

CMS ENERGY CORP
Form 10-Q
July 24, 2014
Table of Contents

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 June 30, 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)

Edgar Filing: CMS ENERGY CORP - Form 10-Q

Consumers Energy Company:

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 as of July 7, 2014:

CMS Energy Corporation:

CMS Energy Common Stock, \$0.01 par value (including 1,091,320 shares owned by Consumers Energy Company)	276,062,395
---	-------------

Consumers Energy Company:

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

Table of Contents

CMS Energy Corporation
Consumers Energy Company

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

June 30, 2014

TABLE OF CONTENTS

	Page
<u>Glossary</u>	3
<u>Filing Format</u>	8
<u>Forward-Looking Statements and Information</u>	8
 PART I. Financial Information	
Item 1.	
	Consolidated Financial Statements (Unaudited)
	<u>CMS Energy Corporation</u> 30
	<u>Consumers Energy Company</u> 38
	<u>Notes to the Unaudited Consolidated Financial Statements</u> 45
<u>Item 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> 11
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u> 65
<u>Item 4.</u>	<u>Controls and Procedures</u> 65
 PART II. Other Information	
<u>Item 1.</u>	<u>Legal Proceedings</u> 65
<u>Item 1A.</u>	<u>Risk Factors</u> 65
<u>Item 2.</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u> 66
<u>Item 3.</u>	<u>Defaults Upon Senior Securities</u> 66
<u>Item 4.</u>	<u>Mine Safety Disclosures</u> 66
<u>Item 5.</u>	<u>Other Information</u> 66
<u>Item 6.</u>	<u>Exhibits</u> 66
<u>Signatures</u>	67

Table of Contents

(This page intentionally left blank)

Table of Contents**GLOSSARY**

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
ASU	Financial Accounting Standards Board Accounting Standards Update
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

Edgar Filing: CMS ENERGY CORP - Form 10-Q

Table of Contents

CMS ERM	CMS Energy Resource Management Company, formerly known as CMS MST, a wholly owned subsidiary of CMS Enterprises
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
Consumers 2014 Securitization Funding	Consumers 2014 Securitization Funding LLC, a wholly owned consolidated bankruptcy-remote subsidiary of Consumers and special-purpose entity organized for the sole purpose of purchasing and owning Securitization property, issuing Securitization bonds, and pledging its interest in Securitization property to a trustee to collateralize the Securitization bonds
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
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

Table of Contents

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
FMB	First mortgage bond
FOV	Finding of Violation
FTR	Financial transmission right
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 Company, a non-affiliated company
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	Midcontinent Independent System Operator, Inc.

Table of Contents

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
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

Table of Contents

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
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

Table of Contents

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, vessels, 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, gas pipeline safety, the environment, regulation or deregulation, health care

Edgar Filing: CMS ENERGY CORP - Form 10-Q

reforms (including the 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;

Edgar Filing: CMS ENERGY CORP - Form 10-Q

Table of Contents

- 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 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 and deliverability 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 or to increased use of distributed generation;
- 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;

- 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, schedule delays, availability of qualified construction personnel, permitting, and government approvals;

Table of Contents

- factors affecting operations, such as costs and availability of personnel, equipment, and materials, unusual weather conditions, catastrophic weather-related damage, scheduled or unscheduled 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;

Edgar Filing: CMS ENERGY CORP - Form 10-Q

- 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 2, Regulatory Matters and Note 3, Contingencies and Commitments; Part I Item 2. MD&A Outlook; and Part II Item 1A. Risk Factors.

Table of Contents

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:

Table of Contents

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 through voluntary separation plans, accelerated pension funding, employee and retiree health-care cost sharing, negotiated labor agreements, information system efficiencies, and productivity improvements. Consumers has also received approval from the MPSC to issue Securitization bonds and to accelerate the recognition of certain tax benefits, both of which will result in cost savings for customers. 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

Edgar Filing: CMS ENERGY CORP - Form 10-Q

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 \$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.

Table of Contents

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 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.

- **Gas Rate Case:** In July 2014, Consumers filed an application with the MPSC seeking an annual rate increase of \$88 million, based on a 10.7 percent authorized return on equity. The filing requested authority to recover new investments that will allow Consumers to improve system reliability, comply with regulations, and enhance technology. Costs associated with these investments represent an annual rate increase of \$144 million; this amount is offset partially by reductions in the revenue requirement associated with working capital and other cost reductions. This would be Consumers' first gas base rate increase since 2012.

The filing also seeks approval of two rate adjustment mechanisms: a mechanism that would reconcile annually Consumers' actual nonfuel revenues with the revenues approved by the MPSC, and a mechanism that would allow recovery of an additional \$92 million associated with investments in the period January 2016 through December 2017, subject to reconciliation.

- **Securitization Financing Order:** In July 2014, Consumers, through its subsidiary Consumers 2014 Securitization Funding, issued \$378 million of Securitization bonds with tenors of six, 11, and 15 years, maturing from 2020 to 2029. 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 by April 2016. The MPSC approved the issuance of these bonds in its December 2013 Securitization financing order, and authorized Consumers to collect from its retail electric customers, with some exceptions, Securitization charges to cover the principal and interest on the bonds as well as certain other qualified costs.

Edgar Filing: CMS ENERGY CORP - Form 10-Q

The 2008 Energy Law limits alternative electric supply to ten percent of Consumers' weather-adjusted retail sales of the preceding calendar year. At June 30, 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

Table of Contents

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 six months ended June 30, 2014, CMS Energy's net income available to common stockholders was \$287 million, and diluted EPS were \$1.05. This compares with net income available to common stockholders of \$224 million and diluted EPS of \$0.83 for the six months ended June 30, 2013. Among the 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 increase.

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 up to 0.5 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 1.0 to 1.5 percent annually through 2018. Consumers is projecting that its gas deliveries will remain relatively stable through 2018. This outlook reflects growth in gas demand offset by energy efficiency and conservation.

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.

Table of Contents**RESULTS OF OPERATIONS****CMS ENERGY CONSOLIDATED RESULTS OF OPERATIONS**

June 30	Three Months Ended			<i>In Millions, Except Per Share Amounts</i> Six Months Ended		
	2014	2013	Change	2014	2013	Change
Net Income Available to Common Stockholders	\$ 83	\$ 80	\$ 3	\$ 287	\$ 224	\$ 63
Basic Earnings Per Share	\$ 0.31	\$ 0.30	\$ 0.01	\$ 1.07	\$ 0.85	\$ 0.22
Diluted Earnings Per Share	\$ 0.30	\$ 0.29	\$ 0.01	\$ 1.05	\$ 0.83	\$ 0.22

June 30				<i>In Millions</i>		
	2014	2013	Change	2014	2013	Change
Electric utility	\$ 98	\$ 93	\$ 5	\$ 198	\$ 159	\$ 39
Gas utility	9	5	4	130	101	29
Enterprises	2	1	1	4	5	(1)
Corporate interest and other	(26)	(19)	(7)	(45)	(41)	(4)
Net Income Available to Common Stockholders	\$ 83	\$ 80	\$ 3	\$ 287	\$ 224	\$ 63

Presented in the following table are specific after-tax changes to net income available to common stockholders:

Reasons for the change	June 30, 2014 better/(worse) than 2013	
	Three Months Ended	Six Months Ended
Gas sales	\$ 1	\$ 31
Electric sales	-	10
Electric rate increase	2	23
Tax benefit associated with MPSC accounting order	7	23
Lower employee benefit costs, net of operating and maintenance cost increases	3	12
Depreciation and property taxes	(11)	(26)
Other	7	(5)
	\$ 9	\$ 68
EnerBank earnings	1	1
Early extinguishment of debt	(8)	(8)
Subsidiary earnings of enterprises segment	1	(1)
Other	-	3
Total change	\$ 3	\$ 63

Table of Contents**CONSUMERS ELECTRIC UTILITY RESULTS OF OPERATIONS**

Net Income Available to Common Stockholders	\$ 98	\$ 93	\$ 5	\$ 198	\$ 159	\$ 39
Electric deliveries and rate increases			\$ 11			\$ 67
Other income, net of expenses			-			(5)
Depreciation and amortization			(11)			(21)
Interest charges			3			3
Total change			\$ 5			\$ 39

Following is a discussion of significant changes to net income available to common stockholders.

Electric deliveries and rate increases: For the three months ended June 30, 2014, electric delivery revenues increased \$11 million compared with 2013. This change reflected a \$5 million increase from a low-income assistance surcharge and a \$6 million increase in other revenues, related primarily to Consumers' renewable energy program. Deliveries to end-use customers were 9.1 billion kWh in 2014 and 8.9 billion kWh in 2013.

For the six months ended June 30, 2014, electric delivery revenues increased \$67 million compared with 2013. This change reflected \$33 million from a May 2013 rate increase that Consumers self-implemented in March 2013, \$17 million from higher customer deliveries, an \$11 million increase from a low-income assistance surcharge, and \$6 million in other revenues, related primarily to Consumers' renewable energy program. Deliveries to end-use customers were 18.7 billion kWh in 2014 and 18.0 billion kWh in 2013.

Other income, net of expenses: For the six months ended June 30, 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 June 30, 2014, maintenance and other operating expenses increased \$2 million compared with 2013. This change was due primarily to \$5 million of increased expenses related to a low-income assistance program, \$5 million of increased forestry expenses, and a \$2 million increase in other operating expenses. These increases were offset largely by a \$10 million reduction in OPEB costs resulting from OPEB Plan changes adopted in July 2013.

Edgar Filing: CMS ENERGY CORP - Form 10-Q

For the six months ended June 30, 2014, maintenance and other operating expenses decreased \$6 million compared with 2013. This decrease was due primarily to a \$21 million reduction in OPEB costs resulting from OPEB Plan changes adopted in July 2013, offset partially by \$11 million of increased expenses related to a low-income assistance program and a \$4 million increase in other operating expenses.

Table of Contents

Depreciation and amortization: For the three months ended June 30, 2014, depreciation and amortization expense increased \$11 million compared with 2013, and for the six months ended June 30, 2014, depreciation and amortization expense increased \$21 million compared with 2013. These changes were due primarily to increased plant in service in 2014.

General taxes: For the three months ended June 30, 2014, general taxes increased \$5 million compared with 2013, and for the six months ended June 30, 2014, general taxes increased \$7 million compared with 2013, in each case due to increased property taxes, reflecting higher capital spending.

Income taxes: For the three months ended June 30, 2014, income taxes decreased \$9 million compared with 2013. This change was due primarily to a benefit associated with the accelerated flow-through of income tax benefits under an MPSC accounting order that Consumers implemented in January 2014.

For the six months ended June 30, 2014, income taxes increased \$2 million compared with 2013. This change reflected a \$15 million increase attributed to higher electric utility earnings, offset partially by a \$13 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

Net Income Available to Common Stockholders	\$	9	\$	5	\$	4	\$	130	\$	101	\$	29
Gas deliveries and rate increases					\$	6					\$	38
Maintenance and other operating expenses						3						11
General taxes						(1)						(3)
Income taxes						(2)						(4)

Following is a discussion of significant changes to net income available to common stockholders.

Gas deliveries and rate increases: For the three months ended June 30, 2014, gas delivery revenues increased \$6 million compared with 2013, due to higher customer deliveries. Deliveries to end-use customers were 48 bcf in 2014 and 47 bcf in 2013.

Edgar Filing: CMS ENERGY CORP - Form 10-Q

For the six months ended June 30, 2014, gas delivery revenues increased \$38 million compared with 2013. This change reflected \$45 million of higher customer deliveries, due primarily to colder weather in 2014, offset partially by a \$6 million decrease associated with the energy efficiency program and a \$1 million decrease in other revenues. Deliveries to end-use customers were 205 bcf in 2014 and 179 bcf in 2013.

Maintenance and other operating expenses: For the three months ended June 30, 2014, maintenance and other operating expenses decreased \$3 million compared with 2013. This decrease was due to a

Table of Contents

\$6 million reduction in OPEB costs resulting from OPEB Plan changes adopted in July 2013, offset partially by a \$3 million increase in uncollectible accounts expense.

For the six months ended June 30, 2014, maintenance and other operating expenses decreased \$11 million compared with 2013. This decrease was due to a \$13 million reduction in OPEB costs resulting from OPEB Plan changes adopted in July 2013 and a \$6 million decrease in expenses related to the energy efficiency program. These decreases were offset partially by a \$4 million increase in uncollectible accounts expense and a \$4 million increase in other operating expenses.

Depreciation and amortization: For the three months ended June 30, 2014, depreciation and amortization expense increased \$3 million compared with 2013, and for the six months ended June 30, 2014, depreciation and amortization expense increased \$10 million compared with 2013. These changes were due to increased plant in service in 2014.

Income taxes: For the six months ended June 30, 2014, income taxes increased \$4 million compared with 2013. This change reflected a \$14 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

Net Income Available to Common Stockholders	\$ 2	\$ 1	\$ 1	\$ 4	\$ 5	\$ (1)

For the three months ended June 30, 2014, net income of the enterprises segment increased \$1 million compared with 2013, due primarily to higher earnings from gas marketing and new power sales contracts.

For the six months ended June 30, 2014, net income of the enterprises segment decreased \$1 million compared with 2013, due primarily to higher fuel costs.

CORPORATE INTEREST AND OTHER RESULTS OF OPERATIONS

June 30	Three Months Ended			Six Months Ended			<i>In Millions</i>
	2014	2013	Change	2014	2013	Change	

Edgar Filing: CMS ENERGY CORP - Form 10-Q

Net Income (Loss) Available to Common Stockholders	\$ (26)	\$ (19)	\$ (7)	\$ (45)	\$ (41)	\$ (4)
--	---------	---------	--------	---------	---------	--------

For the three months ended June 30, 2014, corporate interest and other net expenses increased \$7 million compared with 2013, due primarily to an \$8 million loss on the early extinguishment of debt, offset partially by higher earnings at EnerBank.

For the six months ended June 30, 2014, corporate interest and other net expenses increased \$4 million compared with 2013, due primarily to an \$8 million loss on the early extinguishment of debt, offset partially by a \$3 million reduction in miscellaneous corporate costs and higher earnings at EnerBank.

Table of Contents**CASH POSITION, INVESTING, AND FINANCING**

At June 30, 2014, CMS Energy had \$389 million of consolidated cash and cash equivalents, which included \$31 million of restricted cash and cash equivalents. At June 30, 2014, Consumers had \$129 million of consolidated cash and cash equivalents, which included \$31 million of restricted cash and cash equivalents.

OPERATING ACTIVITIES

Presented in the following table are specific components of net cash provided by operating activities for the six months ended June 30, 2014 and 2013:

Six Months Ended June 30	2014	2013	<i>In Millions</i> Change
CMS Energy, including Consumers			
Net income	\$ 288	\$ 225	\$ 63
Non-cash transactions ¹	536	580	(44)
	824	805	19
Postretirement benefits contributions	(4)	(88)	84
Proceeds from government grant	-	69	(69)
Changes in core working capital ²	96	350	(254)
Changes in other assets and liabilities, net	21	(41)	62
Net cash provided by operating activities	\$ 937	\$ 1,095	\$ (158)
Consumers			
Net income	\$ 330	\$ 262	\$ 68
Non-cash transactions ¹	456	527	(71)
	786	789	(3)
Postretirement benefits contributions	(2)	(86)	84
Proceeds from government grant	-	69	(69)
Changes in core working capital ²	105	350	(245)
Changes in other assets and liabilities, net	27	(37)	64
Net cash provided by operating activities	\$ 916	\$ 1,085	\$ (169)

¹ Non-cash transactions comprise depreciation and amortization, changes in deferred income taxes, postretirement benefits expense, and other non-cash items.

² Core working capital comprises accounts receivable and accrued revenues (including accrued power supply and gas revenues), inventories, accounts payable, and accrued rate refunds.

Edgar Filing: CMS ENERGY CORP - Form 10-Q

For the six months ended June 30, 2014, net cash provided by operating activities at CMS Energy decreased \$158 million compared with 2013, and net cash provided by operating activities at Consumers decreased \$169 million compared with 2013. The decreases were due primarily to an increase in gas and power supply underrecoveries as a result of severe winter weather, lower initial gas inventory levels, and the absence, in 2014, of the receipt of a \$69 million renewable energy grant. These changes were offset partially by a decrease in postretirement benefits contributions and higher cash collections of accounts receivable from customers.

Table of Contents**INVESTING ACTIVITIES**

Presented in the following table are specific components of net cash used in investing activities for the six months ended June 30, 2014 and 2013:

CMS Energy, including Consumers			
Change in EnerBank notes receivable	(86)	1	(87)
Net cash used in investing activities	\$ (783)	\$ (616)	\$ (167)
Capital expenditures	\$ (660)	\$ (579)	\$ (81)
Net cash used in investing activities	\$ (694)	\$ (613)	\$ (81)

For the six months ended June 30, 2014, net cash used in investing activities at CMS Energy increased \$167 million compared with 2013, and net cash used in investing activities at Consumers increased \$81 million compared with 2013. The changes were due primarily to an increase in capital expenditures under Consumers' capital investment program. At CMS Energy, the change was also due to an increase in EnerBank consumer lending.

FINANCING ACTIVITIES

Presented in the following table are specific components of net cash provided by (used in) financing activities for the six months ended June 30, 2014 and 2013:

CMS Energy, including Consumers			
Retirement of debt	(456)	(586)	130
Decrease in notes payable	(170)	(110)	(60)
Net cash provided by (used in) financing activities	\$ 32	\$ (35)	\$ 67
Issuance of debt	\$ -	\$ 425	\$ (425)
Payment of common and preferred stock dividends	(256)	(195)	(61)
Decrease in notes payable	(170)	(110)	(60)

Net cash used in financing activities	\$ (142)	\$ (191)	\$ 49
---------------------------------------	----------	----------	-------

For the six months ended June 30, 2014, net cash provided by financing activities at CMS Energy increased \$67 million compared with 2013 and net cash used in financing activities at Consumers decreased \$49 million compared with 2013. At CMS Energy, the change was due primarily to a decrease in debt retirements, offset partially by higher repayments under Consumers' accounts receivable sales program. At Consumers, the change was due primarily to an increase in cash contributions by the parent, offset partially by increases in common stock dividend payments and repayments under Consumers' accounts receivable sales program.

Table of Contents**CAPITAL RESOURCES AND LIQUIDITY**

CMS Energy uses dividends from its subsidiaries and external financing and capital transactions to invest in its utility and non-utility businesses, retire debt, pay dividends, and fund its other obligations. The ability of CMS Energy's subsidiaries, including Consumers, to pay dividends to CMS Energy depends upon each subsidiary's revenues, earnings, cash needs, and other factors. In addition, Consumers' ability to pay dividends is restricted by certain terms included in its debt covenants and articles of incorporation, and potentially by provisions under the Federal Power Act and the Natural Gas Act and FERC requirements. For additional details on Consumers' dividend restrictions, see Note 4, Financings and Capitalization - Dividend Restrictions. For the six months ended June 30, 2014, Consumers paid \$255 million in common stock dividends to CMS Energy.

In April 2013, CMS Energy entered into a continuous equity offering program permitting it to sell, from time to time through at the market offerings, common stock having an aggregate sales price of up to \$50 million. In March 2014, CMS Energy issued common stock under this program and received net proceeds of \$30 million.

Consumers uses cash flows generated from operations and external financing transactions, as well as stockholder contributions from CMS Energy, to fund capital expenditures, retire debt, pay dividends, contribute to its employee benefit plans, and fund its other obligations. As a result of accelerated pension funding in recent years and several initiatives to reduce costs, Consumers anticipates continued strong cash flows from operating activities in 2014.

CMS Energy's and Consumers' access to the financial and capital markets depends on their credit ratings and on market conditions. As evidenced by past financing transactions, CMS Energy and Consumers have had ready access to these markets and, barring major market dislocations or disruptions, they expect to continue to have such access. If access to these markets were to diminish or otherwise become restricted, however, CMS Energy and Consumers would implement contingency plans to address debt maturities, which could include reduced capital spending. CMS Energy and Consumers had the following secured revolving credit facilities available at June 30, 2014:

	Amount of Facility	Amount Borrowed	Letters of Credit Outstanding	Amount Available	<i>In Millions</i> Expiration Date
CMS Energy					
Revolving credit facility ¹	\$ 550	\$ -	\$ 2	\$ 548	December 2018
Consumers					
Revolving credit facility ²	\$ 650	\$ -	\$ -	\$ 650	December 2018
Revolving credit facility ²	30	-	30	-	May 2018

1 Obligations under this facility are secured by Consumers common stock.

2 Obligations under this facility are secured by FMBs of Consumers.

Edgar Filing: CMS ENERGY CORP - Form 10-Q

CMS Energy and Consumers use these credit facilities for general working capital purposes and to issue letters of credit. An additional source of liquidity is Consumers' revolving accounts receivable sales program, which allows it to transfer up to \$250 million of eligible accounts receivable as a secured borrowing. At June 30, 2014, \$250 million of accounts receivable were eligible for transfer under this program.

Certain of CMS Energy's and Consumers' credit agreements, debt indentures, and other facilities contain covenants that require CMS Energy and Consumers to maintain certain financial ratios, as defined therein. At June 30, 2014, no default had occurred with respect to any financial covenants contained in

Table of Contents

CMS Energy's and Consumers' credit agreements, debt indentures, or other facilities. CMS Energy and Consumers were each in compliance with these covenants as of June 30, 2014, as presented in the following table:

Credit Agreement, Indenture, or Facility	Description		June 30, 2014 Limit	Actual
CMS Energy				
\$550 million revolving credit agreement and				
\$180 million term loan credit agreement	Interest Coverage	>	2.0 to 1.0	4.7 to 1.0
\$650 million and \$30 million revolving credit agreements, \$35 million and \$68 million reimbursement agreements, and \$250 million revolving accounts receivable sales agreement				
	Debt to Capital	≤	0.65 to 1.0	0.47 to 1.0

Components of CMS Energy's and Consumers' cash management plan include controlling operating expenses and capital expenditures and evaluating market conditions for financing and refinancing opportunities. CMS Energy and Consumers believe that their present level of cash and their expected cash flows from operating activities, together with their access to sources of liquidity, will be sufficient to fund their contractual obligations for 2014 and beyond.

OFF-BALANCE-SHEET ARRANGEMENTS

CMS Energy, Consumers, and certain of their subsidiaries also enter into various arrangements in the normal course of business to facilitate commercial transactions with third parties. These arrangements include indemnities, surety bonds, letters of credit, and financial and performance guarantees. Indemnities are usually agreements to reimburse a counterparty that may incur losses due to outside claims or breach of contract terms. The maximum payment that could be required under a number of these indemnity obligations is not estimable; the maximum obligation under indemnities for which such amounts were estimable was \$469 million at June 30, 2014. While CMS Energy and Consumers believe it is unlikely that they will incur any material losses related to indemnities they have not recorded as liabilities, they cannot predict the impact of these contingent obligations on their liquidity and financial condition. For additional details on these and other guarantee arrangements, see Note 3, Contingencies and Commitments – Guarantees.

OUTLOOK

Several business trends and uncertainties may affect CMS Energy's and Consumers' financial condition and results of operations. These trends and uncertainties could have a material impact on CMS Energy's and Consumers' consolidated income, cash flows, or financial position. For additional details regarding these and other uncertainties, see Forward-Looking Statements and Information; Note 2, Regulatory Matters; Note 3, Contingencies and Commitments; and Part II – Item 1A. Risk Factors.

CONSUMERS ELECTRIC UTILITY AND GAS UTILITY BUSINESS OUTLOOK AND UNCERTAINTIES

Energy Optimization Plan: The 2008 Energy Law requires Consumers to achieve energy savings equivalent to annual usage reduction targets through at least 2015. The targets increase annually, with the goal of achieving cumulative reductions of 5.6 percent in customers' electricity use and 3.9 percent in customers' natural gas use by December 31, 2015. Under its energy optimization plan, Consumers provides its customers with incentives to reduce usage by offering energy audits, rebates and discounts on purchases of highly efficient appliances, and other incentives and programs. At June 30, 2014,

Table of Contents

Consumers had achieved cumulative reductions of 5.5 percent in customers' electricity use and 3.7 percent in customers' natural gas use.

Smart Energy: Consumers' grid modernization effort continues. In 2012, Consumers began installing smart meters for electric residential and small business customers in western Michigan. One of the functions of smart meters is to allow customers to monitor and manage their energy usage, which Consumers expects will help reduce demand during critical peak times, resulting in lower peak electric capacity requirements. The installation of smart meters should also provide for both operational and customer benefits. As of June 30, 2014, Consumers had upgraded 256,000 electric customers in western Michigan to smart meters. Of the customers scheduled for the upgrade, 0.5 percent have chosen not to participate in the smart meter program.

Consumers is able to read and bill from smart meters remotely; further functionality will continue to be added through mid-2015. Consumers expects to have installed 385,000 smart meters throughout western Michigan by the end of 2014 and to have completed the installation of smart meters throughout its service territory by the end of 2017. Consumers also plans to install communication modules on gas meters in areas where Consumers provides both electricity and natural gas to customers.

CONSUMERS ELECTRIC UTILITY BUSINESS OUTLOOK AND UNCERTAINTIES

Balanced Energy Initiative: Consumers continues to experience increasing demand for electricity due to Michigan's recovering economy and increased use of air conditioning, consumer electronics, and other electric devices, offset partially by the predicted effects of energy efficiency and conservation. With the planned retirement of seven smaller coal-fueled electric generating units and the potential tightening of the MISO capacity market, Consumers could experience a shortfall in generation capacity of up to 1,500 MW in 2016. In order to address future capacity requirements and growing electric demand in Michigan, Consumers updated its balanced energy initiative, a comprehensive energy resource plan designed to meet the short-term and long-term electricity needs of its customers through:

- energy efficiency;
- demand management;
- expanded use of renewable energy;
- construction or purchase of electric generating units; and
- continued operation or upgrade of existing units.

In December 2013, Consumers signed an agreement to purchase a 540-MW gas-fueled electric generating plant located in Jackson, Michigan for \$155 million from AlphaGen Power LLC and DPC Juniper, LLC, affiliates of JPMorgan Chase & Co. Consumers expects to close the purchase, which is subject to MPSC, FERC, and other approvals, in late 2015. 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, which Consumers estimated would have cost \$700 million.

Renewable Energy Plan: Consumers' renewable energy plan details how Consumers expects to meet REC and capacity standards prescribed by the 2008 Energy Law. This law requires Consumers to use RECs, which represent proof that the associated electricity was generated from a renewable energy resource, to achieve certain renewable energy targets. The targets increase annually, with a goal of using RECs in an amount equal to at least ten percent of Consumers' electric sales volume (estimated to be 3.3 million RECs annually) in 2015 and each year thereafter. Under its renewable energy plan, Consumers expects to meet its renewable energy requirement each year with a combination of newly generated RECs and previously generated RECs carried over from prior years.

Table of Contents

The 2008 Energy Law also requires Consumers to obtain 500 MW of new capacity from renewable energy resources by the end of 2015, either through generation resources owned by Consumers or through agreements to purchase capacity from other parties. Through June 2014, Consumers has contracted for the purchase of 298 MW of nameplate capacity from renewable energy suppliers and owns 100 MW of nameplate capacity at its Lake Winds® Energy Park.

Consumers expects to meet the balance of the renewable capacity requirement one year earlier than required, through the completion of its Cross Winds® Energy Park, a 105-MW wind park in Tuscola County, Michigan. Consumers began construction of Cross Winds® Energy Park in October 2013 and expects to begin operations in late 2014. Cross Winds® Energy Park will qualify for certain federal production tax credits that should reduce significantly the cost of meeting the renewable requirements of the 2008 Energy Law. Consumers expects to qualify for \$100 million to \$120 million of federal production tax credits, which will be based on the wind project's production over its first ten years of operation. These cost savings will be passed on to customers.

Electric Customer Deliveries and Revenue: Consumers' electric customer deliveries are largely dependent on Michigan's economy. Consumers expects weather-adjusted electric deliveries to increase in 2014 by 1.5 to 2.5 percent compared with 2013.

Over the next five years, Consumers expects average electric delivery growth of up to 0.5 percent annually. This increase reflects growth in electric demand, offset partially by the predicted effects of energy efficiency programs and appliance efficiency standards. Actual delivery levels will depend on:

- energy conservation measures and results of energy efficiency programs;
- fluctuations in weather; and
- Michigan economic conditions, including utilization, expansion, or contraction of manufacturing facilities, population trends, and housing activity.

Electric ROA: A Michigan statute enacted in 2000 allows Consumers' electric customers to buy electric generation service from Consumers or from alternative electric suppliers. The 2008 Energy Law revised the statute by limiting alternative electric supply to ten percent of Consumers' weather-adjusted retail sales of the preceding calendar year. At June 30, 2014, electric deliveries under the ROA program were at the ten-percent limit and alternative electric suppliers were providing 788 MW of generation service to ROA customers. Of Consumers' 1.8 million electric customers, 309 customers, or 0.02 percent, purchased electric generation service under the ROA program. Consumers expects 2014 electric deliveries under the ROA program to be at a similar level to 2013.

In December 2013, a bill was introduced to the Michigan House of Representatives that, if enacted, would revise the 2008 Energy Law by removing the ten-percent limit and allowing all of Consumers' electric customers to take service from an alternative electric supplier. Presently, the proportion of Consumers' electric deliveries under the ROA program and on the ROA waiting list is 26 percent. The bill also proposes to deregulate electric generation service in Michigan within two years. No definitive action has been taken on this bill or on a similar bill introduced to the Michigan Senate in February 2013. The Senate bill, if enacted, would revise the 2008 Energy Law and allow customers on the ROA program waiting list to take service from alternative electric suppliers. The Senate bill also proposes an increase in the cap of six percentage points per year from 2014 through 2016.

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.

Table of Contents

Governor's Energy Initiative: In 2013, Michigan's governor instituted a process to prepare a series of reports addressing energy efficiency, renewable energy, the electricity market and ROA, and other subjects. The process was designed to help the governor and other lawmakers determine the state's next steps regarding energy policies. Following a series of public hearings, the chairman of the MPSC and Michigan's Energy Office Director released four reports summarizing the information gathered. In December 2013, the governor outlined several key goals for Michigan's energy policy, including reducing the state's reliance on coal, increasing the use of renewable energy and natural gas, and improving energy affordability and reliability while protecting the environment.

Electric Transmission: In 2011, FERC issued an order in a rulemaking proceeding concerning regional electric transmission planning and cost allocations. Consumers and several other electric utilities filed a joint petition seeking clarification/rehearing of FERC's order and opposing the allocation methodology. In 2012, following FERC's denial of their requests for clarification/rehearing, Consumers and several other electric utilities filed a petition for review of FERC's order with the U.S. Court of Appeals for the D.C. Circuit. In March 2014, the U.S. Court of Appeals conducted oral arguments on this matter.

In 2012, ReliabilityFirst Corporation informed Consumers that Consumers may not be properly registered to meet certain NERC electric reliability standards. Consumers has assessed its registration status, taking into consideration FERC's December 2012 order on the definition of a bulk electric system, and in August 2013 notified ReliabilityFirst Corporation that it is preparing to register as a transmission owner, transmission planner, and transmission operator. In light of this order, Consumers reviewed the classification of certain electric distribution assets and, in April 2014, filed an application for reclassification with the MPSC. Consumers also plans to file an application for reclassification with FERC.

Depreciation Rate Case: In June 2014, Consumers filed a depreciation case related to its electric and common utility property, requesting to increase depreciation expense, and its recovery of that expense, by \$28 million annually.

Electric Environmental Estimates: Consumers' operations are subject to various state and federal environmental laws and regulations. Consumers estimates that it will incur expenditures of \$0.9 billion from 2014 through 2018 to continue to comply with the Clean Air Act, Clean Water Act, and numerous state and federal environmental regulations. Consumers expects to recover these costs in customer rates, but cannot guarantee this result. Consumers' primary environmental compliance focus includes, but is not limited to, the following matters:

Air Quality: In 2011, the EPA released CSAPR, a final replacement rule for CAIR, which requires Michigan and 27 other states to improve air quality by reducing power plant emissions that, according to EPA computer models, contribute to ground-level ozone and fine particle pollution in other downwind states. In 2012, the U.S. Court of Appeals for the D.C. Circuit voided CSAPR and held that CAIR would remain in place until the EPA promulgated a new rule. This matter was appealed to the U.S. Supreme Court, which upheld and remanded CSAPR back to the D.C. Circuit for additional action in April 2014. The D.C. Circuit directed parties to file motions to govern further proceedings. The EPA and environmental groups are seeking to make CSAPR effective in 2015.

In 2012, the EPA published its final MACT emission standards for electric generating units, based on Section 112 of the Clean Air Act, calling the final rule MATS. Under MATS, all of Consumers' existing coal-fueled electric generating units are required to add additional controls for hazardous air pollutants. Compliance is required by April 2015, unless a one-year extension is granted by the MDEQ. Consumers has received the extension for ten of its coal-fueled units and expects to meet the extended deadline for three units it intends to continue operating. Consumers expects to retire the remaining seven units by the extended deadline. Consumers expects to meet the April 2015 deadline for its two other coal-fueled units.

Table of Contents

MATS is presently being litigated and the U.S. Court of Appeals for the D.C. Circuit recently denied the petitions challenging the final rule. This matter has been appealed to the U.S. Supreme Court.

In 2012, the EPA finalized a rule that strengthens the air quality standard for fine particulate matter. This rule was litigated in the U.S. Court of Appeals for the D.C. Circuit and was upheld in May 2014. Consumers expects short-term impacts to be limited, but this new standard could give rise to air quality concerns in states downwind of Michigan and put pressure on Michigan and other Midwestern states to reduce emissions further. Given its present strategy for CAIR, CSAPR, and MATS compliance, however, Consumers will already be achieving significant reductions in emissions that contribute to the formation of fine particulate matter.

Presently, Consumers strategy to comply with air quality regulations, including CAIR, CSAPR, and MATS, involves the installation of emission control equipment at some facilities and the suspension of operations at others; however, Consumers continues to evaluate these rules in conjunction with other EPA rulemakings, litigation, and congressional action. This evaluation could result in:

- changes in environmental compliance costs related to Consumers coal-fueled power plants;
- a change in the fuel mix at coal-fueled and oil-fueled power plants;
- changes in how certain plants are used; and
- the retirement, mothballing, or repowering with an alternative fuel of some of Consumers generating units.

The MDEQ renewed and issued the Renewable Operating Permit for the B.C. Cobb plant in August 2011 and for the J.H. Campbell plant in July 2013 after an extensive review and a public comment period. The Sierra Club and the Natural Resources Defense Council filed separate petitions with the EPA to object to the MDEQ s issuance of the state Renewable Operating Permit for both of these facilities, alleging that the facilities are not in compliance with certain provisions of the Clean Air Act, including NSR and Title V. Consumers has responded to these allegations. The EPA could either deny the petition outright or grant the petition and remand the matter to the MDEQ for further action. The Sierra Club or the Natural Resources Defense Council could also file suit in federal district court seeking EPA action on the petition. Consumers is unable to predict the outcome of these actions.

Greenhouse Gases: In the recent past, there have been numerous legislative and regulatory initiatives at the state, regional, and national levels that involve the regulation of greenhouse gases. Consumers continues to monitor and comment on these initiatives and to follow litigation involving greenhouse gases. Consumers believes Congress may eventually pass greenhouse gas legislation, but is unable to predict the form and timing of any final legislation.

In January 2014, the EPA published proposed rules pursuant to Section 111(b) of the Clean Air Act to limit carbon dioxide emissions from new electric generating units. New coal-fueled units would not be able to meet this limit without installing carbon dioxide control equipment using such methods as carbon capture and sequestration. The proposed rules for new sources are expected to be finalized in 2014.

Edgar Filing: CMS ENERGY CORP - Form 10-Q

In June 2014, the EPA published proposed rules pursuant to Section 111(d) of the Clean Air Act to limit carbon dioxide emissions from existing electric generating units, calling the rules the Clean Power Plan. The proposed rules would require a 30 percent nationwide reduction in carbon emissions from existing power plants by 2030 (based on 2005 levels). Each state would have a tailored target based on its circumstances, and Michigan specifically would be required to achieve approximately a 31 percent reduction from 2012 levels. The rules for existing sources are expected to be finalized by June 2015. Subsequent state implementation plans are due by June 30, 2016, but extensions are available. In addition, the Clean Power Plan is presently being litigated.

Table of Contents

Consumers believes that its balanced energy initiative, its present carbon reduction target, and its emphasis on supply diversity will position it favorably to deal with the impact of carbon regulation, but cannot predict the final outcome of either of these EPA proposals. Consumers will continue to monitor regulatory activity regarding greenhouse gas emissions standards that may affect electric generating units.

Litigation, as well as federal laws, EPA regulations regarding greenhouse gases, or similar treaties, state laws, or rules, if enacted or ratified, could require Consumers to replace equipment, install additional emission control equipment, purchase emission allowances, curtail operations, arrange for alternative sources of supply, or take other steps to manage or lower the emission of greenhouse gases. Although associated capital or operating costs relating to greenhouse gas regulation or legislation could be material and cost recovery cannot be assured, Consumers expects to recover these costs and capital expenditures in rates consistent with the recovery of other reasonable costs of complying with environmental laws and regulations.

CCRs: In 2010, the EPA proposed rules regulating CCRs, such as coal ash, under the Resource Conservation and Recovery Act. Communications from the EPA stress the need to coordinate CCR rulemaking guidelines for steam electric generating plants under the Clean Water Act. A final CCR rule is expected in late 2014. Michigan already regulates CCRs as low-hazard industrial waste. The EPA proposed a range of alternatives for regulating CCRs, including regulation as either a non-hazardous waste or a hazardous waste. If coal ash were regulated as a hazardous waste, Consumers would likely cease the beneficial reuse of this product, which would result in a significant increase in the amount of coal ash requiring costly disposal. Additionally, if the cost of upgrading existing coal ash disposal areas to meet hazardous waste landfill standards were to become economically prohibitive, existing coal ash disposal areas could close, requiring Consumers to find costly alternative arrangements for disposal. Consumers is unable to predict the impacts from this wide range of possible outcomes, but significant expenditures are likely.

Water: In May 2014, the EPA released a prepublication version of a final rule to regulate existing electric generating plant cooling water intake systems under Section 316(b) of the Clean Water Act aimed at reducing alleged harmful impacts on fish and shellfish. Consumers does not expect any changes to its environmental strategy as a result of the final rule. Consumers also expects the EPA to issue final regulations in 2015 that may require physical and/or chemical treatment of wastewater discharges from electric generating plants. Consumers will evaluate these rules and their potential impacts on Consumers electric generating plants once they are final.

PCBs: In 2010, the EPA issued an Advance Notice of Proposed Rulemaking, indicating that it is considering a variety of regulatory actions with respect to PCBs. One approach would aim to phase out equipment containing PCBs by 2025. Another approach would eliminate an exemption for small equipment containing PCBs. To comply with any such regulatory actions, Consumers could incur substantial costs associated with existing electrical equipment potentially containing PCBs. A proposed rule is expected in 2014.

Other electric environmental matters could have a major impact on Consumers outlook. For additional details on other electric environmental matters, see Note 3, Contingencies and Commitments Consumers Electric Utility Contingencies, Electric Environmental Matters.

Table of Contents

CONSUMERS GAS UTILITY BUSINESS OUTLOOK AND UNCERTAINTIES

Gas Deliveries: Consumers expects weather-adjusted gas deliveries in 2014 to increase by 1.5 to 2.0 percent compared with 2013 due to the addition of gas-fired electric generation in its service territory. Over the next five years, Consumers expects weather-adjusted gas deliveries to remain relatively stable. This outlook reflects modest growth in gas demand offset by the predicted effects of energy efficiency and conservation. Actual delivery levels from year to year may vary from this expectation due to:

- fluctuations in weather;
- use by power producers;
- availability and development of renewable energy sources;
- changes in gas prices;
- Michigan economic conditions, including population trends and housing activity;
- the price of competing energy sources or fuels; and
- energy efficiency and conservation impacts.

Gas Transmission: In May 2013, the MPSC approved Consumers' application to build a 24-mile, 36-inch natural gas pipeline in St. Joseph and Branch Counties, Michigan, and Consumers began construction in October 2013. Consumers expects that it will spend \$111 million for this project, and that the pipeline will be operational by the end of 2014.

Gas Transportation: In 2012, Trunkline filed a proposal with FERC to cease transporting natural gas through one of its two main transmission pipelines serving Michigan. More than 60 percent of the natural gas supplied to Consumers' gas customers is delivered by Trunkline's two main transmission pipelines. In August 2012, Consumers filed a motion with FERC to protest against the proposed abandonment on the grounds that it would negatively impact customers and that it could hamper the development of gas-fueled electric generation in Michigan. In its motion, Consumers stated that if Trunkline's proposal is granted, the abandonment could result in higher gas prices and reduced availability for Michigan gas customers. Michigan's governor, the MPSC, and various other parties also filed protests with FERC. In November 2013, however, FERC issued an order granting the abandonment request and giving Trunkline one year to complete the abandonment. Consumers filed a request for rehearing of FERC's order in December 2013. In April 2014, FERC denied Consumers' request for rehearing.

Gas Rate Case: In July 2014, Consumers filed an application with the MPSC seeking an annual rate increase of \$88 million, based on a 10.7 percent authorized return on equity. The filing requested authority to recover new investments that will allow Consumers to improve system reliability, comply with regulations, and enhance technology. Costs associated with these investments represent an annual rate increase of \$144 million; this amount is offset partially by reductions in the revenue requirement associated with working capital and other cost reductions. This would be Consumers' first gas base rate increase since 2012.

Edgar Filing: CMS ENERGY CORP - Form 10-Q

The filing also seeks approval of two rate adjustment mechanisms: a mechanism that would reconcile annually Consumers' actual nonfuel revenues with the revenues approved by the MPSC, and a mechanism that would allow recovery of an additional \$92 million associated with investments in the period January 2016 through December 2017, subject to reconciliation.

Gas Environmental Estimates: Consumers expects to incur response activity costs at a number of sites, including 23 former MGP sites. For additional details, see Note 3, Contingencies and Commitments - Consumers Gas Utility Contingencies, Gas Environmental Matters.

Table of Contents

ENTERPRISES OUTLOOK AND UNCERTAINTIES

The primary focus with respect to CMS Energy's remaining non-utility businesses is to optimize cash flow and maximize the value of their assets.

Trends, uncertainties, and other matters that could have a material impact on CMS Energy's consolidated income, cash flows, or financial position include:

- indemnity and environmental remediation obligations at Bay Harbor;
- obligations related to a tax claim from the government of Equatorial Guinea;
- the outcome of certain legal proceedings;
- impacts of declines in electricity prices on the profitability of the enterprises segment's generating units;
- representations, warranties, and indemnities provided by CMS Energy or its subsidiaries in connection with previous sales of assets;
- changes in commodity prices and interest rates on certain derivative contracts that do not qualify for hedge accounting and must be marked to market through earnings;
- changes in various environmental laws, regulations, principles, or practices, or in their interpretation; and
- economic conditions in Michigan, including population trends and housing activity.

For additional details regarding the enterprises segment's uncertainties, see Note 3, Contingencies and Commitments.

OTHER OUTLOOK AND UNCERTAINTIES

EnerBank: EnerBank is a Utah state-chartered, FDIC-insured industrial bank providing unsecured consumer installment loans for financing home improvements. EnerBank represented three percent of CMS Energy's net assets at June 30, 2014, and four percent of CMS Energy's net income available to common stockholders for the six months ended June 30, 2014. The carrying value of EnerBank's loan portfolio was \$770 million at June 30, 2014. Its loan portfolio was funded primarily by deposit liabilities of \$730 million. The twelve-month rolling average default rate on loans held by EnerBank has remained stable at 0.6 percent at June 30, 2014. CMS Energy is required both by law and by contract to provide financial support, including infusing additional capital, to ensure that EnerBank satisfies mandated capital requirements and has sufficient liquidity to operate. With its self-funding plan, EnerBank has exceeded these requirements historically and exceeded them as of June 30, 2014.

Litigation: CMS Energy, Consumers, and certain of their subsidiaries are named as parties in various litigation matters, as well as in administrative proceedings before various courts and governmental agencies, arising in the ordinary course of business. For additional details regarding these and other legal matters, see Note 2, Regulatory Matters and Note 3, Contingencies and Commitments.

NEW ACCOUNTING STANDARDS

For details regarding new accounting standards issued but not yet effective, see Note 1, New Accounting Standards.

Table of Contents

CMS Energy Corporation

Consolidated Statements of Income

(Unaudited)

June 30	Three Months Ended		<i>In Millions, Except Per Share Amounts</i> Six Months Ended	
	2014	2013	2014	2013
Operating Revenue	\$ 1,468	\$ 1,406	\$ 3,991	\$ 3,385
Operating Expenses				
Fuel for electric generation	154	147	373	301
Purchased and interchange power	359	347	857	680
Purchased power related parties	22	23	46	46
Cost of gas sold	187	166	1,021	773
Maintenance and other operating expenses	304	304	570	586
Depreciation and amortization	151	137	350	318
General taxes	56	50	131	120
Total operating expenses	1,233	1,174	3,348	2,824
Operating Income	235	232	643	561
Other Income (Expense)				
Interest income	1	2	1	2
Allowance for equity funds used during construction	2	1	4	4
Income from equity method investees	3	3	7	8
Other income	3	2	6	5
Other expense	(16)	(3)	(23)	(6)
Total other income (expense)	(7)	5	(5)	13
Interest Charges				
Interest on long-term debt	99	99	196	193
Other interest expense	3	4	8	9
Allowance for borrowed funds used during construction	(1)	(1)	(2)	(2)
Total interest charges	101	102	202	200
Income Before Income Taxes	127	135	436	374
Income Tax Expense	43	54	148	149
Net Income	84	81	288	225
Income Attributable to Noncontrolling Interests	1	1	1	1
Net Income Available to Common Stockholders	\$ 83	\$ 80	\$ 287	\$ 224
	\$ 0.31	\$ 0.30	\$ 1.07	\$ 0.85

Basic Earnings Per Average Common Share				
Diluted Earnings Per Average Common Share	\$ 0.30	\$ 0.29	\$ 1.05	\$ 0.83
Dividends Declared Per Common Share	\$ 0.27	\$ 0.255	\$ 0.54	\$ 0.51

The accompanying notes are an integral part of these statements.

Table of Contents

CMS Energy Corporation
Consolidated Statements of Comprehensive Income
(Unaudited)

June 30	Three Months Ended		Six Months Ended	
	2014	2013	2014	2013
	<i>In Millions</i>			
Net Income	\$ 84	\$ 81	\$ 288	\$ 225
Retirement Benefits Liability				
Amortization of net actuarial loss, net of tax of \$1 for all periods	1	1	1	2
Investments				
Unrealized loss on investments, net of tax of \$- for all periods	-	(3)	-	(3)
Derivative Instruments				
Reclassification adjustments included in net income, net of tax of \$- for all periods	-	-	1	-
Other Comprehensive Income (Loss)	1	(2)	2	(1)
Comprehensive Income	85	79	290	224
Comprehensive Income Attributable to Noncontrolling Interests	1	1	1	1
Comprehensive Income Attributable to CMS Energy	\$ 84	\$ 78	\$ 289	\$ 223

The accompanying notes are an integral part of these statements.

Table of Contents

(This page intentionally left blank)

Table of Contents

CMS Energy Corporation
Consolidated Statements of Cash Flows
(Unaudited)

Six Months Ended June 30	2014	<i>In Millions</i> 2013
Cash Flows from Operating Activities		
Net income	\$ 288	\$ 225
<i>Adjustments to reconcile net income to net cash provided by operating activities</i>		
Depreciation and amortization	350	318
Deferred income taxes and investment tax credit	137	135
Postretirement benefits expense	11	95
Other non-cash operating activities	38	32
Postretirement benefits contributions	(4)	(88)
Proceeds from government grant	-	69
<i>Cash provided by (used in) changes in assets and liabilities</i>		
Accounts receivable, notes receivable, and accrued revenue	(14)	85
Inventories	108	253
Accounts payable and accrued refunds	2	12
Other current and non-current assets and liabilities	21	(41)
Net cash provided by operating activities	937	1,095
Cash Flows from Investing Activities		
Capital expenditures (excludes assets placed under capital lease)	(663)	(580)
Cost to retire property	(36)	(23)
Other investing activities	(84)	(13)
Net cash used in investing activities	(783)	(616)
Cash Flows from Financing Activities		
Proceeds from issuance of long-term debt	550	675
Proceeds from (retirements of) EnerBank notes, net	78	(28)
Issuance of common stock	37	28
Retirement of long-term debt	(301)	(445)
Payment of common and preferred stock dividends	(146)	(135)
Decrease in notes payable	(170)	(110)
Payment of capital lease obligations and other financing costs	(16)	(20)
Net cash provided by (used in) financing activities	32	(35)
Net Increase in Cash and Cash Equivalents	186	444
Cash and Cash Equivalents, Beginning of Period	172	93
Cash and Cash Equivalents, End of Period	\$ 358	\$ 537

The accompanying notes are an integral part of these statements.

Table of Contents

CMS Energy Corporation
Consolidated Balance Sheets
(Unaudited)

ASSETS

	June 30 2014	<i>In Millions</i> December 31 2013
Current Assets		
Cash and cash equivalents	\$ 358	\$ 172
Restricted cash and cash equivalents	31	32
Accounts receivable and accrued revenue, less allowances of \$36 in 2014 and \$33 in 2013	754	914
Notes receivable	88	63
Accounts receivable - related parties	11	10
Accrued power supply and gas revenue	152	-
<i>Inventories at average cost</i>		
Gas in underground storage	582	660
Materials and supplies	109	107
Generating plant fuel stock	84	114
Deferred income taxes	29	126
Deferred property taxes	148	202
Regulatory assets	11	40
Prepayments and other current assets	108	86
Total current assets	2,465	2,526
Plant, Property, and Equipment		
Plant, property, and equipment, gross	16,583	16,184
Less accumulated depreciation and amortization	5,242	5,087
Plant, property, and equipment, net	11,341	11,097
Construction work in progress	1,339	1,149
Total plant, property, and equipment	12,680	12,246
Other Non-current Assets		
Regulatory assets	1,463	1,530
Accounts and notes receivable, less allowances of \$5 in 2014 and 2013	687	646
Investments	62	59
Other	362	409
Total other non-current assets	2,574	2,644
Total Assets	\$ 17,719	\$ 17,416

Table of Contents**LIABILITIES AND EQUITY**

	June 30 2014	<i>In Millions</i> December 31 2013
Current Liabilities		
Current portion of long-term debt, capital leases, and financing obligation	\$ 439	\$ 562
Notes payable	-	170
Accounts payable	587	585
Accounts payable related parties	10	10
Accrued rate refunds	-	12
Accrued interest	103	96
Accrued taxes	225	297
Regulatory liabilities	70	67
Other current liabilities	129	146
Total current liabilities	1,563	1,945
Non-current Liabilities		
Long-term debt	7,535	7,101
Non-current portion of capital leases and financing obligation	131	138
Regulatory liabilities	2,220	2,215
Postretirement benefits	241	239
Asset retirement obligations	329	325
Deferred investment tax credit	39	40
Deferred income taxes	1,676	1,616
Other non-current liabilities	303	306
Total non-current liabilities	12,474	11,980
Commitments and Contingencies (Notes 2 and 3)		
Equity		
<i>Common stockholders' equity</i>		
Common stock, authorized 350.0 shares; outstanding 275.0 shares in 2014 and 266.1 shares in 2013	3	3
Other paid-in capital	4,761	4,715
Accumulated other comprehensive loss	(20)	(22)
Accumulated deficit	(1,099)	(1,242)
Total common stockholders' equity	3,645	3,454
Noncontrolling interests	37	37
Total equity	3,682	3,491
Total Liabilities and Equity	\$ 17,719	\$ 17,416

The accompanying notes are an integral part of these statements.

Table of Contents

CMS Energy Corporation

Consolidated Statements of Changes in Equity

(Unaudited)

June 30	Three Months Ended		Six Months Ended	
	2014	2013	2014	2013
	<i>In Millions</i>			
Total Equity at Beginning of Period	\$ 3,655	\$ 3,350	\$ 3,491	\$ 3,238
Common Stock				
At beginning and end of period	3	3	3	3
Other Paid-in Capital				
At beginning of period	4,746	4,703	4,715	4,669
Common stock issued	8	8	45	37
Common stock repurchased	-	(1)	(6)	(1)
Common stock reissued	-	-	-	5
Conversion option on convertible debt	7	-	7	-
At end of period	4,761	4,710	4,761	4,710
Accumulated Other Comprehensive Loss				
At beginning of period	(21)	(54)	(22)	(55)
<i>Retirement benefits liability</i>				
At beginning of period	(21)	(55)	(21)	(56)
Amortization of net actuarial loss	1	1	1	2
At end of period	(20)	(54)	(20)	(54)
<i>Investments</i>				
At beginning of period	-	2	-	2
Unrealized loss on investments	-	(3)	-	(3)
At end of period	-	(1)	-	(1)
<i>Derivative instruments</i>				
At beginning of period	-	(1)	(1)	(1)
Reclassification adjustments included in net income	-	-	1	-
At end of period	-	(1)	-	(1)
At end of period	(20)	(56)	(20)	(56)
Accumulated Deficit				
At beginning of period	(1,110)	(1,346)	(1,242)	(1,423)
Net income attributable to CMS Energy	83	80	287	224
Common stock dividends declared	(72)	(68)	(144)	(135)
At end of period	(1,099)	(1,334)	(1,099)	(1,334)
Noncontrolling Interests				
At beginning of period	37	44	37	44
Income attributable to noncontrolling interests	1	1	1	1

Edgar Filing: CMS ENERGY CORP - Form 10-Q

Distributions, redemptions, and other changes in noncontrolling interests	(1)	(8)	(1)	(8)
At end of period	37	37	37	37
Total Equity at End of Period	\$ 3,682	\$ 3,360	\$ 3,682	\$ 3,360

The accompanying notes are an integral part of these statements.

Table of Contents

(This page intentionally left blank)

Table of Contents

Consumers Energy Company

Consolidated Statements of Income

(Unaudited)

June 30	Three Months Ended		Six Months Ended	
	2014	2013	2014	2013
	<i>In Millions</i>			
Operating Revenue	\$ 1,387	\$ 1,342	\$ 3,769	\$ 3,261
Operating Expenses				
Fuel for electric generation	132	125	318	258
Purchased and interchange power	348	340	832	669
Purchased power related parties	22	23	46	46
Cost of gas sold	167	154	935	754
Maintenance and other operating expenses	288	289	538	555
Depreciation and amortization	149	136	346	316
General taxes	54	48	128	117
Total operating expenses	1,160	1,115	3,143	2,715
Operating Income	227	227	626	546
Other Income (Expense)				
Interest income	1	2	1	2
Allowance for equity funds used during construction	2	1	4	4
Other income	3	2	6	9
Other expense	(4)	(3)	(10)	(6)
Total other income	2	2	1	9
Interest Charges				
Interest on long-term debt	59	60	118	119
Other interest expense	2	3	5	6
Allowance for borrowed funds used during construction	(1)	(1)	(2)	(2)
Total interest charges	60	62	121	123
Income Before Income Taxes	169	167	506	432
Income Tax Expense	60	67	176	170
Net Income	109	100	330	262
Preferred Stock Dividends and Distribution	1	1	1	1
Net Income Available to Common Stockholder	\$ 108	\$ 99	\$ 329	\$ 261

The accompanying notes are an integral part of these statements.

[Table of Contents](#)

Consumers Energy Company
Consolidated Statements of Comprehensive Income
(Unaudited)

June 30	Three Months Ended		<i>In Millions</i> Six Months Ended	
	2014	2013	2014	2013
Net Income	\$ 109	\$ 100	\$ 330	\$ 262
Retirement Benefits Liability				
Amortization of net actuarial loss, net of tax of \$-, \$1, \$-, and \$1	1	1	1	2
Investments				
Unrealized gain (loss) on investments, net of tax of \$1, \$1, \$2, and \$1	1	(4)	3	-
Reclassification adjustments included in net income, net of tax of \$-, \$-, \$-, and \$(1)	-	-	-	(3)
Other Comprehensive Income (Loss)	2	(3)	4	(1)
Comprehensive Income	\$ 111	\$ 97	\$ 334	\$ 261

The accompanying notes are an integral part of these statements.

Table of Contents

(This page intentionally left blank)

Table of Contents

Consumers Energy Company
Consolidated Statements of Cash Flows
(Unaudited)

Six Months Ended June 30	2014	<i>In Millions</i> 2013
Cash Flows from Operating Activities		
Net income	\$ 330	\$ 262
<i>Adjustments to reconcile net income to net cash provided by operating activities</i>		
Depreciation and amortization	346	316
Deferred income taxes and investment tax credit	66	87
Postretirement benefits expense	12	93
Other non-cash operating activities	32	31
Postretirement benefits contributions	(2)	(86)
Proceeds from government grant	-	69
<i>Cash provided by (used in) changes in assets and liabilities</i>		
Accounts receivable, notes receivable, and accrued revenue	(6)	85
Inventories	101	249
Accounts payable and accrued refunds	10	16
Other current and non-current assets and liabilities	27	(37)
Net cash provided by operating activities	916	1,085
Cash Flows from Investing Activities		
Capital expenditures (excludes assets placed under capital lease)	(660)	(579)
Cost to retire property	(36)	(23)
Other investing activities	2	(11)
Net cash used in investing activities	(694)	(613)
Cash Flows from Financing Activities		
Proceeds from issuance of long-term debt	-	425
Retirement of long-term debt	(21)	(445)
Payment of common and preferred stock dividends	(256)	(195)
Stockholder contribution	315	150
Decrease in notes payable	(170)	(110)
Payment of capital lease obligations and other financing costs	(10)	(16)
Net cash used in financing activities	(142)	(191)
Net Increase in Cash and Cash Equivalents	80	281
Cash and Cash Equivalents, Beginning of Period	18	5
Cash and Cash Equivalents, End of Period	\$ 98	\$ 286

The accompanying notes are an integral part of these statements.

Table of Contents**Consumers Energy Company****Consolidated Balance Sheets****(Unaudited)****ASSETS**

	June 30 2014	<i>In Millions</i> December 31 2013
Current Assets		
Cash and cash equivalents	\$ 98	\$ 18
Restricted cash and cash equivalents	31	31
Accounts receivable and accrued revenue, less allowances of \$34 in 2014 and \$31 in 2013	739	902
Notes receivable	-	14
Accounts receivable related parties	1	4
Accrued power supply and gas revenue	152	-
<i>Inventories at average cost</i>		
Gas in underground storage	582	653
Materials and supplies	104	103
Generating plant fuel stock	82	113
Deferred property taxes	148	202
Regulatory assets	11	40
Prepayments and other current assets	101	77
Total current assets	2,049	2,157
Plant, Property, and Equipment		
Plant, property, and equipment, gross	16,441	16,044
Less accumulated depreciation and amortization	5,174	5,022
Plant, property, and equipment, net	11,267	11,022
Construction work in progress	1,337	1,147
Total plant, property, and equipment	12,604	12,169
Other Non-current Assets		
Regulatory assets	1,463	1,530
Accounts and notes receivable	4	11
Investments	34	29
Other	233	283
Total other non-current assets	1,734	1,853
Total Assets	\$ 16,387	\$ 16,179

Table of Contents**LIABILITIES AND EQUITY**

	June 30 2014	<i>In Millions</i> December 31 2013
Current Liabilities		
Current portion of long-term debt, capital leases, and financing obligation	\$ 67	\$ 64
Notes payable	-	170
Accounts payable	573	571
Accounts payable related parties	14	13
Accrued rate refunds	-	12
Accrued interest	63	63
Accrued taxes	283	353
Deferred income taxes	121	55
Regulatory liabilities	70	67
Other current liabilities	97	112
Total current liabilities	1,288	1,480
Non-current Liabilities		
Long-term debt	4,555	4,579
Non-current portion of capital leases and financing obligation	131	138
Regulatory liabilities	2,220	2,215
Postretirement benefits	182	179
Asset retirement obligations	328	324
Deferred investment tax credit	39	40
Deferred income taxes	2,143	2,115
Other non-current liabilities	251	252
Total non-current liabilities	9,849	9,842
Commitments and Contingencies (Notes 2 and 3)		
Equity		
<i>Common stockholder s equity</i>		
Common stock, authorized 125.0 shares; outstanding 84.1 shares for both periods	841	841
Other paid-in capital	3,572	3,257
Accumulated other comprehensive income (loss)	2	(2)
Retained earnings	798	724
Total common stockholder s equity	5,213	4,820
Preferred stock	37	37
Total equity	5,250	4,857
Total Liabilities and Equity	\$ 16,387	\$ 16,179

The accompanying notes are an integral part of these statements.

Table of Contents

Consumers Energy Company

Consolidated Statements of Changes in Equity

(Unaudited)

June 30	Three Months Ended		Six Months Ended	
	2014	2013	2014	2013
	<i>In Millions</i>			
Total Equity at Beginning of Period	\$ 5,095	\$ 4,803	\$ 4,857	\$ 4,582
Common Stock				
At beginning and end of period	841	841	841	841
Other Paid-in Capital				
At beginning of period	3,407	3,257	3,257	3,107
Stockholder contribution	165	-	315	150
At end of period	3,572	3,257	3,572	3,257
Accumulated Other Comprehensive Income (Loss)				
At beginning of period	-	(6)	(2)	(8)
<i>Retirement benefits liability</i>				
At beginning of period	(17)	(24)	(17)	(25)
Amortization of net actuarial loss	1	1	1	2
At end of period	(16)	(23)	(16)	(23)
<i>Investments</i>				
At beginning of period	17	18	15	17
Unrealized gain (loss) on investments	1	(4)	3	-
Reclassification adjustments included in net income	-	-	-	(3)
At end of period	18	14	18	14
At end of period	2	(9)	2	(9)
Retained Earnings				
At beginning of period	810	667	724	598
Net income	109	100	330	262
Common stock dividends declared	(120)	(101)	(255)	(194)
Preferred stock dividends and distribution declared	(1)	(1)	(1)	(1)
At end of period	798	665	798	665
Preferred Stock				
At beginning of period	37	44	37	44
Preferred stock redeemed	-	(7)	-	(7)
At end of period	37	37	37	37
Total Equity at End of Period	\$ 5,250	\$ 4,791	\$ 5,250	\$ 4,791

The accompanying notes are an integral part of these statements.

Table of Contents

CMS Energy Corporation
Consumers Energy Company

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

These interim consolidated financial statements have been prepared by CMS Energy and Consumers in accordance with GAAP for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. As a result, CMS Energy and Consumers have condensed or omitted certain information and note disclosures normally included in consolidated financial statements prepared in accordance with GAAP. CMS Energy and Consumers have reclassified certain prior period amounts to conform to the presentation in the current period. In management's opinion, the unaudited information contained in this report reflects all adjustments of a normal recurring nature necessary to ensure the fair presentation of financial position, results of operations, and cash flows for the periods presented. The notes to the unaudited consolidated financial statements and the related unaudited consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes contained in the 2013 Form 10-K. Due to the seasonal nature of CMS Energy's and Consumers' operations, the results presented for this interim period are not necessarily indicative of results to be achieved for the fiscal year.

1: NEW ACCOUNTING STANDARDS

NEW ACCOUNTING STANDARDS NOT YET EFFECTIVE

ASU 2014-09, Revenue from Contracts with Customers: This standard, which will become effective January 1, 2017 for CMS Energy and Consumers, was issued by the Financial Accounting Standards Board as a result of a joint project with the International Accounting Standards Board. The Boards developed a common revenue recognition model that will be applied under GAAP and International Financial Reporting Standards. The new guidance will replace most of the existing revenue recognition requirements in GAAP, although certain guidance specific to rate-regulated utilities will be retained. CMS Energy and Consumers are evaluating the impact of the standard on their consolidated financial statements.

ASU 2014-12, Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period: This standard, which will become effective January 1, 2016 for CMS Energy and Consumers, addresses certain types of stock awards with performance targets. The standard will apply to the restricted stock awards granted by CMS Energy and Consumers that are based on EPS growth relative to peers, to the extent that these awards are granted to retirement-eligible employees. CMS Energy and Consumers do not expect the standard to have any impact on their consolidated financial statements since the guidance in the standard is consistent with the accounting presently applied to these awards.

2: REGULATORY MATTERS

Edgar Filing: CMS ENERGY CORP - Form 10-Q

Regulatory matters are critical to Consumers. The Michigan Attorney General, ABATE, the MPSC Staff, and certain other parties typically participate in MPSC proceedings concerning Consumers, such as Consumers rate cases and PSCR and GCR processes. These parties often challenge various aspects of those proceedings, including the prudence of Consumers policies and practices, and seek cost disallowances and other relief. The parties also have appealed significant MPSC orders. Depending upon the specific issues, the outcomes of rate cases and proceedings, including judicial proceedings challenging MPSC orders or other actions, could have a material adverse effect on CMS Energy's and Consumers liquidity, financial condition, and results of operations. Consumers cannot predict the outcome of these proceedings.

Table of Contents

There are multiple appeals pending that involve various issues concerning cost allocation among customers, the allocation of refunds among customer groups, the adequacy of the record evidence supporting the recovery of Smart Energy investments, and other matters. Consumers is unable to predict the outcome of these appeals.

Securitization Financing Order: In July 2014, Consumers, through its subsidiary Consumers 2014 Securitization Funding, issued \$378 million of Securitization bonds to 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 it plans to retire by April 2016. The MPSC approved the issuance of these bonds in its December 2013 Securitization financing order, and authorized Consumers to collect from its retail electric customers, with some exceptions, Securitization charges to cover the principal and interest on the bonds as well as certain other qualified costs.

Major Maintenance Reconciliation: In its June 2012 order in Consumers' electric rate case, the MPSC allowed Consumers to defer major maintenance costs associated with its electric generating units in excess of the costs approved in the rate order and to recover those excess costs from customers, subject to MPSC approval. In May 2014, Consumers filed an application with the MPSC to recover \$11 million of such excess costs over a 12-month period.

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 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 six months ended June 30, 2014, this new treatment reduced Consumers' income tax expense by \$23 million. The new treatment, along with other cost saving initiatives that Consumers has undertaken, should allow Consumers to avoid increasing electric and gas base rates during 2014.

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 during the three months ended March 31, 2014, Consumers' natural gas fuel costs for this period were significantly higher than those projected in its 2013-2014 GCR plan. Consumers calculated an \$84 million underrecovery for the 2013-2014 GCR plan year and, in the reconciliation it filed in June 2014, requested approval to roll this underrecovery into its 2014-2015 GCR plan.

Consumers had also filed an amendment to its 2014-2015 GCR plan in February 2014, requesting approval to increase the 2014-2015 GCR factor to be charged to customers. In May 2014, the MPSC issued an order approving a temporary increase to the GCR factor. Consumers may charge the increased factor to customers until the MPSC issues a final order in Consumers' 2014-2015 GCR plan. Consumers had a \$72 million GCR underrecovery recorded at June 30, 2014.

The severe winter weather also affected Consumers' power supply costs. Extreme cold weather and heavy snowfall inhibited the delivery and use of coal at Consumers' coal-fueled generating units. Additionally, increases in natural gas prices raised the cost of electricity purchased from the MISO energy market as well as the cost of power generated at Consumers' gas-fueled generating units. As a result, Consumers' power supply costs for 2014 are expected to be significantly higher than those projected in the 2014 PSCR plan it submitted to the MPSC in September 2013. Consumers had an \$80 million PSCR underrecovery at June 30, 2014.

Edgar Filing: CMS ENERGY CORP - Form 10-Q

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. Consumers self-implemented the revised factor in July 2014.

Table of Contents

Energy Optimization Plan: In May 2014, Consumers filed its annual report and reconciliation for its energy optimization plan, requesting approval of its energy optimization plan costs for 2013. Consumers also requested approval to collect \$18 million from customers as an incentive payment for exceeding statutory targets under both its electric and gas energy optimization plans during 2013.

3: CONTINGENCIES AND COMMITMENTS

CMS Energy and Consumers are involved in various matters that give rise to contingent liabilities. Depending on the specific issues, the resolution of these contingencies could have a material effect on CMS Energy's and Consumers' liquidity, financial condition, and results of operations. In their disclosures of these matters, CMS Energy and Consumers provide an estimate of the possible loss or range of loss when such an estimate can be made. Disclosures that state that CMS Energy or Consumers cannot predict the outcome of a matter indicate that they are unable to estimate a possible loss or range of loss for the matter.

CMS ENERGY CONTINGENCIES

Gas Index Price Reporting Litigation: CMS Energy, along with CMS MST, CMS Field Services, Cantera Natural Gas, Inc., and Cantera Gas Company, have been named as defendants in five class action lawsuits arising as a result of alleged inaccurate natural gas price reporting to publications that report trade information. Allegations include manipulation of NYMEX natural gas futures and options prices, price-fixing conspiracies, restraint of trade, and artificial inflation of natural gas retail prices in Kansas, Missouri, and Wisconsin. Plaintiffs are making claims for the following: full consideration damages, treble damages, exemplary damages, costs, interest, and/or attorney fees.

After removal to federal court, all of the cases were transferred to the MDL. In 2010 and 2011, all claims against CMS Energy defendants in the MDL cases were dismissed based on FERC preemption. Plaintiffs filed appeals in all of the cases. The issues on appeal were whether the district court erred in dismissing the cases based on FERC preemption and denying the plaintiffs' motions for leave to amend their complaints to add a federal Sherman Act antitrust claim. The plaintiffs did not appeal the dismissal of CMS Energy as a defendant in these cases, but other CMS Energy entities remain as defendants.

In April 2013, the U.S. Court of Appeals for the Ninth Circuit reversed the MDL decision and remanded the case to the MDL judge for further proceedings. The appellate court found that FERC preemption does not apply under the facts of these cases. The Court affirmed the MDL court's denial of leave to amend to add federal antitrust claims.

In August 2013, the joint defense group in these cases, of which CMS Energy defendants are members, filed a petition with the U.S. Supreme Court in an attempt to overturn the decision of the U.S. Court of Appeals for the Ninth Circuit. In July 2014, the U.S. Supreme Court agreed to hear this case. Arguments are expected to be heard in late 2014 with an opinion expected in the first half of 2015.

These cases involve complex facts, a large number of similarly situated defendants with different factual positions, and multiple jurisdictions. Presently, any estimate of liability would be highly speculative; the amount of CMS Energy's possible loss would be based on widely varying

Edgar Filing: CMS ENERGY CORP - Form 10-Q

models previously untested in this context. If the outcome after appeals is unfavorable, these cases could have a material adverse impact on CMS Energy's liquidity, financial condition, and results of operations.

Bay Harbor: CMS Energy retained environmental remediation obligations for the collection and treatment of leachate, a liquid consisting of water and other substances, at Bay Harbor after selling its interests in the development in 2002. Leachate is produced when water enters into cement kiln dust piles left over from former cement plant operations at the site. In 2012, CMS Energy and the MDEQ finalized an agreement that established the final remedies and the future release criteria at the site. CMS Energy

Table of Contents

has completed all construction necessary to implement the remedies required by the agreement and will continue to maintain and operate a system to discharge treated leachate into Little Traverse Bay under an NPDES permit issued in 2010. This permit requires renewal every five years.

Various claims have been brought against CMS Land or its affiliates, including CMS Energy, alleging environmental damage to property, loss of property value, insufficient disclosure of environmental matters, breach of agreement relating to access, or other matters. In 2010, CMS Land and other parties received a demand for payment from the EPA in the amount of \$7 million, plus interest, whereby the EPA is seeking recovery under CERCLA of the EPA's response costs incurred at the Bay Harbor site. CMS Land has communicated to the EPA that it does not believe that this is a valid claim.

CMS Energy has recorded a cumulative charge related to Bay Harbor of \$230 million, which includes accretion expense. At June 30, 2014, CMS Energy had a recorded liability of \$50 million for its remaining obligations. CMS Energy calculated this liability based on discounted projected costs, using a discount rate of 4.34 percent and an inflation rate of one percent on annual operating and maintenance costs. The undiscounted amount of the remaining obligation is \$68 million. CMS Energy expects to pay \$6 million in 2014, \$5 million in 2015, \$5 million in 2016, \$4 million in 2017, and \$4 million in 2018, and the remaining amount thereafter on long-term liquid disposal and operating and maintenance costs. CMS Energy's estimate of response activity costs and the timing of expenditures could change if there are changes in circumstances or assumptions used in calculating the liability.

Although a liability for its present estimate of remaining response activity costs has been recorded, CMS Energy cannot predict the ultimate financial impact or outcome of this matter.

Equatorial Guinea Tax Claim: In January 2002, CMS Energy sold its oil, gas, and methanol investments in Equatorial Guinea. The government of Equatorial Guinea claims that CMS Energy owes \$142 million in taxes, plus significant penalties and interest, in connection with the sale and has requested arbitration. The parties recently engaged in a conciliation process, which did not resolve the matter. CMS Energy has concluded that the government's tax claim is without merit. CMS Energy is vigorously contesting the claim, and cannot predict the financial impact or outcome of this matter.

CONSUMERS ELECTRIC UTILITY CONTINGENCIES

Electric Environmental Matters: Consumers' operations are subject to environmental laws and regulations. Historically, Consumers has generally been able to recover, in customer rates, the costs to operate its facilities in compliance with these laws and regulations.

Cleanup and Solid Waste: Consumers expects to incur remediation and other response activity costs at a number of sites under NREPA. Consumers believes that these costs should be recoverable in rates, but cannot guarantee that outcome. Consumers estimates that its liability for NREPA sites for which it can estimate a range of loss will be between \$4 million and \$6 million. At June 30, 2014, Consumers had a recorded liability of \$4 million, the minimum amount in the range of its estimated probable NREPA liability.

Edgar Filing: CMS ENERGY CORP - Form 10-Q

Consumers is a potentially responsible party at a number of contaminated sites administered under CERCLA. CERCLA liability is joint and several. In 2010, Consumers received official notification from the EPA that identified Consumers as a potentially responsible party for cleanup of PCBs at the Kalamazoo River CERCLA site. The notification claimed that the EPA has reason to believe that Consumers disposed of PCBs and arranged for the disposal and treatment of PCB-containing materials at portions of the site. In April 2011, Consumers received a follow-up letter from the EPA requesting that Consumers agree to participate in a removal action plan along with several other companies for an area of lower Portage Creek, which is connected to the Kalamazoo River. All parties, including Consumers, that were asked to participate in the removal action plan declined to accept liability. Until further information

Table of Contents

is received from the EPA, Consumers is unable to estimate a range of potential liability for cleanup of the river.

Based on its experience, Consumers estimates that its share of the total liability for other known CERCLA sites will be between \$3 million and \$9 million. Various factors, including the number of potentially responsible parties involved with each site, affect Consumers' share of the total liability. At June 30, 2014, Consumers had a recorded liability of \$3 million for its share of the total liability at these sites, the minimum amount in the range of its estimated probable CERCLA liability.

The timing of payments related to Consumers' remediation and other response activities at its CERCLA and NREPA sites is uncertain. Consumers periodically reviews these cost estimates. Any significant change in the underlying assumptions, such as an increase in the number of sites, different remediation techniques, the nature and extent of contamination, and legal and regulatory requirements, could affect its estimates of NREPA and CERCLA liability.

Ludington PCB: In 1998, during routine maintenance activities, Consumers identified PCB as a component in certain paint, grout, and sealant materials at Ludington. Consumers removed and replaced part of the PCB material with non-PCB material. Consumers has had several communications with the EPA regarding this matter. Consumers cannot predict the financial impact or outcome of this matter.

Electric Utility Plant Air Permit Issues and Notices of Violation: In 2007, Consumers received an NOV/FOV from the EPA alleging that fourteen utility boilers exceeded the visible emission limits in their associated air permits. Consumers has responded formally to the NOV/FOV denying the allegations. In addition, in 2008, Consumers received an NOV for three of its coal-fueled facilities alleging, among other things, violations of NSR PSD regulations relating to ten projects from 1986 to 1998 allegedly subject to review under the NSR. The EPA has alleged that some utilities have classified incorrectly major plant modifications as RMRR rather than seeking permits from the EPA or state regulatory agencies to modify their plants. Consumers responded to the information requests from the EPA on this subject in the past. Consumers believes that it has properly interpreted the requirements of RMRR.

Consumers is engaged in discussions with the EPA on all of these matters. Depending upon the outcome of these discussions, the EPA could bring legal action against Consumers and/or Consumers could be required to install additional pollution control equipment at some or all of its coal-fueled electric generating plants, surrender emission allowances, engage in Environmental Mitigation Projects, and/or pay fines. Additionally, Consumers would need to assess the viability of continuing operations at certain plants. The potential costs relating to these matters could be material. Consumers expects that it would be able to recover some or all of the costs in rates, consistent with the recovery of other reasonable costs of complying with environmental laws and regulations, but cannot reasonably estimate the extent of cost recovery. Although Consumers cannot predict the financial impact or outcome of the entirety of these discussions, it does not expect any future loss from civil penalties and/or Environmental Mitigation Projects to be material.

Nuclear Matters: The matters discussed in this section relate to Consumers' previously owned nuclear generating plants. Consumers no longer owns or operates any nuclear generating facilities.

Consumers filed a complaint in 2002 for damages resulting from the DOE's failure to accept spent nuclear fuel from Palisades and Big Rock. In 2011, Consumers entered into an agreement with the DOE to settle its claims for \$120 million. As part of this agreement, Consumers also settled its liability to the DOE to fund the disposal of spent nuclear fuel used at Palisades and Big Rock before 1983. In December 2012, the

Edgar Filing: CMS ENERGY CORP - Form 10-Q

MPSC issued an order establishing the regulatory treatment of the settlement amount. In this order, the MPSC also relieved Consumers of its obligation to establish an independent trust fund for the amount that was payable to the DOE prior to the settlement. In March 2013, a party in

Table of Contents

this case filed an appeal with the Michigan Court of Appeals to dispute the December 2012 MPSC order. In April 2014, the Michigan Court of Appeals upheld the MPSC's order, thereby resolving this matter.

Renewable Energy Matters: In April 2013, a group of landowners filed a lawsuit in Mason County (Michigan) Circuit Court alleging, among other things, personal injury, loss of property value, and impacts to the use and enjoyment of their land as a result of the operations of Lake Winds® Energy Park. Consumers cannot predict the ultimate financial impact or outcome of this matter.

CONSUMERS GAS UTILITY CONTINGENCIES

Gas Environmental Matters: Consumers expects to incur remediation and other response activity costs at a number of sites under the NREPA. These sites include 23 former MGP facilities. Consumers operated the facilities on these sites for some part of their operating lives. For some of these sites, Consumers has no present ownership interest or may own only a portion of the original site.

At June 30, 2014, Consumers had a recorded liability of \$118 million for its remaining obligations for these sites. This amount represents the present value of long-term projected costs, using a discount rate of 2.57 percent and an inflation rate of 2.5 percent. The undiscounted amount of the remaining obligation is \$134 million. Consumers expects to incur remediation and other response activity costs in 2014 and in each of the next four years as follows:

										<i>In Millions</i>									
										2014		2015		2016		2017		2018	
Consumers																			
Remediation and other response activity costs										\$	7	\$	14	\$	12	\$	10	\$	19

Consumers periodically reviews these cost estimates. Any significant change in the underlying assumptions, such as an increase in the number of sites, changes in remediation techniques, or legal and regulatory requirements, could affect Consumers' estimates of annual response activity costs and the MGP liability.

Pursuant to orders issued by the MPSC, Consumers defers its MGP-related remediation costs and recovers them from its customers over a ten-year period. At June 30, 2014, Consumers had a regulatory asset of \$148 million related to the MGP sites.

Consumers estimates that its liability to perform remediation and other response activities at NREPA sites other than the MGP sites will be up to \$3 million. At June 30, 2014, Consumers had a recorded liability of less than \$1 million, the minimum amount in the range of its estimated probable liability.

Table of Contents**GUARANTEES**

Presented in the following table are CMS Energy's and Consumers' guarantees at June 30, 2014:

Guarantee Description	Issue Date	Expiration Date	Maximum Obligation	<i>In Millions</i> Carrying Amount
CMS Energy, including Consumers				
Indemnity obligations from asset sales and other agreements	Various	Various through September 2029	\$ 469.1	\$ 16
Guarantees	Various	Various through March 2021	54	-
Consumers				
Indemnity obligations and other guarantees	Various	Various through September 2029	\$ 30	\$ 1

1 The majority of this amount arises from stock and asset sale agreements under which CMS Energy or a subsidiary of CMS Energy, other than Consumers, indemnified the purchaser for losses resulting from various matters, including claims related to tax disputes, claims related to power purchase agreements, and defects in title to the assets or stock sold to the purchaser by CMS Energy subsidiaries. Except for items described elsewhere in this Note, CMS Energy believes the likelihood of material loss to be remote for the indemnity obligations not recorded as liabilities.

Presented in the following table is additional information regarding CMS Energy's and Consumers' guarantees:

Guarantee Description	How Guarantee Arose	Events That Would Require Performance
CMS Energy, including Consumers		
Indemnity obligations from asset sales and other agreements	Stock and asset sale agreements	Findings of misrepresentation, breach of warranties, tax claims, and other specific events or circumstances
Guarantees	Normal operating activity	Nonperformance or non-payment by a subsidiary under a related contract
Consumers		
Indemnity obligations and other guarantees	Normal operating activity	Nonperformance or claims made by a third party under a related contract

CMS Energy, Consumers, and certain other subsidiaries of CMS Energy also enter into various agreements containing tax and other indemnity provisions for which they are unable to estimate the maximum potential obligation. These factors include unspecified exposure under certain agreements. CMS Energy and Consumers consider the likelihood that they would be required to perform or incur substantial losses related to these indemnities to be remote.

OTHER CONTINGENCIES

Other: In addition to the matters disclosed in this Note and Note 2, Regulatory Matters, there are certain other lawsuits and administrative proceedings before various courts and governmental agencies arising in the ordinary course of business to which CMS Energy, Consumers, and certain other subsidiaries of CMS Energy are parties. These other lawsuits and proceedings may involve personal injury, property damage, contracts, environmental matters, federal and state taxes, rates, licensing, employment, and other matters. Further, CMS Energy and Consumers occasionally self-report certain regulatory non-compliance matters that may or may not eventually result in administrative proceedings. CMS Energy and

Table of Contents

Consumers believe that the outcome of any one of these proceedings will not have a material adverse effect on their consolidated results of operations, financial condition, or liquidity.

4: FINANCINGS AND CAPITALIZATION

Presented in the following table is a summary of major long-term debt transactions during the six months ended June 30, 2014:

	Principal (In Millions)	Interest Rate	Issue/Retirement Date	Maturity Date
<i>Debt issuances</i>				
CMS Energy				
Senior notes ¹	\$ 250	3.875%	February 2014	March 2024
Senior notes ¹	300	4.875	February 2014	March 2044
Total debt issuances	\$ 550			
<i>Debt retirements</i>				
CMS Energy				
Senior notes ²	\$ 125	6.875%	April 2014	December 2015
Senior notes	155	5.500	June 2014	June 2029
Total debt retirements	\$ 280			

¹ CMS Energy used a portion of these proceeds to retire its \$125 million 6.875 percent senior notes due December 2015 and its \$155 million 5.5 percent convertible senior notes due June 2029. CMS Energy intends to use the remaining proceeds for general corporate purposes.

² CMS Energy retired this debt at a premium and recorded a loss on extinguishment of \$13 million in other expense on its consolidated statements of income.

In July 2014, Consumers, through its subsidiary Consumers 2014 Securitization Funding, issued \$124 million of 1.334 percent Securitization bonds due 2020, \$139 million of 2.962 percent Securitization bonds due 2025, and \$115 million of 3.528 percent Securitization bonds due 2029. These Securitization bonds are collateralized by certain regulatory assets held by Consumers 2014 Securitization Funding. The bondholders have no recourse to Consumers' other assets. Through its rate structure, Consumers will collect from its retail electric customers, with some exceptions, Securitization charges to cover the principal and interest on the bonds as well as certain other qualified costs. The surcharges collected will be remitted to a trustee and will not be available to creditors of Consumers or creditors of Consumers' affiliates other than Consumers 2014 Securitization Funding. Consumers will use the proceeds from the Securitization property to retire a portion of its existing debt and equity. For additional details regarding the Securitization, see Note 2, Regulatory Matters.

Regulatory Authorization for Financings: Consumers is required to maintain FERC authorization for financings. In June 2014, Consumers received authorization from FERC to have outstanding, at any one time, up to \$800 million of secured and unsecured short-term securities for general corporate purposes. FERC has also authorized Consumers to issue and sell up to \$1.9 billion of secured and unsecured long-term securities for general corporate purposes. The authorization, which is effective July 1, 2014 and terminates on June 30, 2016, exceeds Consumers' anticipated financing needs for this period.

Table of Contents

Revolving Credit Facilities: The following secured revolving credit facilities with banks were available at June 30, 2014:

Expiration Date	Amount of Facility	Amount Borrowed	<i>In Millions</i>	
			Letters of Credit Outstanding	Amount Available
CMS Energy				
December 20, 2018 ¹	\$ 550	\$ -	\$ 2	\$ 548
Consumers				
December 20, 2018 ²	\$ 650	\$ -	\$ -	\$ 650
May 9, 2018 ²	30	-	30	-

1 Obligations under this facility are secured by Consumers common stock.

2 Obligations under this facility are secured by FMBs of Consumers.

Short-term Borrowings: Under Consumers' revolving accounts receivable sales program, Consumers may transfer up to \$250 million of accounts receivable, subject to certain eligibility requirements. These transactions are accounted for as short-term secured borrowings. At June 30, 2014, \$250 million of accounts receivable were eligible for transfer. During the six months ended June 30, 2014, Consumers' average short-term borrowings totaled \$22 million, with a weighted-average annual interest rate of 0.85 percent.

Contingently Convertible Securities: Presented in the following table are details about conversions of contingently convertible securities during the six months ended June 30, 2014:

	Conversion Date	Principal Converted (In Millions)	Weighted-Average Conversion Value per \$1,000 of Principal	Shares of Common Stock Issued on Settlement	Cash Paid on Settlement (In Millions)
5.50% senior notes due 2029	February 2014	\$ 17	\$ 1,968	605,531	\$ 17
5.50% senior notes due 2029	June 2014	155	2,215	6,372,578	155

Dividend Restrictions: Under provisions of the Michigan Business Corporation Act of 1972, as amended, at June 30, 2014, payment of common stock dividends by CMS Energy was limited to \$3.6 billion.

Under the provisions of its articles of incorporation, at June 30, 2014, Consumers had \$735 million of unrestricted retained earnings available to pay common stock dividends to CMS Energy. Provisions of the Federal Power Act and the Natural Gas Act appear to restrict dividends payable by Consumers to the amount of Consumers' retained earnings. Several decisions from FERC suggest that under a variety of circumstances common stock dividends from Consumers would not be limited to amounts in Consumers' retained earnings. Any decision by Consumers to pay common stock dividends in excess of retained earnings would be based on specific facts and circumstances and would be subject to a formal regulatory filing process.

Edgar Filing: CMS ENERGY CORP - Form 10-Q

For the six months ended June 30, 2014, CMS Energy received \$255 million of common stock dividends from Consumers.

Table of Contents

Issuance of Common Stock: In April 2013, CMS Energy entered into a continuous equity offering program permitting it to sell, from time to time in at the market offerings, common stock having an aggregate sales price of up to \$50 million per program. Presented in the following table are the transactions that CMS Energy entered into under the program:

	Number of Shares Issued	Average Price per Share	Proceeds (In Millions)
March 2014	1,070,080	\$ 28.04	\$ 30

5: FAIR VALUE MEASUREMENTS

Accounting standards define 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. When measuring fair value, CMS Energy and Consumers are required to incorporate all assumptions that market participants would use in pricing an asset or liability, including assumptions about risk. A fair value hierarchy prioritizes inputs used to measure fair value according to their observability in the market. The three levels of the fair value hierarchy are as follows:

- Level 1 inputs are unadjusted quoted prices in active markets for identical assets or liabilities.
- Level 2 inputs are observable, market-based inputs, other than Level 1 prices. Level 2 inputs may include quoted prices for similar assets or liabilities in active markets, quoted prices in inactive markets, and inputs derived from or corroborated by observable market data.
- Level 3 inputs are unobservable inputs that reflect CMS Energy's or Consumers' own assumptions about how market participants would value their assets and liabilities.

To the extent possible, CMS Energy and Consumers use quoted market prices or other observable market pricing data in valuing assets and liabilities measured at fair value. If this information is unavailable, they use market-corroborated data or reasonable estimates about market participant assumptions. CMS Energy and Consumers classify fair value measurements within the fair value hierarchy based on the lowest level of input that is significant to the fair value measurement in its entirety.

Table of Contents**ASSETS AND LIABILITIES MEASURED AT FAIR VALUE ON A RECURRING BASIS**

Presented in the following table are CMS Energy's and Consumers' assets and liabilities, by level within the fair value hierarchy, recorded at fair value on a recurring basis:

	CMS Energy, including Consumers		Consumers		<i>In Millions</i>
	June 30 2014	December 31 2013	June 30 2014	December 31 2013	
<i>Assets</i> ¹					
Cash equivalents	\$ 218	\$ 87	\$ 39	\$ -	
Restricted cash equivalents	32	16	32	15	
CMS Energy common stock	-	-	34	29	
Nonqualified deferred compensation plan assets	7	6	5	4	
<i>DB SERP</i>					
Mutual funds	134	136	95	95	
<i>Derivative instruments</i>					
Commodity contracts	6	5	4	4	
Total	\$ 397	\$ 250	\$ 209	\$ 147	
<i>Liabilities</i> ¹					
Nonqualified deferred compensation plan liabilities	\$ 7	\$ 6	\$ 5	\$ 4	
<i>Derivative instruments</i>					
Commodity contracts	3	1	3	-	
Total	\$ 10	\$ 7	\$ 8	\$ 4	

¹ All assets and liabilities were classified as Level 1 with the exception of commodity contracts, which were classified as Level 2 or Level 3, and which were insignificant at June 30, 2014.

Cash Equivalents: Cash equivalents and restricted cash equivalents consist of money market funds with daily liquidity. Short-term debt instruments classified as cash equivalents or restricted cash equivalents on the consolidated balance sheets are not included since they are recorded at amortized cost.

Nonqualified Deferred Compensation Plan Assets and Liabilities: The nonqualified deferred compensation plan assets consist of mutual funds, which are valued using the daily quoted NAVs that are publicly available and are the basis for transactions to buy or sell shares in each fund. CMS Energy and Consumers value their nonqualified deferred compensation plan liabilities based on the fair values of the plan assets, as they reflect what is owed to the plan participants in accordance with their investment elections. CMS Energy and Consumers report the assets in other non-current assets and the liabilities in other non-current liabilities on their consolidated balance sheets.

DB SERP Assets: CMS Energy and Consumers value their DB SERP assets using a market approach that incorporates quoted market prices. The DB SERP cash equivalents consist of a money market fund with daily liquidity. The DB SERP invests in mutual funds that hold primarily fixed-income instruments of varying maturities. In order to meet their investment objectives, the funds hold investment-grade debt securities,

Edgar Filing: CMS ENERGY CORP - Form 10-Q

and may invest a portion of their assets in high-yield securities, foreign debt, and derivative instruments. CMS Energy and Consumers value these funds using the daily quoted NAVs that are publicly available and are the basis for transactions to buy or sell shares in each fund. CMS Energy and Consumers report their DB SERP assets in other non-current assets on their consolidated balance sheets. For additional details about DB SERP securities, see Note 6, Financial Instruments.

Table of Contents

Derivative Instruments: CMS Energy and Consumers value their derivative instruments using either a market approach that incorporates information from market transactions, or an income approach that discounts future expected cash flows to a present value amount. CMS Energy values its exchange-traded derivative contracts based on Level 1 quoted prices and values other derivatives using Level 2 inputs, including commodity forward prices and credit risk factors. CMS Energy and Consumers have classified certain derivatives as Level 3 since the fair value measurements incorporate assumptions that cannot be observed or confirmed through market transactions.

The majority of derivatives classified as Level 3 are FTRs held by Consumers. Consumers uses FTRs to manage price risk related to electricity transmission congestion. An FTR is a financial instrument that entitles its holder to receive compensation or requires its holder to remit payment for congestion-related transmission charges. FTRs are accounted for as derivatives. Under regulatory accounting, all changes in fair value associated with FTRs are deferred as regulatory assets or liabilities until the instruments are settled. Due to the lack of quoted pricing information, Consumers determines the fair value of its FTRs based on Consumers' average historical settlements.

ASSETS AND LIABILITIES MEASURED AT FAIR VALUE ON A RECURRING BASIS USING SIGNIFICANT LEVEL 3 INPUTS

Presented in the following table are reconciliations of changes in the fair values of Level 3 assets and liabilities at CMS Energy and Consumers:

June 30	Three Months Ended		Six Months Ended		<i>In Millions</i>
	2014	2013	2014	2013	
CMS Energy, including Consumers					
Balance at beginning of period	\$ -	\$ -	\$ 4	\$ 2	
Total losses included in earnings ¹	-	(1)	-	-	
Total gains (losses) offset through regulatory accounting	1	9	(18)	7	
Purchases	-	-	(1)	(1)	
Settlements	-	-	16	-	
Balance at end of period	\$ 1	\$ 8	\$ 1	\$ 8	
Unrealized losses included in earnings relating to assets and liabilities still held at end of period ¹	\$ -	\$ (1)	\$ -	\$ (1)	
Consumers					
Balance at beginning of period	\$ -	\$ -	\$ 4	\$ 2	
Total gains (losses) offset through regulatory accounting	1	9	(18)	7	
Purchases	-	-	(1)	1	
Settlements	-	1	16	-	
Balance at end of period	\$ 1	\$ 10	\$ 1	\$ 10	

¹ CMS Energy records realized and unrealized gains and losses for Level 3 recurring fair value measurements in earnings as a component of operating revenue or maintenance and other operating expenses on its consolidated statements of income.

Table of Contents**6: FINANCIAL INSTRUMENTS**

Presented in the following table are the carrying amounts and fair values, by level within the fair value hierarchy, of CMS Energy's and Consumers' financial instruments that are not recorded at fair value. The table does not include information on cash, cash equivalents, short-term accounts and notes receivable, short-term investments, and current liabilities since the carrying amounts of these items approximate their fair values because of their short-term nature. For information about assets and liabilities recorded at fair value and for additional details regarding the fair value hierarchy, see Note 5, Fair Value Measurements.

In Millions

	June 30, 2014				December 31, 2013					
	Carrying Amount	Fair Value			Carrying Amount	Fair Value				
		Total	1	2		Total	1	2	3	
CMS Energy, including Consumers										
Securities held to maturity	\$ 12	\$ 12	\$ -	\$ 12	\$ -	\$ 10	\$ 10	\$ -	\$ 10	\$ -
Notes receivable ¹	770	813	-	-	813	683	724	-	-	724
Long-term debt ²	7,953	8,702	-	7,691	1,011	7,642	8,368	-	7,406	962
Consumers										
Long-term debt ³	\$ 4,600	\$ 5,047	\$ -	\$ 4,036	\$ 1,011	\$ 622	\$ 4,940	\$ -	\$ 3,978	\$ 962

¹ Includes current portion of notes receivable of \$87 million at June 30, 2014 and \$48 million at December 31, 2013.

² Includes current portion of long-term debt of \$418 million at June 30, 2014 and \$541 million at December 31, 2013.

³ Includes current portion of long-term debt of \$45 million at June 30, 2014 and \$43 million at December 31, 2013.

Notes receivable consist of EnerBank's fixed-rate installment loans. EnerBank estimates the fair value of these loans using a discounted cash flows technique that incorporates market interest rates as well as assumptions about the remaining life of the loans and credit risk.

CMS Energy and Consumers estimate the fair value of their long-term debt using quoted prices from market trades of the debt, if available. In the absence of quoted prices, CMS Energy and Consumers calculate market yields and prices for the debt using a matrix method that incorporates market data for similarly rated debt. Depending on the information available, other valuation techniques and models may be used that rely on assumptions that cannot be observed or confirmed through market transactions.

Edgar Filing: CMS ENERGY CORP - Form 10-Q

The effects of third-party credit enhancements are excluded from the fair value measurements of long-term debt. At June 30, 2014 and December 31, 2013, CMS Energy's long-term debt included \$103 million principal amount that was supported by third-party credit enhancements. This entire principal amount was at Consumers.

Edgar Filing: CMS ENERGY CORP - Form 10-Q

Table of Contents

Presented in the following table are CMS Energy's and Consumers' investment securities classified as available for sale or held to maturity:

					<i>In Millions</i>			
	Cost	June 30, 2014 Unrealized Gains	Unrealized Losses	Fair Value	Cost	December 31, 2013 Unrealized Gains	Unrealized Losses	Fair Value
CMS Energy, including Consumers								
<i>Available for sale</i>								
<i>DB SERP</i>								
Mutual funds	\$ 133	\$ 1	\$ -	\$ 134	\$ 136	\$ -	\$ -	\$ 136
<i>Held to maturity</i>								
Debt securities	12	-	-	12	10	-	-	10
Consumers								
<i>Available for sale</i>								
<i>DB SERP</i>								
Mutual funds	\$ 94	\$ 1	\$ -	\$ 95	\$ 95	\$ -	\$ -	\$ 95
CMS Energy common stock	5	29	-	34	5	24	-	29

The mutual funds classified as available for sale hold primarily fixed-income instruments of varying maturities. Debt securities classified as held to maturity consist primarily of mortgage-backed securities and Utah Housing Corporation bonds held by EnerBank.

Consumers recognized a gain of \$4 million in January 2013 associated with the transfer of shares of CMS Energy common stock to a related charitable foundation. The gain reflected the excess of fair value over cost of the stock donated and was included in Consumers' income.

7: NOTES RECEIVABLE

Presented in the following table are details of CMS Energy's and Consumers' current and non-current notes receivable:

	June 30, 2014	December 31, 2013
<i>In Millions</i>		
CMS Energy, including Consumers		
<i>Current</i>		
EnerBank notes receivable, net of allowance for loan losses	\$ 87	\$ 48
Other	1	15
<i>Non-current</i>		
EnerBank notes receivable, net of allowance for loan losses	683	635
Total notes receivable	\$ 771	\$ 698
Consumers		
<i>Current</i>		
Other	\$ -	\$ 14
Total notes receivable	\$ -	\$ 14

EnerBank notes receivable are unsecured consumer installment loans for financing home improvements. EnerBank records its notes receivable at cost, less an allowance for loan losses.

The allowance for loan losses is a valuation allowance to reflect estimated credit losses. The allowance is increased by the provision for loan losses and decreased by loan charge-offs net of recoveries.

Table of Contents

Management estimates the allowance balance required by taking into consideration historical loan loss experience, the nature and volume of the portfolio, economic conditions, and other factors. Loan losses are charged against the allowance when the loss is confirmed, but no later than the point at which a loan becomes 120 days past due.

Loans that are 30 days or more past due are considered delinquent. The balance of EnerBank's delinquent consumer loans was \$4 million at June 30, 2014 and at December 31, 2013.

At June 30, 2014 and December 31, 2013, \$1 million of EnerBank's loans had been modified as troubled debt restructurings.

8: RETIREMENT BENEFITS

CMS Energy and Consumers provide pension, OPEB, and other retirement benefits to employees under a number of different plans.

Presented in the following table are the costs (credits) and other changes in plan assets and benefit obligations incurred in CMS Energy's and Consumers' retirement benefits plans:

June 30	Pension				OPEB				<i>In Millions</i>
	Three Months Ended 2014	Three Months Ended 2013	Six Months Ended 2014	Six Months Ended 2013	Three Months Ended 2014	Three Months Ended 2013	Six Months Ended 2014	Six Months Ended 2013	
CMS Energy, including Consumers									
<i>Net periodic cost (credit)</i>									
Service cost	\$ 10	\$ 14	\$ 20	\$ 27	\$ 5	\$ 9	\$ 10	\$ 18	
Interest expense	25	23	50	47	14	19	28	38	
Expected return on plan assets	(34)	(32)	(68)	(64)	(22)	(19)	(44)	(38)	
<i>Amortization of:</i>									
Net loss	14	24	29	48	1	10	1	21	
Prior service cost (credit)	1	1	1	2	(11)	(5)	(21)	(10)	
Net periodic cost (credit)	\$ 16	\$ 30	\$ 32	\$ 60	\$ (13)	\$ 14	\$ (26)	\$ 29	
Consumers									
<i>Net periodic cost (credit)</i>									
Service cost	\$ 10	\$ 13	\$ 20	\$ 26	\$ 5	\$ 9	\$ 10	\$ 18	
Interest expense	24	23	48	46	14	18	27	36	
Expected return on plan assets	(33)	(32)	(66)	(63)	(21)	(17)	(42)	(35)	
<i>Amortization of:</i>									
Net loss	14	24	28	47	1	10	2	21	

Edgar Filing: CMS ENERGY CORP - Form 10-Q

Prior service cost (credit)	1	1	1	2	(10)	(5)	(20)	(10)
Net periodic cost (credit)	\$ 16	\$ 29	\$ 31	\$ 58	\$ (11)	\$ 15	\$ (23)	\$ 30

Table of Contents**9: INCOME TAXES**

Presented in the following table is a reconciliation of the statutory U.S. federal income tax rate to the effective income tax rate from continuing operations, excluding noncontrolling interests:

June 30	2014	2013
CMS Energy, including Consumers		
U.S. federal income tax rate	35.0 %	35.0 %
<i>Increase (decrease) in income taxes from:</i>		
State and local income taxes, net of federal effect	5.0	4.9
Accelerated flow-through of regulatory tax benefits	(5.4)	-
Other, net	(0.6)	-
Effective tax rate	34.0 %	39.9 %
Consumers		
U.S. federal income tax rate	35.0 %	35.0 %
<i>Increase (decrease) in income taxes from:</i>		
State and local income taxes, net of federal effect	4.9	4.8
Accelerated flow-through of regulatory tax benefits	(4.5)	-
Other, net	(0.6)	(0.4)
Effective tax rate	34.8 %	39.4 %

Prior to 2014, Consumers recognized the income tax benefits associated with the removal costs of plant placed in service before 1993 as payments were made and the tax benefits were flowed through to customers. In September 2013, the MPSC issued an order authorizing Consumers to flow through to customers the income tax benefits on a straight-line basis over an accelerated period. This new regulatory treatment, which Consumers implemented in January 2014, will accelerate the return of \$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 six months ended June 30, 2014, this new treatment reduced Consumers' income tax expense by \$23 million.

In April 2014, the Internal Revenue Service completed its audit of the federal income tax returns of CMS Energy and its subsidiaries for 2010 and 2011. The audit resulted in no significant adjustments to CMS Energy's or Consumers' taxable income or income tax expense.

Table of Contents**10: EARNINGS PER SHARE CMS ENERGY**

Presented in the following table are CMS Energy's basic and diluted EPS computations based on income from continuing operations:

June 30	Three Months Ended		<i>In Millions, Except Per Share Amounts</i> Six Months Ended	
	2014	2013	2014	2013
<i>Income available to common stockholders</i>				
Income from continuing operations	\$ 84	\$ 81	\$ 288	\$ 225
Less income attributable to noncontrolling interests	1	1	1	1
Income from continuing operations available to common stockholders - basic and diluted	\$ 83	\$ 80	\$ 287	\$ 224
<i>Average common shares outstanding</i>				
Weighted-average shares - basic	268.0	264.5	267.1	264.1
Add dilutive contingently convertible securities	6.0	6.4	6.2	6.2
Add dilutive non-vested stock awards	0.6	1.3	0.6	1.2
Weighted-average shares - diluted	274.6	272.2	273.9	271.5
<i>Income from continuing operations per average common share available to common stockholders</i>				
Basic	\$ 0.31	\$ 0.30	\$ 1.07	\$ 0.85
Diluted	0.30	0.29	1.05	0.83

CONTINGENTLY CONVERTIBLE SECURITIES

In June 2014, CMS Energy redeemed its remaining contingently convertible securities. For the periods those securities were outstanding, they diluted EPS to the extent that the conversion value of the securities, which was based on the average market price of CMS Energy common stock, exceeded their principal value. For additional details regarding the contingently convertible securities, see Note 4, Financings and Capitalization.

NON-VESTED STOCK AWARDS

CMS Energy's non-vested stock awards are composed of participating and non-participating securities. The participating securities accrue cash dividends when common stockholders receive dividends. Since the recipient is not required to return the dividends to CMS Energy if the recipient forfeits the award, the non-vested stock awards are considered participating securities. As such, the participating non-vested stock awards were included in the computation of basic EPS. The non-participating securities accrue stock dividends that vest concurrently with the stock award. If the recipient forfeits the award, the stock dividends accrued on the non-participating securities are also forfeited. Accordingly, the non-participating awards and stock dividends were included in the computation of diluted EPS, but not basic EPS.

Table of Contents

11: REPORTABLE SEGMENTS

Reportable segments consist of business units defined by the products and services they offer. CMS Energy and Consumers evaluate the performance of each segment based on its contribution to net income available to CMS Energy's common stockholders. The reportable segments for CMS Energy and Consumers are:

CMS Energy:

- electric utility, consisting of regulated activities associated with the generation and distribution of electricity in Michigan;
- gas utility, consisting of regulated activities associated with the transportation, storage, and distribution of natural gas in Michigan;
- enterprises, consisting of various subsidiaries engaging primarily in domestic independent power production; and
- other, including EnerBank and corporate interest and other expenses.

Consumers:

- electric utility, consisting of regulated activities associated with the generation and distribution of electricity in Michigan;
- gas utility, consisting of regulated activities associated with the transportation, storage, and distribution of natural gas in Michigan; and
- other, including a consolidated special-purpose entity for the sale of accounts receivable.

Table of Contents

Presented in the following tables is financial information by reportable segment:

June 30	Three Months Ended		Six Months Ended	
	2014	2013	2014	2013
<i>In Millions</i>				
CMS Energy, including Consumers				
<i>Operating revenue</i>				
Electric utility	\$ 1,051	\$ 1,026	\$ 2,275	\$ 1,987
Gas utility	335	316	1,493	1,274
Enterprises	62	48	184	92
Other	20	16	39	32
Total operating revenue CMS Energy	\$ 1,468	\$ 1,406	\$ 3,991	\$ 3,385
Consumers				
<i>Operating revenue</i>				
Electric utility	\$ 1,051	\$ 1,026	\$ 2,275	\$ 1,987
Gas utility	335	316	1,493	1,274
Other	1	-	1	-
Total operating revenue Consumers	\$ 1,387	\$ 1,342	\$ 3,769	\$ 3,261
CMS Energy, including Consumers				
<i>Net income (loss) available to common stockholders</i>				
Electric utility	\$ 98	\$ 93	\$ 198	\$ 159
Gas utility	9	5	130	101
Enterprises	2	1	4	5
Other	(26)	(19)	(45)	(41)
Total net income available to common stockholders CMS Energy	\$ 83	\$ 80	\$ 287	\$ 224
Consumers				
<i>Net income available to common stockholder</i>				
Electric utility	\$ 98	\$ 93	\$ 198	\$ 159
Gas utility	9	5	130	101
Other	1	1	1	1
Total net income available to common stockholder Consumers	\$ 108	\$ 99	\$ 329	\$ 261

Table of Contents

	June 30, 2014	<i>In Millions</i> December 31, 2013
CMS Energy, including Consumers		
<i>Plant, property, and equipment, gross</i>		
Electric utility ¹	\$ 11,424	\$ 11,186
Gas utility ¹	5,002	4,843
Enterprises	116	115
Other	41	40
Total plant, property, and equipment, gross CMS Energy	\$ 16,583	\$ 16,184
Consumers		
<i>Plant, property, and equipment, gross</i>		
Electric utility ¹	\$ 11,424	\$ 11,186
Gas utility ¹	5,002	4,843
Other	15	15
Total plant, property, and equipment, gross Consumers	\$ 16,441	\$ 16,044
CMS Energy, including Consumers		
<i>Total assets</i>		
Electric utility ¹	\$ 10,787	\$ 10,487
Gas utility ¹	4,837	4,784
Enterprises	314	332
Other	1,781	1,813
Total assets CMS Energy	\$ 17,719	\$ 17,416
Consumers		
<i>Total assets</i>		
Electric utility ¹	\$ 10,787	\$ 10,487
Gas utility ¹	4,837	4,784
Other	763	908
Total assets Consumers	\$ 16,387	\$ 16,179

¹ Amounts include a portion of Consumers other common assets attributable to both the electric and gas utility businesses.

Table of Contents

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes to market risk as previously disclosed in Part II Item 7A. Quantitative and Qualitative Disclosures About Market Risk, in the 2013 Form 10-K.

ITEM 4. CONTROLS AND PROCEDURES

CMS ENERGY

Disclosure Controls and Procedures: CMS Energy's management, with the participation of its CEO and CFO, has evaluated the effectiveness of its disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this report. Based on such evaluation, CMS Energy's CEO and CFO have concluded that, as of the end of such period, its disclosure controls and procedures are effective.

Internal Control Over Financial Reporting: There have not been any changes in CMS Energy's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the last fiscal quarter that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting.

CONSUMERS

Disclosure Controls and Procedures: Consumers' management, with the participation of its CEO and CFO, has evaluated the effectiveness of its disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this report. Based on such evaluation, Consumers' CEO and CFO have concluded that, as of the end of such period, its disclosure controls and procedures are effective.

Internal Control Over Financial Reporting: There have not been any changes in Consumers' internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the last fiscal quarter that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

CMS Energy and Consumers are parties to various lawsuits and regulatory matters in the ordinary course of business. For information regarding material legal proceedings, including updates to information reported under Part I Item 3. Legal Proceedings, of the 2013 Form 10-K, see Part I Item 1. Consolidated Financial Statements (Unaudited) Notes to the Unaudited Consolidated Financial Statements Note 2, Regulatory Matters and Note 3, Contingencies and Commitments.

ITEM 1A. RISK FACTORS

There have been no material changes to the Risk Factors as previously disclosed in Part I Item 1A. Risk Factors, in the 2013 Form 10-K, which Risk Factors are incorporated herein by reference.

Table of Contents

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

(a) *Unregistered Sales of Equity Securities*

None.

(c) *Issuer Repurchases of Equity Securities*

Presented in the following table are CMS Energy's repurchases of equity securities for the three months ended June 30, 2014:

Period	Total Number of Shares Purchased ¹	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares That May Yet Be Purchased Under Publicly Announced Plans or Programs
April 1, 2014 to April 30, 2014	1,559	\$ 29.70	-	-
May 1, 2014 to May 31, 2014	-	-	-	-
June 1, 2014 to June 30, 2014	192	30.88	-	-
Total	1,751	\$ 29.83	-	-

¹ Common shares were purchased to satisfy the minimum statutory income tax withholding obligation for common shares that have vested under the Performance Incentive Stock Plan. The value of shares repurchased is based on the market price on the vesting date.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

See CMS Energy's and Consumers' Exhibit Index included as the last part of this report, which is incorporated herein by reference.

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, each registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized. The signature for each undersigned company shall be deemed to relate only to matters having reference to such company or its subsidiary.

CMS ENERGY CORPORATION
(Registrant)

Dated: July 24, 2014

By: /s/ Thomas J. Webb

Thomas J. Webb
Executive Vice President and
Chief Financial Officer

CONSUMERS ENERGY COMPANY
(Registrant)

Dated: July 24, 2014

By: /s/ Thomas J. Webb

Thomas J. Webb
Executive Vice President and
Chief Financial Officer

Table of Contents

(This page intentionally left blank)

Table of Contents

EXHIBITS

Table of Contents**CMS ENERGY S AND CONSUMERS EXHIBIT INDEX**

The agreements included as exhibits to this Form 10-Q filing are included solely to provide information regarding the terms of the agreements and are not intended to provide any other factual or disclosure information about CMS Energy, Consumers, or other parties to the agreements. The agreements may contain representations and warranties made by each of the parties to each of the agreements that were made exclusively for the benefit of the parties involved in each of the agreements and should not be treated as statements of fact. The representations and warranties were made as a way to allocate risk if one or more of those statements prove to be incorrect. The statements were qualified by disclosures of the parties to each of the agreements that may not be reflected in each of the agreements. The agreements may apply standards of materiality that are different than standards applied to other investors. Additionally, the statements were made as of the date of the agreements or as specified in the agreements and have not been updated. The representations and warranties may not describe the actual state of affairs of the parties to each agreement.

Additional information about CMS Energy and Consumers may be found in this filing, at www.cmsenergy.com, at www.consumersenergy.com, and through the SEC's website at www.sec.gov.

<u>Exhibits</u>	<u>Description</u>
10.11	Amendment No. 2 dated as of April 25, 2014 to \$180,000,000 Term Loan Credit Agreement dated as of December 15, 2011 (Exhibit 10.1 to Form 8-K filed April 30, 2014 and incorporated herein by reference)
10.22	CMS Energy Performance Incentive Stock Plan, effective June 1, 2014 (Exhibit 10.1 to Form 8-K filed May 21, 2014 and incorporated herein by reference)
12.1	Statement regarding computation of CMS Energy's Ratios of Earnings to Fixed Charges and Combined Fixed Charges and Preferred Dividends
12.2	Statement regarding computation of Consumers' Ratios of Earnings to Fixed Charges and Combined Fixed Charges and Preferred Dividends
31.1	CMS Energy's certification of the CEO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	CMS Energy's certification of the CFO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.3	Consumers' certification of the CEO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.4	Consumers' certification of the CFO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	CMS Energy's certifications pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Consumers' certifications pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS3	XBRL Instance Document
101.SCH3	XBRL Taxonomy Extension Schema
101.CAL3	XBRL Taxonomy Extension Calculation Linkbase
101.DEF3	XBRL Taxonomy Extension Definition Linkbase
101.LAB3	XBRL Taxonomy Extension Labels Linkbase
101.PRE3	XBRL Taxonomy Extension Presentation Linkbase

1 Obligations of CMS Energy or its subsidiaries, but not of Consumers

2 Management contract or compensatory plan or arrangement.

3 The financial information contained in the XBRL-related information is unaudited and unreviewed.

