those that may affect Bay Harbor or Consumers' RMRR classification under NSR regulations;

- changes in energy markets, including availability and price of electric capacity and the timing and extent of changes in commodity prices and availability of coal, natural gas, natural gas liquids, electricity, oil, and certain related products;
- the price of CMS Energy common stock, the credit ratings of CMS Energy and Consumers, capital and financial market conditions, and the effect of these market conditions on CMS Energy's and Consumers' interest costs and access to the capital markets, including availability of financing to CMS Energy, Consumers, or any of their affiliates;
- the investment performance of the assets of CMS Energy's and Consumers' pension and benefit plans and the discount rates used in calculating the plans' obligations, and the resulting impact on future funding requirements;
- the impact of the economy, particularly in Michigan, and potential future volatility in the financial and credit markets on CMS Energy's, Consumers', or any of their affiliates' revenues, ability to collect accounts receivable from customers, or cost and availability of capital;
- changes in the economic and financial viability of CMS Energy's and Consumers' suppliers, customers, and other counterparties and the continued ability of these third parties, including third parties in bankruptcy, to meet their obligations to CMS Energy and Consumers;
- population changes in the geographic areas where CMS Energy and Consumers conduct business;
- national, regional, and local economic, competitive, and regulatory policies, conditions, and developments, including municipal bankruptcy filings;
- loss of customer demand for electric generation supply to alternative energy suppliers;
- federal regulation of electric sales and transmission of electricity, including periodic re-examination by federal regulators of CMS Energy's and Consumers' market-based sales authorizations in wholesale power markets without price restrictions;

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- the impact of credit markets, economic conditions, and any new banking regulations on EnerBank;
- the availability, cost, coverage, and terms of insurance, the stability of insurance providers, and the ability of Consumers to recover the costs of any insurance from customers;
- the effectiveness of CMS Energy's and Consumers' risk management policies, procedures, and strategies, including strategies to hedge risk related to future prices of electricity, natural gas, and other energy-related commodities;
- factors affecting development of electric generation projects and gas and electric distribution infrastructure replacement and expansion projects, including those related to project site identification, construction material pricing, availability of qualified construction personnel, permitting, and government approvals;
- factors affecting operations, such as costs and availability of personnel, equipment, and materials, unusual weather conditions, catastrophic weather-related damage, scheduled or unscheduled

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equipment outages, maintenance or repairs, environmental incidents, equipment failures, and electric transmission and distribution or gas pipeline system constraints;

- potential disruption to, interruption of, or other impacts on facilities, utility infrastructure, or operations due to accidents, explosions, physical disasters, war, or terrorism, and the ability to obtain or maintain insurance coverage for these events;

- changes or disruption in fuel supply, including but not limited to rail or vessel transport of coal and pipeline transport of natural gas;

- potential costs, lost revenues, or other consequences resulting from misappropriation of assets or sensitive information, corruption of data, or operational disruption in connection with a cyber attack or other cyber incident;

- technological developments in energy production, storage, delivery, usage, and metering, including Smart Energy and the success of its implementation;

- the impact of CMS Energy's and Consumers' integrated business software system and its operation on their activities, including utility customer billing and collections;

- adverse consequences resulting from any past or future assertion of indemnity or warranty claims associated with assets and businesses previously owned by CMS Energy or Consumers, including claims resulting from attempts by foreign or domestic governments to assess taxes on past operations or transactions;

- the outcome, cost, and other effects of any legal or administrative proceedings, settlements, investigations, or claims;

- the impact of operational incidents, violations of corporate compliance policies, regulatory violations, and other events on CMS Energy's and Consumers' reputations;

- restrictions imposed by various financing arrangements and regulatory requirements on the ability of Consumers and other subsidiaries of CMS Energy to transfer funds to CMS Energy in the form of cash dividends, loans, or advances;

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- earnings volatility resulting from the application of fair value accounting to certain energy commodity contracts or interest rate contracts;
- changes in financial or regulatory accounting principles or policies, including a possible future requirement to comply with International Financial Reporting Standards, which differ from GAAP in various ways, including the present lack of special accounting treatment for regulated activities; and
- other matters that may be disclosed from time to time in CMS Energy's and Consumers' SEC filings, or in other publicly issued documents.

All forward-looking statements should be considered in the context of the risk and other factors described above and as detailed from time to time in CMS Energy's and Consumers' SEC filings. For additional details regarding these and other uncertainties, see Part I Item 1. Consolidated Financial Statements (Unaudited) Notes to the Unaudited Consolidated Financial Statements Note 1, Regulatory Matters and Note 2, Contingencies and Commitments; Part I Item 2. MD&A Outlook; and Part II Item 1A. Risk Factors.

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CMS Energy Corporation
Consumers Energy Company
MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This MD&A is a combined report of CMS Energy and Consumers.

EXECUTIVE OVERVIEW

CMS Energy is an energy company operating primarily in Michigan. It is the parent holding company of several subsidiaries, including Consumers, an electric and gas utility, and CMS Enterprises, primarily a domestic independent power producer. Consumers' electric utility operations include the generation, purchase, distribution, and sale of electricity, and Consumers' gas utility operations include the purchase, transmission, storage, distribution, and sale of natural gas. Consumers' customer base consists of a mix of residential, commercial, and diversified industrial customers. CMS Enterprises, through its subsidiaries and equity investments, owns and operates power generation facilities.

CMS Energy and Consumers manage their businesses by the nature of services each provides. CMS Energy operates principally in three business segments: electric utility; gas utility; and enterprises, its non-utility operations and investments. Consumers operates principally in two business segments: electric utility and gas utility.

CMS Energy and Consumers earn revenue and generate cash from operations by providing electric and natural gas utility services; electric distribution and generation; gas transmission, storage, and distribution; and other energy-related services. Their businesses are affected primarily by:

- regulation and regulatory matters;
- economic conditions;
- weather;
- energy commodity prices;
- interest rates; and

- CMS Energy's and Consumers' securities credit ratings.

CMS Energy's and Consumers' business strategy emphasizes the key elements depicted below:

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Accountability is part of CMS Energy's and Consumers' corporate culture. CMS Energy and Consumers are committed to making the right choices to serve their customers safely and affordably and to acting responsibly as corporate citizens. CMS Energy and Consumers hold themselves accountable to the highest standards of safety, operational performance, and ethical behavior, and work diligently to comply with all laws, rules, and regulations that govern the electric and gas industry.

In October 2013, Consumers released its first-ever accountability report. The report provides an overview of Consumers' efforts to continue meeting Michigan's energy needs safely and efficiently, and highlights Consumers' commitment to Michigan businesses, its corporate citizenship, and its role in reducing the state's air emissions.

SAFE, EXCELLENT OPERATIONS

The safety of employees, customers, and the general public remains a priority of CMS Energy and Consumers. Accordingly, CMS Energy and Consumers have worked to integrate a set of safety principles into their business operations and culture. These principles include complying with applicable safety, health, and security regulations and implementing programs and processes aimed at continually improving safety and security conditions. From 2006 through 2013, Consumers achieved a 72 percent reduction in the annual number of recordable safety incidents.

CUSTOMER VALUE

Consumers is undertaking a number of initiatives that reflect its intensified customer focus. Consumers' planned investments in reliability are aimed at improving safety, reducing customer outage frequency, reducing repetitive outages, and increasing customer satisfaction. Also, in order to minimize increases in customer base rates, Consumers has undertaken several additional initiatives to reduce costs. These initiatives, together with Consumers' plans to accelerate further cost reductions, should allow Consumers to avoid increasing electric and gas base rates through 2014.

UTILITY INVESTMENT

Consumers expects to make capital investments of about \$7 billion from 2014 through 2018. Consumers has limited its capital investment program to those investments it believes are needed to provide safe, reliable, and efficient service to its customers. Consumers' capital investment program is expected to result in annual rate base growth of five to seven percent while allowing Consumers to maintain sustainable customer base rate increases (excluding PSCR and GCR charges) at or below the rate of inflation.

Among the key components of Consumers' investment program are projects that will enhance customer value. Consumers' planned base capital investments of \$3.5 billion represent projects to maintain Consumers' system and comprise \$2.1 billion at the electric utility to preserve reliability and capacity and \$1.4 billion at the gas utility to sustain deliverability and enhance pipeline integrity. An additional \$1.9 billion of planned reliability investments at Consumers are aimed at reducing outages and improving customer satisfaction; these investments comprise \$1.0 billion at the electric utility to strengthen circuits and substations, replace poles, and upgrade the Ludington pumped-storage plant and

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\$0.9 billion at the gas utility to replace mains and enhance transmission and storage systems. Consumers also expects to spend \$0.9 billion on environmental investments needed to comply with state and federal laws and regulations.

Consumers Smart Energy program, with an estimated total project capital cost of \$0.8 billion, also represents a major capital investment. The full-scale deployment of advanced metering infrastructure began in 2012 and is planned to continue through 2017. Consumers has spent \$0.3 billion through 2013

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on its Smart Energy program, and expects to spend an additional \$0.5 billion, following a phased approach, from 2014 through 2017.

Renewable energy projects are another major component of Consumers' planned capital investments. Consumers expects to spend \$0.2 billion on renewable energy investments, under an MPSC-approved renewable energy plan, from 2014 through 2018. The 2008 Energy Law requires that at least ten percent of Consumers' electric sales volume come from renewable energy sources by 2015, and it includes requirements for specific capacity additions. Consumers has historically included renewable resources as part of its portfolio, with about eight percent of its present power supply coming from such renewable sources as hydropower, landfill gas, biomass, wind, anaerobic digestion, and solar.

In December 2013, Consumers signed an agreement to purchase a 540-MW gas-fueled electric generating plant located in Jackson, Michigan for \$155 million. In January 2014, as a result of this planned purchase, Consumers announced plans to defer the development of its proposed 700-MW gas-fueled electric generating plant at its Thetford complex in Genesee County, Michigan.

REGULATION

Regulatory matters are a key aspect of CMS Energy's and Consumers' businesses, particularly Consumers' rate cases and regulatory proceedings before the MPSC. Important regulatory events and developments are summarized below.

- ***Income Tax Benefits Accounting Order:*** In September 2013, the MPSC issued an order authorizing Consumers to accelerate the flow-through to electric and gas customers of certain income tax benefits associated primarily with the cost of removal of plant placed in service before 1993. The order authorized Consumers to implement a regulatory treatment beginning in January 2014 that will return \$211 million of income tax benefits over five years to electric customers and \$264 million of income tax benefits over 12 years to gas customers. For the three months ended March 31, 2014, this new treatment reduced Consumers' income tax expense by \$16 million.
- ***Securitization Financing Order:*** In December 2013, the MPSC approved Consumers' application, with modification, authorizing Consumers to proceed, at its sole discretion, with the sale of up to \$389 million in Securitization bonds. These bonds will finance the recovery of the remaining book value of seven smaller coal-fueled electric generating units and three smaller gas-fueled electric generating units that Consumers plans to retire in 2016, provided the Securitization transaction is successful.

Consumers expects to proceed with the Securitization financing and issue Securitization bonds in 2014, subject to market conditions. Upon issuance of the Securitization bonds, Consumers will adjust its retail electric base rates to exclude the revenue requirement associated with these costs. Consumers will then collect a surcharge to pay the principal and interest on the Securitization bonds, as well as all related costs. Consumers estimates that employing this recovery mechanism in place of existing ratemaking treatment will provide initial annual cost savings to full-service customers of \$15 million.

- ***Gas Cost Recovery and Power Supply Cost Recovery:*** Due to the impact on natural gas prices of extended periods of colder-than-normal winter weather in Michigan and throughout the United States, Consumers' natural gas fuel costs for the three months ended

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March 31, 2014 were significantly higher than those projected in its 2013-2014 GCR plan. As a result, Consumers recorded an \$84 million underrecovery at March 31, 2014. Consumers will roll this underrecovery into its 2014-2015 GCR plan.

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Consumers expects that higher natural gas fuel costs will continue into the 2014-2015 GCR plan year. Consequently, in February 2014, Consumers filed an amendment to the 2014-2015 GCR plan it submitted to the MPSC in December 2013, requesting approval to increase the 2014-2015 GCR factor to be charged to customers.

The severe winter weather also affected Consumers' power supply costs and Consumers recorded a \$104 million underrecovery at March 31, 2014. In March 2014, Consumers filed an amendment to its 2014 PSCR plan, requesting approval to increase the 2014 PSCR factor to be charged to customers beginning in July 2014.

The 2008 Energy Law limits alternative electric supply to ten percent of Consumers' weather-adjusted retail sales of the preceding calendar year. At March 31, 2014, Consumers' electric deliveries under the ROA program were at the ten-percent limit. Bills have been introduced to the Michigan House of Representatives and the Michigan Senate to raise or remove the ROA limit. The House bill also proposes to deregulate electric generation service in Michigan within two years. Consumers is unable to predict the outcome of these legislative proposals. In addition, the Michigan legislature has conducted hearings on the subject of energy competition. If the ROA limit were increased or if electric generation service in Michigan were deregulated, it could have a material adverse effect on Consumers' financial results and operations.

Environmental regulation is another area of importance for CMS Energy and Consumers, and they are monitoring numerous legislative and regulatory initiatives, including initiatives to regulate greenhouse gases, and related litigation. CMS Energy and Consumers believe that environmental laws and regulations related to their operations will continue to become more stringent and require them to make additional significant capital expenditures for emissions control equipment, CCR disposal, cooling water intake equipment, effluent treatment, and PCB remediation. Present and reasonably anticipated state and federal environmental statutes and regulations, including but not limited to the Clean Air Act, the Clean Water Act, the Resource Conservation and Recovery Act, and CERCLA, will continue to have a material effect on CMS Energy and Consumers.

FINANCIAL PERFORMANCE

For the three months ended March 31, 2014, CMS Energy's net income available to common stockholders was \$204 million, and diluted EPS were \$0.75. This compares with net income available to common stockholders of \$144 million and diluted EPS of \$0.53 for the three months ended March 31, 2013. The main factors contributing to CMS Energy's improved performance in 2014 were increased gas and electric deliveries due to colder weather and benefits from an electric rate order.

Consumers' utility operations are seasonal. The consumption of electric energy typically increases in the summer months, due primarily to the use of air conditioners and other cooling equipment, while peak demand for natural gas occurs in the winter due to colder temperatures and the resulting use of natural gas as heating fuel. In addition, Consumers' electric rates, which follow a seasonal rate design, are higher in the summer months than in the remaining months of the year. A more detailed discussion of the factors affecting CMS Energy's and Consumers' performance can be found in the Results of Operations section that follows this Executive Overview.

CMS Energy and Consumers believe that economic conditions in Michigan are improving. Consumers expects its electric deliveries to increase annually by about 0.5 to 1.0 percent on average through 2018, driven largely by the continued rise in industrial production. Excluding the impacts of energy efficiency programs, Consumers expects its electric deliveries to increase by about 1.5 to 2.0 percent annually through 2018.

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Consumers is projecting that its gas deliveries will remain stable through 2018. This outlook reflects growth in gas demand offset by energy efficiency and conservation.

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As Consumers seeks to continue to receive fair and timely regulatory treatment, delivering customer value will remain a key strategic priority. In order to minimize increases in customer base rates, Consumers has set goals to achieve further annual productivity improvements. Additionally, Consumers will strive to give priority to capital investments that increase customer value or lower costs.

Consumers expects to continue to have sufficient capacity to fund its investment-based growth plans. CMS Energy also expects its sources of liquidity to remain sufficient to meet its cash requirements. CMS Energy and Consumers will continue to monitor developments in the financial and credit markets, as well as government policy responses to those developments, for potential implications for their businesses and their future financial needs.

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Three Months Ended March 31	<i>In Millions, Except Per Share Amounts</i>		
	2014	2013	Change
Net Income Available to Common Stockholders	\$ 204	\$ 144	\$ 60
Basic Earnings Per Share	\$ 0.77	\$ 0.55	\$ 0.22
Diluted Earnings Per Share	\$ 0.75	\$ 0.53	\$ 0.22

Three Months Ended March 31	<i>In Millions</i>		
	2014	2013	Change
Electric utility	\$ 100	\$ 66	\$ 34
Gas utility	121	96	25
Enterprises	2	4	(2)
Corporate interest and other	(19)	(22)	3
Net Income Available to Common Stockholders	\$ 204	\$ 144	\$ 60

Presented in the following table are specific after-tax changes to net income available to common stockholders for the three months ended March 31, 2014 versus 2013:

Reasons for the change	<i>In Millions</i>	
	2014 better/(worse) than 2013	
Gas sales	\$	30
Electric sales		10
Electric rate order		20
Tax benefit associated with MPSC accounting order		16
Lower employee benefit costs, net of operating and maintenance cost increases		9
Higher depreciation and property taxes		(15)
Other	(11)	\$ 59
Corporate interest and other		3
Lower subsidiary earnings of enterprises segment		(2)
Total change		\$ 60

CONSUMERS ELECTRIC UTILITY RESULTS OF OPERATIONS

Three Months Ended March 31	<i>In Millions</i>		
	2014	2013	Change
Net Income Available to Common Stockholders	\$ 100	\$ 66	\$ 34
<i>Reasons for the change</i>			

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Electric deliveries and rate increases	\$ 56
Power supply costs and related revenue	(2)
Other income, net of expenses	(5)
Maintenance and other operating expenses	8
Depreciation and amortization	(10)
General taxes	(2)
Income taxes	(11)
Total change	\$ 34

Following is a discussion of significant changes to net income available to common stockholders for the three months ended March 31, 2014 versus 2013.

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Electric deliveries and rate increases: For the three months ended March 31, 2014, electric delivery revenues increased \$56 million compared with 2013. This increase reflected \$33 million from a May 2013 rate increase that Consumers self-implemented in March 2013, \$17 million of higher customer deliveries, and a \$6 million increase in other revenues. Deliveries to end-use customers were 9.6 billion kWh in 2014 and 9.1 billion kWh in 2013.

Other income, net of expenses: For the three months ended March 31, 2014, other income, net of expenses, decreased \$5 million compared with 2013. This decrease was due to a \$2 million contribution to oppose certain Michigan legislative proposals related to ROA and to the absence, in 2014, of a \$3 million gain related to a donation of CMS Energy stock by Consumers.

Maintenance and other operating expenses: For the three months ended March 31, 2014, maintenance and other operating expenses decreased \$8 million compared with 2013, due primarily to a reduction in OPEB costs resulting from OPEB Plan changes adopted in July 2013.

Depreciation and amortization: For the three months ended March 31, 2014, depreciation and amortization expense increased \$10 million compared with 2013, due primarily to increased plant in service.

Income taxes: For the three months ended March 31, 2014, income taxes increased \$11 million compared with 2013. This change reflected a \$17 million increase attributed primarily to higher electric utility earnings, offset partially by a \$6 million benefit associated with the accelerated flow-through of income tax benefits under an MPSC accounting order that Consumers implemented in January 2014.

CONSUMERS GAS UTILITY RESULTS OF OPERATIONS

Three Months Ended March 31	2014	2013	<i>In Millions</i> Change
Net Income Available to Common Stockholders	\$ 121	\$ 96	\$ 25
<i>Reasons for the change</i>			
Gas deliveries and rate increases			\$ 32
Other income, net of expenses			(3)
Maintenance and other operating expenses			8
Depreciation and amortization			(7)
General taxes			(2)
Interest charges			(1)
Income taxes			(2)
Total change			\$ 25

Following is a discussion of significant changes to net income available to common stockholders for the three months ended March 31, 2014 versus 2013.

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Gas deliveries and rate increases: For the three months ended March 31, 2014, gas delivery revenues increased \$32 million compared with 2013. This increase reflected \$43 million of higher customer deliveries, due primarily to colder weather in 2014. The increase was offset partially by an \$11 million decrease in other revenues, due primarily to the energy efficiency program. Deliveries to end-use customers were 157 bcf in 2014 and 132 bcf in 2013.

Maintenance and other operating expenses: For the three months ended March 31, 2014, maintenance and other operating expenses decreased \$8 million compared with 2013. This decrease was due primarily to lower spending related to the energy efficiency program, and a reduction in OPEB costs resulting from OPEB Plan changes adopted in July 2013.

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Depreciation and amortization: For the three months ended March 31, 2014, depreciation and amortization expense increased \$7 million compared with 2013, due primarily to increased plant in service.

Income taxes: For the three months ended March 31, 2014, income taxes increased \$2 million compared with 2013. This change reflected a \$12 million increase attributed primarily to higher gas utility earnings, offset partially by a \$10 million benefit associated with the accelerated flow-through of income tax benefits under an MPSC accounting order that Consumers implemented in January 2014.

ENTERPRISES RESULTS OF OPERATIONS

Three Months Ended March 31	2014	2013	<i>In Millions</i> Change
Net Income Available to Common Stockholders	\$ 2	\$ 4	\$ (2)

For the three months ended March 31, 2014, net income of the enterprises segment decreased \$2 million compared with 2013, due to higher fuel and other operating costs related primarily to the extreme cold.

CORPORATE INTEREST AND OTHER RESULTS OF OPERATIONS

Three Months Ended March 31	2014	2013	<i>In Millions</i> Change
Net Income (Loss) Available to Common Stockholders	\$ (19)	\$ (22)	\$ 3

For the three months ended March 31, 2014, corporate interest and other net expenses decreased \$3 million compared with 2013, as a result of a reduction in miscellaneous corporate costs.

CASH POSITION, INVESTING, AND FINANCING

At March 31, 2014, CMS Energy had \$789 million of consolidated cash and cash equivalents, which included \$31 million of restricted cash and cash equivalents. At March 31, 2014, Consumers had \$209 million of consolidated cash and cash equivalents, which included \$31 million of restricted cash and cash equivalents.

Table of Contents**OPERATING ACTIVITIES**

Presented in the following table are specific components of net cash provided by operating activities for the three months ended March 31, 2014 and 2013:

Three Months Ended March 31	2014	2013	<i>In Millions</i> Change
CMS Energy, including Consumers			
Net income	\$ 204	\$ 144	\$ 60
Non-cash transactions ¹	326	334	(8)
	530	478	52
Postretirement benefits contributions	(2)	(68)	66
Proceeds from government grant	-	69	(69)
Changes in core working capital ²	149	300	(151)
Changes in other assets and liabilities, net			