

CMS ENERGY CORP
Form 10-Q
July 28, 2017
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2017

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 ☒

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

CMS Energy Corporation:

Large accelerated filer ☒ Accelerated filer ☐

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

Emerging growth company ☐

Consumers Energy Company:

Large accelerated filer ☐ Accelerated filer ☐

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

Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

CMS Energy Corporation: ☐

Consumers Energy Company: ☐

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

CMS Energy Corporation: Yes ☐ No ☒

Consumers Energy Company: Yes ☐ No ☒

Indicate the number of shares outstanding of each of the issuer's classes of common stock at July 11, 2017:

CMS Energy Corporation:

CMS Energy Common Stock, \$0.01 par value
(including 443,148 shares owned by Consumers Energy Company) 282,012,704

Consumers Energy Company:

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

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CMS Energy Corporation

Consumers Energy Company

**Quarterly Reports on Form 10-Q to the Securities and Exchange
Commission for the Period Ended June 30, 2017**

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GLOSSARY

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

2016 Energy Law

Comprehensive energy reform package enacted in Michigan in 2016

2016 Form 10-K

Each of CMS Energy's and Consumers' Annual Report on Form 10-K for the year ended December 31, 2016

ABATE

Association of Businesses Advocating Tariff Equity

AOCI

Accumulated other comprehensive income (loss)

ARO

Asset retirement obligation

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

Cantera Gas Company

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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

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CMS Capital

CMS Capital, L.L.C., a wholly owned subsidiary of CMS Energy

CMS Energy

CMS Energy Corporation and its consolidated subsidiaries, unless otherwise noted; the parent of Consumers and CMS Enterprises

CMS Enterprises

CMS Enterprises Company, a wholly owned subsidiary of CMS Energy

CMS Field Services

CMS Field Services, Inc., a former wholly owned subsidiary of 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 Energy Resource Management Company in 2004

Consumers

Consumers Energy Company and its consolidated subsidiaries, unless otherwise noted; a wholly owned subsidiary of CMS Energy

CSAPR

The Cross-State Air Pollution Rule

DB Pension Plan

Defined benefit pension plan of CMS Energy and Consumers, including certain present and former affiliates and subsidiaries

DB SERP

Defined Benefit Supplemental Executive Retirement Plan

DIG

Dearborn Industrial Generation, L.L.C., a wholly owned subsidiary of Dearborn Industrial Energy, L.L.C., a wholly owned subsidiary of CMS Energy

Dodd-Frank Act

Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010

EBITDA

Earnings before interest, taxes, depreciation, and amortization

EEI

Edison Electric Institute, an association representing all U.S. investor-owned electric companies

EnerBank

EnerBank USA, a wholly owned subsidiary of CMS Capital

energy waste reduction

The reduction of energy consumption through energy efficiency and demand-side energy conservation, as established under the 2016 Energy Law

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Entergy

Entergy Corporation, a non-affiliated company

EPA

U.S. Environmental Protection Agency

EPS

Earnings per share

Exchange Act

Securities Exchange Act of 1934

FDIC

Federal Deposit Insurance Corporation

FERC

The Federal Energy Regulatory Commission

Forsite

Forsite Development, Inc. and its subsidiaries, each a non-affiliated company

FTR

Financial transmission right

GAAP

U.S. Generally Accepted Accounting Principles

Gas AMR

Consumers' gas automated meter reading project, which involves the installation of communication modules to allow drive-by meter reading

GCR

Gas cost recovery

Genesee

Genesee Power Station Limited Partnership, a variable interest entity in which HYDRA-CO Enterprises, Inc., a wholly owned subsidiary of CMS Enterprises, has a 50-percent interest

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

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

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MGP

Manufactured gas plant

Michigan Mercury Rule

Michigan Air Pollution Control Rules, Part 15, Emission Limitations and Prohibitions – Mercury, addressing mercury emissions from coal-fueled electric generating units

MISO

Midcontinent Independent System Operator, Inc.

mothball

To place a generating unit into a state of extended reserve shutdown in which the unit is inactive and unavailable for service for a specified period, during which the unit can be brought back into service after receiving appropriate notification and completing any necessary maintenance or other work; generation owners in MISO must request approval to mothball a unit, and MISO then evaluates the request for reliability impacts

MPSC

Michigan Public Service Commission

MW

Megawatt, a unit of power equal to one million watts

NAAQS

National Ambient Air Quality Standards

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

OPEB

Other Post-Employment Benefits

OPEB Plan

Postretirement health care and life insurance plans of CMS Energy and Consumers, including certain present and former affiliates and subsidiaries

Palisades

Palisades nuclear power plant, sold by Consumers to Entergy in 2007

PCB

Polychlorinated biphenyl

PPA

Power purchase agreement

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PSCR

Power supply cost recovery

RCRA

The Federal Resource Conservation and Recovery Act of 1976

REC

Renewable energy credit

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

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

T.E.S. Filer City

T.E.S. Filer City Station Limited Partnership, a variable interest entity in which HYDRA-CO Enterprises, Inc., a wholly owned subsidiary of CMS Enterprises, has a 50-percent interest

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FILING FORMAT

This combined Form 10-Q is separately filed by CMS Energy and Consumers. Information in this combined Form 10-Q relating to each individual registrant is filed by such registrant on its own behalf. Consumers makes no representation regarding information relating to any other companies affiliated with CMS Energy other than its own subsidiaries. None of CMS Energy, CMS Enterprises, nor any of CMS Energy's other subsidiaries (other than Consumers) has any obligation in respect of Consumers' debt securities and holders of such debt securities should not consider the financial resources or results of operations of CMS Energy, CMS Enterprises, nor any of CMS Energy's other subsidiaries (other than Consumers and its own subsidiaries (in relevant circumstances)) in making a decision with respect to Consumers' debt securities. Similarly, neither 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 2016 Form 10-K.

AVAILABLE INFORMATION

CMS Energy's internet address is www.cmsenergy.com. CMS Energy routinely posts important information on its website and considers the Investor Relations section, www.cmsenergy.com/investor-relations, a channel of distribution. Information contained on CMS Energy's website is not incorporated herein.

FORWARD-LOOKING STATEMENTS AND INFORMATION

This Form 10-Q and other CMS Energy and Consumers disclosures 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, expects, intends, plans, 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, 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, LLC, 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 challenges to federal or state laws or regulations, or changes in applicable laws, rules, regulations, principles, or practices, or in their interpretation, such as those related to energy policy and ROA, infrastructure integrity or security,

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gas pipeline safety, gas pipeline capacity, energy waste reduction, the environment, regulation or deregulation, reliability, health care reforms (including comprehensive health care reform enacted in 2010), taxes, accounting matters, climate change, air emissions, renewable energy, potential effects of the Dodd-Frank Act, and other business issues that could have an impact on CMS Energy's, Consumers', or any of their affiliates' businesses or financial results

- factors affecting operations, such as costs and availability of personnel, equipment, and materials; weather conditions; natural disasters; catastrophic weather-related damage; scheduled or unscheduled equipment outages; maintenance or repairs; environmental incidents; failures of equipment or materials; and electric transmission and distribution or gas pipeline system constraints
- increases in demand for renewable energy by customers seeking to meet sustainability goals
- the ability of Consumers to execute its cost-reduction strategies
- 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' routine maintenance, repair, and replacement 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, 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

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- 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 those 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
- loss of customer demand for electric generation supply to alternative electric suppliers, increased use of distributed generation, or energy waste reduction

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- 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
- the impact of credit markets, economic conditions, and any new banking and consumer protection 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 transmission and distribution infrastructure replacement, conversion, and expansion projects, including factors related to project site identification, construction material pricing, schedule delays, availability of qualified construction personnel, permitting, acquisition of property rights, and government approvals
- potential disruption to, interruption of, or other impacts on facilities, utility infrastructure, or operations due to accidents, explosions, physical disasters, cyber incidents, vandalism, 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 supplier bankruptcy and delivery disruptions
- 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
- the ability to implement technology successfully
- the impact of CMS Energy's and Consumers' integrated business software system and its effects on their operations, including utility customer billing and collections

- adverse consequences resulting from any past, present, 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 or to impose environmental liability associated with past operations or transactions
- the outcome, cost, and other effects of any legal or administrative claims, proceedings, investigations, or settlements
- the reputational impact on CMS Energy and Consumers of operational incidents, violations of corporate policies, regulatory violations, inappropriate use of social media, and other events
- restrictions imposed by various financing arrangements and regulatory requirements on the ability of Consumers and other subsidiaries of CMS Energy to transfer funds to CMS Energy in the form of cash dividends, loans, or advances

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- earnings volatility resulting from the application of fair value accounting to certain energy commodity contracts or interest rate contracts
- changes in financial or regulatory accounting principles or policies
- other matters that may be disclosed from time to time in CMS Energy's and Consumers' SEC filings, or in other public 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. Financial Statements MD&A Outlook and Notes to the Unaudited Consolidated Financial Statements Note 2, Regulatory Matters and Note 3, Contingencies and Commitments; and Part II Item 1A. Risk Factors.

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Part I Financial Information

Item 1. Financial Statements

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CMS Energy Corporation

Consumers Energy Company

Management's Discussion and Analysis of Financial Condition and Results of Operations

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

EXECUTIVE OVERVIEW

CMS Energy is an energy company operating primarily in Michigan. It is the parent holding company of several subsidiaries, including Consumers, an electric and gas utility, and CMS Enterprises, primarily a domestic independent power producer. Consumers' electric utility operations include the generation, purchase, transmission, 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, transmission, 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
- their securities credit ratings

CMS Energy's purpose is to achieve world class performance to enable delivering hometown service. CMS Energy is focused on the triple bottom line of people, planet, and profit, which is underpinned by performance. This purpose and focus enhance and are supported by CMS Energy's and Consumers' business strategy, whose key elements are safe and excellent operations, customer value, utility investment, fair and timely regulation, and consistent financial performance. The companies are committed to sustainable business practices and to a strong ethical culture. Consumers' 2017 Sustainability Report, which is available to the public, describes the progress that Consumers has made in the four foundational areas of safe and excellent operations, environmental quality, social responsibility, and economic prosperity. In a 2016 report published by Sustainalytics, a global leader in sustainability research and analysis, CMS Energy scored the highest among 54 U.S. utilities in environmental, social, and governance performance.

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Safe and 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. The number of recordable safety incidents in 2016 was the lowest in Consumers' history and its incident rate was the lowest among its EEI peer group.

Customer Value

Consumers places a high priority on customer value. Consumers' capital investment program is aimed at improving safety and increasing electric and gas reliability, which has resulted in measureable improvements in customer satisfaction.

Additionally, Consumers has undertaken several initiatives to keep electricity and natural gas affordable for its customers. These initiatives include the adoption of a lean operating model that is focused on completing work safely and correctly the first time, thus minimizing rework and waste, while delivering services on time. Other cost-saving initiatives undertaken by Consumers include accelerated pension funding, employee and retiree health care cost sharing, replacement of coal-fueled generation with more efficient gas-fueled generation, targeted infrastructure investment, including the installation of smart meters, negotiated labor agreements, information and control system efficiencies, and productivity improvements. In addition, Consumers' gas commodity costs declined by 68 percent from 2006 through 2016, due not only to a decrease in market prices but also to Consumers' improvements to its gas infrastructure and optimization of its gas purchasing and storage strategy. These gas commodity savings are passed on to customers.

In December 2016, Consumers and Entergy reached an agreement to terminate their PPA in May 2018, four years ahead of schedule. Under the PPA, Consumers purchases virtually all of the capacity and energy produced by Palisades, up to the annual average capacity of 798 MW. The prices that Consumers pays under the PPA, and which it recovers from its electric customers, are presently higher than the cost to purchase electricity from the market operated by MISO. Under the agreement, Consumers will make a termination payment of \$172 million to Entergy. Consumers expects that, as a result of terminating the PPA, its electric customers will realize substantial savings from lower future energy and capacity costs. Actual savings will depend on market conditions. The agreement is contingent on the MPSC's approval of Consumers' recovery in electric rates of the termination payment. The MPSC has indicated that it will make a final determination on this recovery by the end of September 2017, after full evaluation of the prudence of the termination payment and of how the termination will impact Michigan's electric reliability and resource adequacy.

Utility Investment

Consumers expects to make capital investments of \$18 billion from 2017 through 2026. While it has substantially more investment opportunities that would add customer value, Consumers has limited its capital investment program to those investments it believes are needed to provide safe, reliable, and affordable service to its customers. Consumers' capital investment program is expected to result in annual rate-base growth of six to

eight percent. This rate-base growth, together with cost-control initiatives, should allow Consumers to maintain sustainable customer base rate increases (excluding PSCR and GCR charges) at or below the rate of inflation.

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Presented in the following illustration are planned capital investments of \$9.0 billion that Consumers expects to make from 2017 through 2021:

Gas distribution (\$4.0 billion)
Electric distribution (\$4.0 billion)
Electric supply (\$1.0 billion)

Consumers' planned distribution capital investments of \$8.0 billion represent projects to maintain its gas and electric systems, enhance reliability, and improve customer satisfaction. These investments comprise \$4.0 billion at the gas utility to sustain deliverability, enhance pipeline integrity and safety, replace mains, and enhance transmission and storage systems, and \$4.0 billion at the electric utility to strengthen circuits and substations and replace poles. Consumers also expects to spend \$1.0 billion on electric supply investments, representing new generation, including renewable generation, and environmental investments needed to comply with state and federal laws and regulations.

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.

- **Electric Rate Case:** In March 2017, Consumers filed an application with the MPSC seeking an annual rate increase of \$173 million, based on a 10.5 percent authorized return on equity.

- **Gas Rate Case:** In August 2016, Consumers filed an application with the MPSC seeking an annual rate increase of \$90 million, based on a 10.6 percent authorized return on equity. In March 2017, Consumers reduced its requested annual rate increase to \$80 million. The filing seeks approval of two rate adjustment mechanisms: one that would reconcile annually Consumers' actual nonfuel revenues with the revenues approved by the MPSC, and another that would provide for additional annual rate increases of \$35 million beginning in 2018 and another \$35 million beginning in 2019 for incremental investments that Consumers plans to make in those years, subject to reconciliation. The MPSC issued an order in January 2017, limiting Consumers' self-implementation to an annual rate increase of \$20 million. Accordingly, in January 2017, Consumers self-implemented an annual rate increase of \$20 million, subject to refund with interest. A final order is expected at the end of July 2017.

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In December 2016, Michigan's governor signed the 2016 Energy Law, which became effective in April 2017. Among other things, the 2016 Energy Law:

- raises the renewable energy standard from the present ten-percent requirement to 12.5 percent in 2019 and 15 percent in 2021
- establishes a goal of 35 percent combined renewable energy and energy waste reduction by 2025
- authorizes incentives for demand response programs and expands existing incentives for energy efficiency programs
- authorizes incentives for new PPAs with non-affiliates
- establishes an integrated planning process for new generation resources
- shortens from twelve months to ten months the time by which the MPSC must issue a final order in general rate cases, but prohibits electric and gas utilities from filing general rate cases for increases in rates more often than once every twelve months
- eliminates utilities' self-implementation of rates under general rate cases
- requires the MPSC to implement equitable cost-of-service rates for customers participating in a net metering program

The 2016 Energy Law also establishes a path to ensure that forward capacity is secured for all electric customers in Michigan, including customers served by alternative electric suppliers under ROA. Under existing Michigan law, electric customers in Consumers' service territory are allowed to buy electric generation service from alternative electric suppliers in an aggregate amount up to ten percent of Consumers' weather-adjusted retail sales for the preceding calendar year. The 2016 Energy Law retains the ten percent cap on ROA, with certain exceptions. The new law also authorizes the MPSC to ensure that alternative electric suppliers have procured enough capacity to cover their anticipated capacity requirements for the four-year forward period. In March 2017, the MPSC indicated that it plans to achieve this objective through the use of a state reliability mechanism. Under such a mechanism, if an alternative electric supplier did not demonstrate that it had procured its capacity requirements for the four-year forward period, ROA customers would pay a charge to the utility for capacity that is not provided by the alternative electric supplier.

CMS Energy's and Consumers' operations are subject to various state and federal environmental and health and safety laws and regulations. The companies are monitoring numerous legislative and regulatory initiatives, including those to regulate greenhouse gases, and related litigation. They are also monitoring potential changes in policy under the Trump administration. While CMS Energy and Consumers cannot predict the outcome of these matters, they intend to continue to move forward with their clean energy plan, their carbon reduction goals, and their emphasis on supply diversity. Environmental statutes and regulations are expected to continue to have a material effect on CMS Energy and Consumers.

Financial Performance

For the six months ended June 30, 2017, CMS Energy's net income available to common stockholders was \$291 million and diluted EPS were \$1.04. This compares with net income available to common stockholders of \$288 million and diluted EPS of \$1.04 for the six months ended

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June 30, 2016. In 2017, benefits from electric and gas rate increases and higher weather-adjusted electric and gas deliveries were offset by higher depreciation and property taxes on increased plant in service and by the impacts of mild weather on electric and gas sales.

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

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affecting CMS Energy's and Consumers' performance can be found in the Results of Operations section that follows this Executive Overview.

Consumers expects that continued economic growth in its service territory will drive its total electric deliveries to increase annually by about one-half percent on average through 2021. Excluding the impacts of energy waste reduction programs, Consumers expects its total electric deliveries to increase by about 1.5 percent annually through 2021. Consumers is projecting that its gas deliveries will remain stable through 2021. 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 will continue to pursue cost savings through its lean operations model, and will continue to give priority to capital investments that increase customer value or lower costs.

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

[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		
	2017	2016	Change	2017	2016	Change
Net Income Available to Common Stockholders	\$ 92	\$ 124	\$ (32)	\$ 291	\$ 288	\$ 3
Basic Earnings Per Share	\$ 0.33	\$ 0.45	\$ (0.12)	\$ 1.04	\$ 1.04	\$ -
Diluted Earnings Per Share	\$ 0.33	\$ 0.45	\$ (0.12)	\$ 1.04	\$ 1.04	\$ -

June 30	Three Months Ended			<i>In Millions</i> Six Months Ended		
	2017	2016	Change	2017	2016	Change
Electric utility	\$ 94	\$ 113	\$ (19)	\$ 218	\$ 204	\$ 14
Gas utility	9	18	(9)	96	99	(3)
Enterprises	7	3	4	19	9	10
Corporate interest and other	(18)	(10)	(8)	(42)	(24)	(18)
Net Income Available to Common Stockholders	\$ 92	\$ 124	\$ (32)	\$ 291	\$ 288	\$ 3

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

	June 30, 2017 better/(worse) than 2016				<i>In Millions</i>	
Reasons for the change	Three Months Ended		Six Months Ended			
<i>Consumers electric utility and gas utility</i>						
<i>Electric sales</i>						
Weather	\$	(4)		\$	(7)	
Non-weather		-	\$	(4)	8	
				\$	1	
<i>Gas sales</i>						
Weather		(11)		(13)		
Non-weather		4		(7)	3	
				(10)		
Electric rate increase				14	33	
Gas rate increase				2	8	
Property tax settlement				-	7	
Depreciation and property taxes, net				(15)	(33)	
Operating and maintenance costs				(13)	(8)	
Other, including intercompany gain			(5)	\$	(28)	
					13	
					\$	11
<i>Enterprises</i>						
Subsidiary earnings				4	10	
<i>Corporate interest and other</i>						
Elimination of intercompany gain				-	(9)	

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Michigan tax settlement in 2016	(5)	(5)
Other	(3)	(4)
Total change	\$ (32)	\$ 3

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Consumers Electric Utility Results of Operations

	Three Months Ended			Six Months Ended		
June 30	2017	2016	Change	2017	2016	Change
Net Income Available to Common Stockholders	\$ 94	\$ 113	\$ (19)	\$ 218	\$ 204	\$ 14
<i>Reasons for the change</i>						
Electric deliveries and rate increases			\$ 19			\$ 64
Maintenance and other operating expenses			(23)			(20)
Depreciation and amortization			(17)			(30)
General taxes			(2)			7
Other income, net of expenses			(2)			4
Interest charges			(3)			(4)
Income taxes			9			(7)
Total change			\$ (19)			\$ 14

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, 2017, electric delivery revenues increased \$19 million compared with 2016. This change reflected a \$22 million rate increase and a \$6 million increase in energy efficiency program revenues, offset partially by \$9 million in lower sales due primarily to milder weather. Deliveries to end-use customers were 9.0 billion kWh in 2017 and 9.1 billion kWh in 2016.

For the six months ended June 30, 2017, electric delivery revenues increased \$64 million compared with 2016. This change reflected a \$54 million rate increase, \$11 million in higher weather-adjusted deliveries, an \$8 million increase in energy efficiency program revenues, and a \$3 million increase in other revenues. The increases were offset partially by \$12 million in lower sales due to milder weather. Deliveries to end-use customers were 18.2 billion kWh in 2017 and in 2016.

Maintenance and Other Operating Expenses: For the three months ended June 30, 2017, maintenance and other operating expenses increased \$23 million compared with 2016. This change reflected increases of \$10 million in service restoration costs following severe storms, \$6 million in energy efficiency program costs, and \$6 million in forestry and other operating and maintenance expenses. Also contributing to the change was the absence, in 2017, of a \$4 million benefit associated with a State of Michigan use tax settlement. These increases were offset partially by a \$3 million decrease in postretirement benefit costs, reflecting a \$5 million reduction associated with the early adoption of a new accounting standard, less \$2 million of cost increases. For additional details on the implementation of this standard, see Note 1, New Accounting Standards.

For the six months ended June 30, 2017, maintenance and other operating expenses increased \$20 million compared with 2016. This change reflected increases of \$15 million in service restoration costs following severe storms, \$8 million in energy efficiency program costs, and \$7 million in forestry and other operating and maintenance expenses. Also contributing to the change was the absence, in 2017, of a \$4 million benefit associated with a State of Michigan use tax settlement. These increases were offset partially by the absence, in 2017, of \$8 million in expenses at the seven coal-fuel electric generating units that Consumers retired in April 2016. The increases were also offset partially by a \$6 million decrease in postretirement benefit costs, reflecting an \$10 million reduction associated with the early adoption of a new accounting standard, less \$4 million of cost increases. For additional details on the implementation of this standard, see Note 1, New Accounting Standards.

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Depreciation and Amortization: For the three months ended June 30, 2017, depreciation and amortization expense increased \$17 million compared with 2016, and for the six months ended June 30, 2017, depreciation and amortization expense increased \$30 million compared with 2016. These increases were due primarily to increased plant in service.

General Taxes: For the six months ended June 30, 2017, general taxes decreased \$7 million compared with 2016. This change was due to a \$10 million benefit from the settlement of a property tax appeal related to Consumers Zeeland plant, offset partially by a \$3 million increase in property taxes.

Other Income, Net of Expenses: For the three months ended June 30, 2017, other income, net of expenses, decreased \$2 million compared with 2016. This change was due to a \$4 million reduction in nonoperating retirement benefit credits associated with the early adoption of a new accounting standard, offset partially by a \$2 million increase in other income, net of expenses. For additional details on the implementation of this standard, see Note 1, New Accounting Standards.

For the six months ended June 30, 2017, other income, net of expenses, increased \$4 million compared with 2016. This change was due to a \$9 million gain on a donation of CMS Energy stock by Consumers, which was eliminated on CMS Energy's consolidated statements of income, and a \$3 million increase in other income, net of expenses. These increases were offset partially by an \$8 million reduction in nonoperating retirement benefit credits associated with the early adoption of a new accounting standard. For additional details on the implementation of this standard, see Note 1, New Accounting Standards.

Interest Charges: For the three months ended June 30, 2017, interest charges increased \$3 million compared with 2016, and for the six months ended June 30, 2017, interest charges increased \$4 million compared with 2016. These changes were attributable primarily to higher average debt levels.

Income Taxes: For the three months ended June 30, 2017, income taxes decreased \$9 million compared with 2016, attributable to lower electric utility earnings.

For the six months ended June 30, 2017, income taxes increased \$7 million compared with 2016, attributable to higher electric utility earnings.

Consumers Gas Utility Results of Operations

	Three Months Ended			Six Months Ended			<i>In Millions</i>
June 30	2017	2016	Change	2017	2016	Change	
Net Income Available to Common Stockholders	\$ 9	\$ 18	\$ (9)	\$ 96	\$ 99	\$ (3)	
<i>Reasons for the change</i>							
Gas deliveries and rate increases			\$ (4)			\$ 6	
Maintenance and other operating expenses			-			10	
Depreciation and amortization			(4)			(15)	
General taxes			(1)			(4)	
Other income, net of expenses			(4)			(2)	
Interest charges			(1)			(1)	
Income taxes			5			3	
Total change			\$ (9)			\$ (3)	

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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, 2017, gas delivery revenues decreased \$4 million compared with 2016. This change reflected \$10 million in lower sales due primarily to milder weather, offset partially by \$4 million attributable to a January 2017 self-implemented rate increase and a \$2 million increase in other revenues. Deliveries to end-use customers were 43 bcf in 2017 and 49 bcf in 2016.

For the six months ended June 30, 2017, gas delivery revenues increased \$6 million compared with 2016. This change reflected \$10 million attributable to a January 2017 self-implemented rate increase, a \$2 million increase in energy efficiency program revenues, and a \$6 million increase in other revenues. These changes were offset partially by a \$12 million decrease in sales due primarily to milder weather. Deliveries to end-use customers were 162 bcf in 2017 and 170 bcf in 2016.

Maintenance and Other Operating Expenses: For the six months ended June 30, 2017, maintenance and other operating expenses decreased \$10 million compared with 2016. This change was due to \$6 million in lower gas distribution and customer operations expense and a \$2 million reduction in uncollectible accounts expense. Also contributing to the change was a \$4 million decrease in postretirement benefit costs, reflecting an \$7 million reduction associated with the early adoption of a new accounting standard, less \$3 million of cost increases. For additional details on the implementation of this standard, see Note 1, New Accounting Standards. These decreases were offset partially by a \$2 million increase in energy efficiency program costs.

Depreciation and Amortization: For the three months ended June 30, 2017, depreciation and amortization expense increased \$4 million compared with 2016, and for the six months ended June 30, 2017, depreciation and amortization expense increased \$15 million compared with 2016. These increases were due primarily to increased plant in service.

General Taxes: For the six months ended June 30, 2017, general taxes increased \$4 million compared with 2017, due to increased property taxes, reflecting higher capital spending.

Other Income, Net of Expenses: For the three months ended June 30, 2017, other income, net of expenses, decreased \$4 million compared with 2016. This change was due to a \$3 million reduction in nonoperating retirement benefit credits associated with the early adoption of a new accounting standard and a \$1 million decrease in other income, net of expenses. For additional details on the implementation of this standard, see Note 1, New Accounting Standards.

For the six months ended June 30, 2017, other income, net of expenses, decreased \$2 million compared with 2016. This change was due to a \$5 million reduction in nonoperating retirement benefit credits associated with the early adoption of a new accounting standard and a \$2 million decrease in other income, net of expenses. For additional details on the implementation of this standard, see Note 1, New Accounting Standards. These reductions were offset partially by a \$5 million gain on a donation of CMS Energy stock by Consumers, which was eliminated on CMS Energy's consolidated statements of income.

Income Taxes: For the three months ended June 30, 2017, income taxes decreased \$5 million compared with 2016, and for the six months ended June 30, 2017, income taxes decreased \$3 million compared with 2016. These reductions were attributable to lower gas utility earnings.

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Enterprises Results of Operations

	Three Months Ended			Six Months Ended			<i>In Millions</i>
June 30	2017	2016	Change	2017	2016	Change	
Net Income Available to Common Stockholders	\$ 7	\$ 3	\$ 4	\$ 19	\$ 9	\$ 10	

For the three months ended June 30, 2017, net income of the enterprises segment increased \$4 million compared with 2016, and for the six months ended June 30, 2017, net income of the enterprises segment increased \$10 million compared with 2016. These changes were due primarily to higher prices for capacity and demand revenue at DIG.

Corporate Interest and Other Results of Operations

	Three Months Ended			Six Months Ended			<i>In Millions</i>
June 30	2017	2016	Change	2017	2016	Change	
Net Income (Loss) Available to Common Stockholders	\$ (18)	\$ (10)	\$ (8)	\$ (42)	\$ (24)	\$ (18)	

For the three months ended June 30, 2017, corporate interest and other net expenses increased \$8 million compared with 2016, due primarily to the absence, in 2017, of a settlement reached with the Michigan Department of Treasury that resulted in a \$2 million after-tax reduction in general taxes and a \$3 million reduction in income tax expense. Also contributing to the increase were \$2 million of higher administrative and other corporate expenses and \$1 million of lower net earnings at EnerBank.

For the six months ended June 30, 2017, corporate interest and other net expenses increased \$18 million compared with 2016, due primarily to the elimination of a \$9 million after-tax gain resulting from the donation of CMS Energy stock by Consumers, \$3 million of higher administrative and other corporate expenses and \$1 million of lower net earnings at EnerBank. Also contributing to the increase was the absence, in 2017, of a settlement reached with the Michigan Department of Treasury that resulted in a \$2 million after-tax reduction in general taxes and a \$3 million reduction in income tax expense.

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At June 30, 2017, CMS Energy had \$441 million of consolidated cash and cash equivalents, which included \$23 million of restricted cash and cash equivalents. At June 30, 2017, Consumers had \$364 million of consolidated cash and cash equivalents, which included \$21 million of restricted cash and cash equivalents. For additional details, see Note 11, 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, 2017 and 2016:

Six Months Ended June 30	2017	2016	<i>In Millions</i> Change
CMS Energy, including Consumers			
Net income	\$ 292	\$ 289	\$ 3
Non-cash transactions ¹	638	574	64
Changes in core working capital ²	235	274	(39)
Postretirement benefits contributions	(7)	(4)	(3)
Changes in other assets and liabilities, net	(39)	(32)	(7)
Net cash provided by operating activities	\$ 1,119	\$ 1,101	\$ 18
Consumers			
Net income	\$ 315	\$ 304	\$ 11
Non-cash transactions ¹	656	567	89
Changes in core working capital ²	239	301	(62)
Postretirement benefits contributions	(5)	(2)	(3)
Changes in other assets and liabilities, net	(80)	(38)	(42)
Net cash provided by operating activities	\$ 1,125	\$ 1,132	\$ (7)

¹ Non-cash transactions comprise depreciation and amortization, changes in deferred income taxes, and other non-cash operating activities and reconciling adjustments.

² Core working capital comprises accounts receivable, notes receivable, accrued revenue, inventories, accounts payable, and accrued rate refunds.

For the six months ended June 30, 2017, net cash provided by operating activities at CMS Energy increased \$18 million compared with 2016 and net cash provided by operating activities at Consumers decreased \$7 million compared with 2016. At both CMS Energy and Consumers, higher net income, net of non-cash transactions, and higher collections from customers, including higher PSCR overrecoveries, were offset partially by lower gas sales as a result of milder weather. The change at Consumers also reflected the absence, in 2017, of a reimbursement received from CMS Energy in 2016 for a prior-year postretirement benefits contribution.

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Investing Activities

Presented in the following table are specific components of net cash used in investing activities for the six months ended June 30, 2017 and 2016:

Six Months Ended June 30	2017	2016	<i>In Millions</i> Change
CMS Energy, including Consumers			
Capital expenditures	\$ (746)	\$ (817)	\$ 71
Increase in EnerBank notes receivable	(25)	(43)	18
Proceeds from the sale of EnerBank notes receivable	19	-	19
Costs to retire property and other investing activities	(54)	(51)	(3)
Net cash used in investing activities	\$ (806)	\$ (911)	\$ 105
Consumers			
Capital expenditures	\$ (741)	\$ (813)	\$ 72
Costs to retire property and other investing activities	(61)	(52)	(9)
Net cash used in investing activities	\$ (802)	\$ (865)	\$ 63

For the six months ended June 30, 2017, net cash used in investing activities at CMS Energy decreased \$105 million compared with 2016 and net cash used in investing activities at Consumers decreased \$63 million compared with 2016. These changes were due primarily to lower capital expenditures at Consumers. The change at CMS Energy also reflected slower growth in EnerBank consumer lending and proceeds from the sale of EnerBank notes receivable in 2017.

Financing Activities

Presented in the following table are specific components of net cash used in financing activities for the six months ended June 30, 2017 and 2016:

Six Months Ended June 30	2017	2016	<i>In Millions</i> Change
CMS Energy, including Consumers			
Issuance of debt	\$ 923	\$ 329	\$ 594
Issuance of common stock	76	66	10
Net increase (decrease) in EnerBank certificates of deposit	(27)	12	(39)
Payment of dividends on common and preferred stock	(188)	(173)	(15)
Retirement of debt	(488)	(42)	(446)
Decrease in notes payable	(398)	(249)	(149)
Payment of capital leases and other financing activities	(27)	(15)	(12)
Net cash used in financing activities	\$ (129)	\$ (72)	\$ (57)
Consumers			
Issuance of debt	\$ 349	\$ -	\$ 349
Stockholder contribution from CMS Energy	450	275	175
Payment of dividends on common and preferred stock	(237)	(214)	(23)
Retirement of debt	(263)	(12)	(251)
Decrease in notes payable	(398)	(249)	(149)

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Payment of capital leases and other financing activities	(12)	(1)	(11)
Net cash used in financing activities	\$ (111)	\$ (201)	\$ 90

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For the six months ended June 30, 2017, net cash used in financing activities at CMS Energy increased \$57 million compared with 2016 and net cash used in financing activities at Consumers decreased \$90 million compared with 2016. These changes reflected higher debt retirements and higher repayments under Consumers' commercial paper program offset partially by higher debt issuances. At Consumers, the decrease was due to an increased stockholder contribution from CMS Energy.

CAPITAL RESOURCES AND LIQUIDITY

CMS Energy uses dividends and tax-sharing payments 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 FERC requirements and provisions under the Federal Power Act and the Natural Gas Act. For additional details on Consumers' dividend restrictions, see Note 4, Financings and Capitalization—Dividend Restrictions. For the six months ended June 30, 2017, Consumers paid \$236 million in dividends on its common stock to CMS Energy.

As a result of federal tax legislation passed in 2015 that extends bonus depreciation, CMS Energy expects to be able to extend the use of federal net operating loss carryforwards and, accordingly, defer its federal income tax payments through 2020. As a consequence, however, CMS Energy expects to receive lower tax-sharing payments from Consumers during that period. This may require CMS Energy to maintain higher levels of debt in order to invest in its businesses, pay dividends, and fund its general obligations. Despite this, CMS Energy does not anticipate a need for a block equity offering.

In March 2017, CMS Energy entered into an updated continuous equity offering program. Under this program, CMS Energy may sell, from time to time in the market offerings, common stock having an aggregate sales price of up to \$100 million. In June 2017, CMS Energy issued common stock under this program and received net proceeds of \$70 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 for the remainder of 2017.

Access to the financial and capital markets depends on CMS Energy's and Consumers' credit ratings and on market conditions. As evidenced by past financing transactions, CMS Energy and Consumers have had ready access to these markets. Barring major market dislocations or disruptions, CMS Energy and Consumers expect to continue to have ready access to the financial and capital markets. If access to these markets were to diminish or otherwise become restricted, CMS Energy and Consumers would implement contingency plans to address debt maturities, which could include reduced capital spending.

At June 30, 2017, CMS Energy had \$549 million of its secured revolving credit facility available and Consumers had \$891 million available. 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' commercial paper program, which allows Consumers to issue, in one or more placements, up to \$500 million in the aggregate in commercial paper notes with maturities of up to 365 days and that bear interest at fixed or floating rates. These issuances are supported by Consumers' revolving credit facilities. While the amount of outstanding commercial paper does not reduce the available capacity of the revolving credit facilities, Consumers does not intend to issue commercial paper in an amount exceeding the available capacity. At June 30, 2017, no commercial paper notes were outstanding under this program. For additional details on CMS Energy's and Consumers' secured revolving credit facilities and commercial paper program, see Note 4, Financings and Capitalization.

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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, 2017, no default had occurred with respect to any financial covenants contained in 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, 2017, as presented in the following table:

Credit Agreement, Indenture, or Facility	June 30, 2017	
	Limit	Actual
CMS Energy, parent only		
Debt to EBITDA ¹	≤ 6.0 to 1.0	4.2 to 1.0
Consumers		
Debt to Capital ²	≤ 0.65 to 1.0	0.46 to 1.0

¹ Applies to CMS Energy's \$550 million revolving and \$180 million term loan credit agreements.

² Applies to Consumers' \$650 million and \$250 million revolving credit agreements and its \$68 million, \$35 million, and \$30 million reimbursement agreements.

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's and Consumers' present level of cash and expected cash flows from operating activities, together with access to sources of liquidity, are anticipated to be sufficient to fund the companies' contractual obligations for 2017 and beyond.

Off-Balance-Sheet Arrangements

CMS Energy, Consumers, and certain of their subsidiaries 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 \$153 million at June 30, 2017. 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.

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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 Outlook and Uncertainties

Energy Waste Reduction Plan: The 2016 Energy Law, which became effective in April 2017, expands the existing energy optimization program to include demand response programs, calling the combined initiatives energy waste reduction. The 2016 Energy Law:

- extends the requirement to achieve annual reductions of 1.0 percent in customers' electricity use through 2021 and 0.75 percent in customers' natural gas use indefinitely
- removes limits on investments under the program and provides for a higher return on those investments; together, these provisions effectively double the financial incentives Consumers may earn for exceeding the statutory targets
- establishes a goal of 35 percent combined renewable energy and energy waste reduction by 2025

Under its existing 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. In March 2017, Consumers filed applications with the MPSC for approval of an energy waste reduction plan that would amend and expand Consumers' existing energy optimization plan and allow for recovery of increased investments to meet the requirements of the 2016 Energy Law. In July 2017, Consumers filed with the MPSC a partial settlement agreement addressing the amendments to its 2017 energy optimization plan. The agreement authorized the increased investments proposed for 2017, but deferred ruling on the financial incentive that Consumers may earn for exceeding savings targets during the year.

Smart Energy and Gas AMR: Consumers began the full-scale deployment of smart meters in 2012 and expects to complete it by the end of 2017. Smart meters 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. In addition, Consumers is able to disconnect and reconnect service, read, and bill from smart meters remotely. Consumers will continue to add further functionality to its smart meters. Consumers is also installing communication modules on gas meters in areas where it provides both electricity and natural gas to customers. The communication modules allow Consumers to read and bill from gas meters remotely.

Consumers expects that under its Smart Energy program it will have installed a total of 1.8 million smart meters and 600,000 communication modules throughout its service territory by the end of 2017. As of June 30, 2017, Consumers had upgraded 1.7 million electric customers to smart meters and had installed 585,000 communication modules on gas meters.

In areas where it provides only natural gas to customers, Consumers began the deployment of Gas AMR technology in 2017 and expects to complete it in 2019. Under this program, Consumers plans to install communication modules on 1.2 million gas meters, allowing it to conduct drive-by meter reading.

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Consumers Electric Utility Outlook and Uncertainties

Energy Resource Planning: Consumers continues to experience increasing demand for electricity due to Michigan's growing economy and increased use of air conditioning, consumer electronics, and other electric devices, offset partially by the predicted effects of energy efficiency and conservation.

In April 2016, Consumers retired seven of its coal-fueled electric generating units, representing 950 MW of capacity. In December 2016, Consumers and Entergy reached an agreement to terminate their PPA under which Consumers purchases virtually all of the capacity and energy produced by Palisades, up to the annual average capacity of 798 MW. Under the agreement, which is contingent on the MPSC's approval of Consumers' recovery in electric rates of the termination payment, the PPA would terminate in May 2018, four years ahead of schedule.

Even with the retirements of seven of its coal-fueled units and the expected termination of the Palisades PPA, Consumers expects to meet the capacity requirements of its full-service customers through:

- energy waste reduction
- expanded use of renewable energy
- the use of the Jackson plant, a 540-MW natural gas-fueled electric generating plant purchased in 2015
- construction or purchase of electric generating units
- continued operation or upgrade of existing units, including upgrades at Ludington
- renegotiations of existing PPAs
- purchases of short-term market capacity

Specifically, to address the potential termination of the Palisades PPA, Consumers issued a request for proposals in April 2017 to acquire a natural gas-fueled generating plant of up to 800 MW. Consumers is interested in acquiring a simple-cycle or combined-cycle generating plant operating in Michigan's Lower Peninsula. Also, Consumers completed an auction to purchase generation capacity for 2018. Any contracts entered into as a result of the request for proposals and the auction are subject to MPSC approval and are contingent on the MPSC's approval of the termination of the Palisades PPA.

Additionally, in May 2017, Consumers reached an agreement with T.E.S. Filer City to amend their PPA in anticipation of the conversion of T.E.S. Filer City's plant to use natural gas as its primary fuel instead of coal. The conversion is expected to increase the amount of capacity and energy produced by the plant from 73 MW to 225 MW. Under the amendment to the PPA, Consumers will purchase the increased capacity and electricity generated by the converted facility for 15 years. The original PPA was set to expire in 2025. The amendment is contingent on

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approval by the MPSC and on a finding by FERC that sales made under the amended PPA are exempt from, or authorized under, Section 205 of the Federal Power Act.

Renewable Energy Plan: The 2016 Energy Law raises the renewable energy standard from the present ten-percent requirement to 15 percent in 2021, with an interim target of 12.5 percent in 2019. Consumers is required to submit RECs, which represent proof that the associated electricity was generated from a renewable energy resource, in an amount equal to at least the required percentage of Consumers' electric sales volume each year. 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.

In conjunction with its renewable energy plan, Consumers signed a 15-year agreement in 2015 to purchase renewable capacity, energy, and RECs from a 100-MW wind park to be constructed in Huron County, Michigan. The wind park is expected to be operational by the end of 2017. In addition, Consumers has obtained the MPSC's approval to construct two additional phases at its Cross Winds®

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Energy Park. Phase II of the park, with a nameplate capacity of 44 MW, is expected to be operational in early 2018, while Phase III, with a nameplate capacity of 76 MW, is expected to be operational in 2020. Consumers began construction of Phase II in June 2017. Both phases of the project are expected to qualify for certain federal production tax credits, which are expected to generate cost savings that will be passed on to customers.

In June 2017, Consumers issued requests for proposals to acquire up to 450 MW of wind and solar generation projects within MISO's service territory, specifically wind generation projects ranging in size from 100 MW to 200 MW and up to 100 MW of solar generation projects at least 10 MW in size. Consumers is interested in wind and solar generation projects to support its renewable energy plan and its future energy and capacity needs. Any contracts entered into as a result of the request for proposals would be subject to MPSC approval.

Voluntary Large Customer Renewable Energy Pilot Program: In May 2017, Consumers filed an application with the MPSC proposing a pilot program that would provide large full-service electric customers with the opportunity to advance the development of renewable energy beyond the requirements of the 2016 Energy Law. Under the pilot program, customers would have the ability to match up to 100 percent of their energy use with renewable energy generated from wind resources.

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 2017 by about one-half percent compared with 2016.

Over the next five years, Consumers plans conservatively for average electric delivery growth of about one-half percent annually. This increase reflects growth in electric demand, offset partially by the predicted effects of energy waste reduction programs and appliance efficiency standards. Actual delivery levels will depend on:

- energy conservation measures and results of energy waste reduction programs
- weather fluctuations
- Michigan's economic conditions, including utilization, expansion, or contraction of manufacturing facilities, population trends, and housing activity

Electric ROA: Under existing Michigan law, electric customers in Consumers' service territory are allowed to buy electric generation service from alternative electric suppliers in an aggregate amount up to ten percent of Consumers' weather-adjusted retail sales for the preceding calendar year. At June 30, 2017, electric deliveries under the ROA program were at the ten-percent limit. Of Consumers' 1.8 million electric customers, 302 customers, or 0.02 percent, purchased electric generation service under the ROA program.

The 2016 Energy Law, which became effective in April 2017, retains the ten percent cap on ROA, with certain exceptions, but establishes a path to ensure that forward capacity is secured for all electric customers in Michigan, including customers served by alternative electric suppliers under ROA. The new law also authorizes the MPSC to ensure that alternative electric suppliers have procured enough capacity to cover their anticipated capacity requirements for the four-year forward period. To this end, the MPSC issued an order in March 2017, directing Consumers

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to file an application to implement a state reliability mechanism. Under such a mechanism, if an alternative electric supplier did not demonstrate that it had procured its capacity requirements for the four-year forward period, ROA customers would pay a charge to the utility for capacity that is not provided by the alternative electric supplier. Consumers filed its application in April 2017.

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Electric Rate Matters: Rate matters are critical to Consumers' electric utility business. For additional details on rate matters, see Note 2, Regulatory Matters.

Electric Rate Case: In March 2017, Consumers filed an application with the MPSC seeking an annual rate increase of \$173 million, based on a 10.5 percent authorized return on equity. The filing requested authority to recover new investment in system reliability, environmental compliance, and technology enhancements. Presented in the following table are the components of the requested increase in revenue:

	<i>In Millions</i>
Components of the rate increase	
Investment in rate base	\$ 47
Operating and maintenance costs	56
Gross margin	42
Cost of capital	37
Working capital	(9)
Total	\$ 173

Palisades PPA: In December 2016, Consumers and Entergy reached an agreement to terminate their PPA in May 2018, four years ahead of schedule. Under the PPA, Consumers purchases virtually all of the capacity and energy produced by Palisades, up to the annual average capacity of 798 MW. The prices that Consumers pays under the PPA, and which it recovers from its electric customers through the PSCR ratemaking process, are presently higher than the cost to purchase electricity from the market operated by MISO. In exchange for early termination, Consumers agreed to pay Entergy \$172 million on the termination date.

The agreement is subject to MPSC approval. In February 2017, Consumers requested authorization to recover the termination payment through securitization. The MPSC indicated that it will make a final determination on the securitization filing by the end of September 2017. If the MPSC does not approve Consumers' request by September 30, 2017, the agreement will be null and void (unless otherwise extended) and the PPA will continue until April 2022 under its original terms.

Depreciation Rate Case: In November 2016, Consumers filed a depreciation rate case related to its Ludington electric utility property, requesting to increase depreciation expense by \$15 million annually. In July 2017, the MPSC approved a settlement agreement authorizing Consumers to recover an increase in depreciation expense of \$2 million annually, based on December 31, 2015 balances. The new depreciation rates will go into effect with a final order in Consumers' next electric rate case following the electric rate case filed in 2017.

Sale of Coal-Fueled Generating Units: In April 2017, Consumers reached an agreement to sell its retired B.C. Cobb and J.R. Whiting coal-fueled electric generating units to Forsite. Under the terms of the agreement, which is contingent on MPSC approval, Consumers will transfer the generating units and associated land to Forsite. Consumers securitized the generating units in 2014; thus, the book value of the assets is zero. In addition, Consumers will pay Forsite \$63 million to decommission the units and perform cleanup activities at the sites. This payment will be recorded as a reduction to Consumers' cost of removal regulatory liability. Consumers estimates that this divestiture will save its electric customers \$30 million in decommissioning costs.

Electric Environmental Outlook: Consumers' operations are subject to various state and federal environmental laws and regulations. Consumers estimates that it will incur capital expenditures of \$0.5 billion from 2017 through 2021 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.

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Air Quality: CSAPR, which became effective in 2015, 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 September 2016, the EPA finalized new ozone season standards for CSAPR, which became effective in May 2017. CSAPR is presently being litigated; however, any decision will not impact Consumers' compliance strategy, as Consumers expects its emissions to be within the CSAPR allowance allocations.

In 2012, the EPA published 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 were required to add additional controls for hazardous air pollutants. Consumers met the extended deadline of April 2016 for five coal-fueled units and two oil/gas-fueled units it continues to operate and retired its seven remaining coal-fueled units. MATS is presently being litigated, but any decision is not expected to impact Consumers' MATS compliance strategy. In addition, Consumers must comply with the Michigan Mercury Rule and with its settlement agreement with the EPA entered into in 2014 concerning opacity and NSR.

In 2015, the EPA released its new rule to lower the NAAQS for ozone. The new ozone NAAQS will make it more difficult to construct or modify power plants in many areas of the country, including some parts of Michigan, if the areas are designated to be in nonattainment of the new standard. The NAAQS for ozone are presently being litigated and the EPA's decision on nonattainment areas has been delayed from October 2017 to October 2018. Consumers is monitoring the designation process of this rule, as well as the litigation, but does not anticipate any impact on its electric generating units.

Consumers' strategy to comply with air quality regulations, including CSAPR, NAAQS, and MATS, involved 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:

- a change in Consumers' fuel mix
- changes in the types of generating units Consumers may purchase or build in the future
- changes in how certain units are used
- the retirement, mothballing, or repowering with an alternative fuel of some of Consumers' generating units
- changes in Consumers' environmental compliance costs

Greenhouse Gases: There have been numerous legislative and regulatory initiatives at the state, regional, national, and international levels that involve the potential regulation of greenhouse gases. Consumers continues to monitor and comment on these initiatives and to follow litigation involving greenhouse gases.

In 2015, the EPA finalized new 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 will not be able to meet this limit without installing carbon dioxide control equipment using such methods as carbon capture and sequestration. In addition, the EPA finalized new rules pursuant to Section 111(b) of the Clean Air Act to limit

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carbon dioxide emissions from modified or reconstructed electric generating units. Both of these rules are being litigated.

Also in 2015, the EPA published final 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 rules required a 32-percent nationwide reduction in carbon emissions from existing power plants by 2030 (based on 2005 levels), and states choosing not to develop their own implementation plans would be subject to the federal plan. Certain states, corporations, and industry groups initiated litigation opposing the proposed Clean Power Plan, and in 2016, the U.S. Supreme Court stayed the Clean Power Plan while the litigation proceeded. In March 2017, the Trump administration issued an executive order directing the

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EPA and other federal agencies to review rules and policies that burden domestic energy production, including the Clean Power Plan. The EPA subsequently filed motions to hold the Section 111(b) and Clean Power Plan litigation in abeyance while it reconsiders the rule. Consumers does not expect that any changes to the Clean Power Plan will have an adverse impact on its environmental strategy.

In 2015, a group of 195 countries finalized the Paris Agreement, which governs carbon dioxide reduction measures beginning in 2020. As part of this agreement, the United States pledged a 26-percent reduction in greenhouse gas emissions by 2025 (with aspirations to achieve a 28-percent reduction) compared with 2005 levels. These targets are in line with the now-stayed Clean Power Plan targets. While these emission reduction commitments are non-binding, they will be governed by the Clean Power Plan should it survive judicial and administrative scrutiny. The Trump administration has now withdrawn from the Paris Agreement, but also stated a desire to renegotiate a new agreement in the future. Consumers does not expect any adverse changes to its environmental strategy as a result of these events.

While Consumers cannot predict the outcome of changes in policy under the Trump administration or of other legislative or regulatory initiatives involving the potential regulation of greenhouse gases, it intends to continue to move forward with its clean energy plan, its present carbon reduction target, and its emphasis on supply diversity. 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 ultimately 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 2015, the EPA published a final rule regulating CCRs, such as coal ash, under RCRA. The final rule adopts minimum standards for beneficially reusing and disposing of non-hazardous CCRs. The rule establishes new minimum requirements for site location, groundwater monitoring, flood protection, storm water design, fugitive dust control, and public disclosure of information. The rule also sets out conditions under which CCR units would be forced to cease receiving CCR and non-CCR waste and initiate closure based on the inability to achieve minimum safety standards, meet a location standard, or meet minimum groundwater standards. Consumers continues to develop work plans for submission to the MDEQ for concurrence to ensure coordination between federal and state requirements. Furthermore, Congress passed legislation in December 2016 that allows states to develop a permitting program for CCR under RCRA, and Michigan is taking steps to adopt such a program. As a result, Consumers may need to adjust its recorded ARO associated with coal ash disposal sites depending on the outcome of its submissions to the MDEQ and on a future RCRA permitting program under MDEQ, if the EPA approves a state-level program. Consumers has historically been authorized to recover in electric rates costs incurred related to cleanup and closure of coal ash disposal sites.

Water: The EPA's rule to regulate existing electric generating plant cooling water intake systems under Section 316(b) of the Clean Water Act became effective in 2014. The rule is aimed at reducing alleged harmful impacts on fish and shellfish. In 2015, the EPA released its final effluent limitation guidelines, which set stringent new requirements for the discharge from electric generating units into wastewater streams. In April 2017, the EPA announced a decision to reconsider the final effluent limitation guidelines, which are being litigated, and administratively stayed and delayed the compliance dates. Consumers believes that its environmental strategy will allow it to achieve compliance with the final rule, should it survive reconsideration and judicial review.

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In June 2015, the EPA and the U.S. Army Corps of Engineers published a final rule redefining waters of the United States, which designates the EPA's jurisdiction under the Clean Water Act. Numerous states and other interested parties, including Michigan's Attorney General, have filed suits in federal courts to block the rule, which was stayed in October 2015. The Trump administration issued an executive order in February 2017 directing the EPA and the U.S. Army Corps of Engineers to re-examine the waters of the United States rule. In June 2017, the EPA and the U.S. Army Corps of Engineers indicated that they intend to rescind the rule and revert to regulatory language that had been in effect prior to the June 2015 final rule. Consumers does not expect any adverse changes to its environmental strategy as a result of these events.

Many of Consumers' facilities maintain NPDES permits, which are valid for five years and vital to the facilities' operations. Failure of the MDEQ to renew any NPDES permit, a successful appeal against a permit, or onerous terms contained in a permit could have a significant detrimental effect on the operations of a facility.

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. The timing of any future rulemaking is uncertain as the Trump administration has not indicated that a PCB rulemaking is a priority.

Other electric environmental matters could have a material 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.

Consumers Gas Utility Outlook and Uncertainties

Gas Deliveries: Consumers expects weather-adjusted gas deliveries in 2017 and over the next five years to remain stable relative to 2016. 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:

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

- energy efficiency and conservation impacts

Gas Rate Matters: Rate matters are critical to Consumers' gas utility business. For additional details on rate matters, see Note 2, Regulatory Matters.

Gas Transmission: In September 2016, Consumers filed an application with the MPSC to invest \$610 million in the construction of a 95-mile, 24-inch-diameter natural gas pipeline in Saginaw, Genesee, and Oakland Counties, Michigan. The MPSC issued an order in March 2017 authorizing Consumers to construct and operate the pipeline. Consumers expects the pipeline to be operational by the end of 2022.

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Gas Pipeline Safety: A new rule from the U.S. Department of Transportation's Pipeline and Hazardous Materials Safety Administration, effective in April 2017, requires the installation of additional safety valves on certain gas distribution service lines. Consumers is evaluating the cost of complying with this rule, but expects that it will be able to recover the cost in rates, consistent with the recovery of other reasonable costs of complying with laws and regulations.

Gas Environmental Outlook: 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.

Enterprises Outlook and Uncertainties

The primary focus with respect to CMS Energy's non-utility businesses is to maximize the value of their generating assets, which represent 1,079 MW of capacity, and to pursue opportunities for the development of renewable generation projects.

T.E.S. Filer City plans to convert its plant to use natural gas as its primary fuel instead of coal. The conversion is expected to increase the amount of capacity and energy produced by the plant from 73 MW to 225 MW. In May 2017, in anticipation of the planned conversion, T.E.S. Filer City reached an agreement with Consumers to amend their PPA. Under the amendment to the PPA, Consumers will purchase the increased capacity and electricity generated by the converted facility for 15 years. The original PPA was set to expire in 2025. The amendment is contingent on approval by the MPSC and on a finding by FERC that sales made under the amended PPA are exempt from, or authorized under, Section 205 of the Federal Power Act.

CMS Enterprises completed the development and construction of a 2.5-MW solar project in Phillips, Wisconsin; the facility began operations in May 2017. Energy produced by the solar project is sold to a local power cooperative through a 25-year PPA.

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

- changes in energy and capacity prices
- 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
- the outcome of certain legal proceedings
- indemnity and environmental remediation obligations at Bay Harbor

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- obligations related to a tax claim from the government of Equatorial Guinea
- representations, warranties, and indemnities provided by CMS Energy in connection with previous sales of assets

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

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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 four percent of CMS Energy's net assets at June 30, 2017 and five percent of CMS Energy's net income available to common stockholders for the six months ended June 30, 2017. The carrying value of EnerBank's loan portfolio was \$1.3 billion at June 30, 2017. Its loan portfolio was funded primarily by certificates of deposit of \$1.2 billion. The twelve-month rolling average net default rate on loans held by EnerBank was 1.1 percent at June 30, 2017. 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, 2017.

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.

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CMS Energy Corporation

Consolidated Statements of Income (Unaudited)

June 30	Three Months Ended		<i>In Millions, Except Per Share Amounts</i>	
	2017	2016	Six Months Ended 2017	2016
Operating Revenue	\$ 1,449	\$ 1,371	\$ 3,278	\$ 3,172
Operating Expenses				
Fuel for electric generation	125	97	242	222
Purchased and interchange power	373	365	706	711
Purchased power related parties	21	21	43	43
Cost of gas sold	111	91	447	445
Maintenance and other operating expenses	315	286	605	589
Depreciation and amortization	197	176	459	414
General taxes	66	60	147	147
Total operating expenses	1,208	1,096	2,649	2,571
Operating Income	241	275	629	601
Other Income (Expense)				
Interest income	2	2	7	3
Allowance for equity funds used during construction	2	3	4	6
Income from equity method investees	3	3	7	7
Nonoperating retirement benefits, net	4	10	7	20
Other income	-	2	2	5
Other expense	(2)	(4)	(4)	(7)
Total other income	9	16	23	34
Interest Charges				
Interest on long-term debt	103	103	203	203
Other interest expense	8	7	16	14
Allowance for borrowed funds used during construction	(1)	(2)	(2)	(3)
Total interest charges	110	108	217	214
Income Before Income Taxes	140	183	435	421
Income Tax Expense	47	58	143	132
Net Income	93	125	292	289
Income Attributable to Noncontrolling Interests	1	1	1	1
Net Income Available to Common Stockholders	\$ 92	\$ 124	\$ 291	\$ 288
Basic Earnings Per Average Common Share	\$ 0.33	\$ 0.45	\$ 1.04	\$ 1.04
Diluted Earnings Per Average Common Share	\$ 0.33	\$ 0.45	\$ 1.04	\$ 1.04
Dividends Declared Per Common Share	\$ 0.3325	\$ 0.3100	\$ 0.6650	\$ 0.6200

The accompanying notes are an integral part of these statements.

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CMS Energy Corporation

Consolidated Statements of Comprehensive Income (Unaudited)

June 30	Three Months Ended		Six Months Ended	
	2017	2016	2017	2016
<i>In Millions</i>				
Net Income	\$ 93	\$ 125	\$ 292	\$ 289
Retirement Benefits Liability				
Amortization of net actuarial loss, net of tax of \$- for all periods	1	1	1	1
Amortization of prior service credit, net of tax of \$- for all periods	-	(1)	-	(1)
Investments				
Unrealized gain on investments, net of tax of \$1, \$-, \$1, and \$-	-	-	1	-
Other Comprehensive Income	1	-	2	-
Comprehensive Income	94	125	294	289
Comprehensive Income Attributable to Noncontrolling Interests	1	1	1	1
Comprehensive Income Attributable to CMS Energy	\$ 93	\$ 124	\$ 293	\$ 288

The accompanying notes are an integral part of these statements.

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CMS Energy Corporation

Consolidated Statements of Cash Flows (Unaudited)

Six Months Ended June 30	2017	In Millions 2016
Cash Flows from Operating Activities		
Net income	\$ 292	\$ 289
<i>Adjustments to reconcile net income to net cash provided by operating activities</i>		
Depreciation and amortization	459	414
Deferred income taxes and investment tax credit	132	127
Other non-cash operating activities and reconciling adjustments	47	33
<i>Cash provided by (used in) changes in assets and liabilities</i>		
Accounts and notes receivable and accrued revenue	154	97
Inventories	44	198
Accounts payable and accrued refunds	37	(21)
Other current and non-current assets and liabilities	(46)	(36)
Net cash provided by operating activities	1,119	1,101
Cash Flows from Investing Activities		
Capital expenditures (excludes assets placed under capital lease)	(746)	(817)
Increase in EnerBank notes receivable	(25)	(43)
Proceeds from the sale of EnerBank notes receivable	19	-
Cost to retire property and other investing activities	(54)	(51)
Net cash used in investing activities	(806)	(911)
Cash Flows from Financing Activities		
Proceeds from issuance of debt	923	329
Issuance of common stock	76	66
Net increase (decrease) in EnerBank certificates of deposit	(27)	12
Payment of dividends on common and preferred stock	(188)	(173)
Retirement of long-term debt	(488)	(42)
Decrease in notes payable	(398)	(249)
Payment of capital lease obligations and other financing costs	(27)	(15)
Net cash used in financing activities	(129)	(72)
Net Increase in Cash and Cash Equivalents, Including Restricted Amounts	184	118
Cash and Cash Equivalents, Including Restricted Amounts, Beginning of Period	257	288
Cash and Cash Equivalents, Including Restricted Amounts, End of Period	\$ 441	\$ 406
Other non-cash investing and financing activities		
<i>Non-cash transactions</i>		
Capital expenditures not paid	\$ 146	\$ 178
Note receivable recorded for future refund of use taxes paid and capitalized	-	29

The accompanying notes are an integral part of these statements.

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CMS Energy Corporation

Consolidated Balance Sheets (Unaudited)

ASSETS

	June 30 2017	<i>In Millions</i> December 31 2016
Current Assets		
Cash and cash equivalents	\$ 418	\$ 235
Restricted cash and cash equivalents	17	19
Accounts receivable and accrued revenue, less allowance of \$22 in 2017 and \$24 in 2016	666	821
Notes receivable, less allowance of \$18 in 2017 and \$16 in 2016	193	180
Notes receivable held for sale	18	39
Accounts receivable related parties	12	12
<i>Inventories at average cost</i>		
Gas in underground storage	395	446
Materials and supplies	121	119
Generating plant fuel stock	66	61
Deferred property taxes	179	250
Regulatory assets	9	17
Prepayments and other current assets	117	81
Total current assets	2,211	2,280
Plant, Property, and Equipment		
Plant, property, and equipment, gross	21,628	21,010
Less accumulated depreciation and amortization	6,311	6,056
Plant, property, and equipment, net	15,317	14,954
Construction work in progress	802	761
Total plant, property, and equipment	16,119	15,715
Other Non-current Assets		
Regulatory assets	2,050	2,091
Accounts and notes receivable	1,125	1,118
Investments	68	65
Other	294	353
Total other non-current assets	3,537	3,627
Total Assets	\$ 21,867	\$ 21,622

Table of Contents**LIABILITIES AND EQUITY**

	June 30 2017	<i>In Millions</i> December 31 2016
Current Liabilities		
Current portion of long-term debt, capital leases, and financing obligation	\$ 840	\$ 886
Notes payable	-	398
Accounts payable	599	598
Accounts payable related parties	9	12
Accrued rate refunds	77	21
Accrued interest	104	98
Accrued taxes	256	348
Regulatory liabilities	85	95
Other current liabilities	145	199
Total current liabilities	2,115	2,655
Non-current Liabilities		
Long-term debt	9,091	8,640
Non-current portion of capital leases and financing obligation	99	110
Regulatory liabilities	2,054	2,041
Postretirement benefits	770	789
Asset retirement obligations	452	447
Deferred investment tax credit	89	73
Deferred income taxes	2,422	2,287
Other non-current liabilities	289	290
Total non-current liabilities	15,266	14,677
Commitments and Contingencies (Notes 2 and 3)		
Equity		
<i>Common stockholders' equity</i>		
Common stock, authorized 350.0 shares; outstanding 281.6 shares in 2017 and 279.2 shares in 2016	3	3
Other paid-in capital	5,006	4,916
Accumulated other comprehensive loss	(48)	(50)
Accumulated deficit	(512)	(616)
Total common stockholders' equity	4,449	4,253
Noncontrolling interests	37	37
Total equity	4,486	4,290
Total Liabilities and Equity	\$ 21,867	\$ 21,622

The accompanying notes are an integral part of these statements.

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CMS Energy Corporation

Consolidated Statements of Changes in Equity (Unaudited)

June 30	Three Months Ended		Six Months Ended	
	2017	2016	2017	2016
<i>In Millions</i>				
Total Equity at Beginning of Period	\$ 4,407	\$ 4,146	\$ 4,290	\$ 3,975
Common Stock				
At beginning and end of period	3	3	3	3
Other Paid-in Capital				
At beginning of period	4,927	4,897	4,916	4,837
Common stock issued	80	9	88	79
Common stock repurchased	(1)	-	(13)	(10)
Common stock reissued	-	-	15	-
At end of period	5,006	4,906	5,006	4,906
Accumulated Other Comprehensive Loss				
At beginning of period	(49)	(47)	(50)	(47)
<i>Retirement benefits liability</i>				
At beginning of period	(50)	(43)	(50)	(43)
Amortization of net actuarial loss	1	1	1	1
Amortization of prior service credit	-	(1)	-	(1)
At end of period	(49)	(43)	(49)	(43)
<i>Investments</i>				
At beginning of period	1	(4)	-	(4)
Unrealized gain on investments	-	-	1	-
At end of period	1	(4)	1	(4)
At end of period	(48)	(47)	(48)	(47)
Accumulated Deficit				
At beginning of period	(511)	(744)	(616)	(855)
Cumulative effect of change in accounting principle	-	-	-	33
Net income attributable to CMS Energy	92	124	291	288
Dividends declared on common stock	(93)	(86)	(187)	(172)
At end of period	(512)	(706)	(512)	(706)
Noncontrolling Interests				
At beginning of period	37	37	37	37
Income attributable to noncontrolling interests	1	1	1	1
Distributions and other changes in noncontrolling interests	(1)	(1)	(1)	(1)
At end of period	37	37	37	37
Total Equity at End of Period	\$ 4,486	\$ 4,193	\$ 4,486	\$ 4,193

The accompanying notes are an integral part of these statements.

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Consumers Energy Company

Consolidated Statements of Income (Unaudited)

June 30	Three Months Ended		Six Months Ended	
	2017	2016	2017	2016
<i>In Millions</i>				
Operating Revenue	\$ 1,362	\$ 1,293	\$ 3,099	\$ 3,016
Operating Expenses				
Fuel for electric generation	100	73	189	172
Purchased and interchange power	369	360	700	703
Purchased power related parties	22	21	44	43
Cost of gas sold	105	87	437	438
Maintenance and other operating expenses	285	264	550	542
Depreciation and amortization	195	173	455	410
General taxes	64	61	143	146
Total operating expenses	1,140	1,039	2,518	2,454
Operating Income	222	254	581	562
Other Income (Expense)				
Interest income	2	1	6	2
Interest and dividend income related parties	-	1	-	1
Allowance for equity funds used during construction	2	3	4	6
Nonoperating retirement benefits, net	2	10	5	19
Other income	-	2	14	5
Other expense	(2)	(4)	(4)	(7)
Total other income	4	13	25	26
Interest Charges				
Interest on long-term debt	66	65	132	130
Other interest expense	4	3	7	6
Allowance for borrowed funds used during construction	(1)	(2)	(2)	(3)
Total interest charges	69	66	137	133
Income Before Income Taxes	157	201	469	455
Income Tax Expense	53	69	154	151
Net Income	104	132	315	304
Preferred Stock Dividends	1	1	1	1
Net Income Available to Common Stockholder	\$ 103	\$ 131	\$ 314	\$ 303

The accompanying notes are an integral part of these statements.

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Consumers Energy Company

Consolidated Statements of Comprehensive Income (Unaudited)

June 30	Three Months Ended		Six Months Ended	
	2017	2016	2017	2016
<i>In Millions</i>				
Net Income	\$ 104	\$ 132	\$ 315	\$ 304
Retirement Benefits Liability				
Amortization of net actuarial loss, net of tax of \$- for all periods	1	-	1	-
Investments				
Unrealized gain on investments, net of tax of \$1, \$1, \$1, and \$3	-	2	2	5
Reclassification adjustments included in net income, net of tax of \$-, \$-, \$(5), and \$-	-	-	(8)	-
Other Comprehensive Income (Loss)	1	2	(5)	5
Comprehensive Income	\$ 105	\$ 134	\$ 310	\$ 309

The accompanying notes are an integral part of these statements.

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Consumers Energy Company

Consolidated Statements of Cash Flows (Unaudited)

Six Months Ended June 30	2017	<i>In Millions</i> 2016
Cash Flows from Operating Activities		
Net income	\$ 315	\$ 304
<i>Adjustments to reconcile net income to net cash provided by operating activities</i>		
Depreciation and amortization	455	410
Deferred income taxes and investment tax credit	157	130
Other non-cash operating activities and reconciling adjustments	44	27
<i>Cash provided by (used in) changes in assets and liabilities</i>		
Accounts and notes receivable and accrued revenue	158	119
Inventories	43	197
Accounts payable and accrued refunds	38	(15)
Other current and non-current assets and liabilities	(85)	(40)
Net cash provided by operating activities	1,125	1,132
Cash Flows from Investing Activities		
Capital expenditures (excludes assets placed under capital lease)	(741)	(813)
Cost to retire property and other investing activities	(61)	(52)
Net cash used in investing activities	(802)	(865)
Cash Flows from Financing Activities		
Proceeds from issuance of long-term debt	349	-
Stockholder contribution	450	275
Payment of dividends on common and preferred stock	(237)	(214)
Retirement of long-term debt	(263)	(12)
Decrease in notes payable	(398)	(249)
Payment of capital lease obligations and other financing costs	(12)	(1)
Net cash used in financing activities	(111)	(201)
Net Increase in Cash and Cash Equivalents, Including Restricted Amounts	212	66
Cash and Cash Equivalents, Including Restricted Amounts, Beginning of Period	152	71
Cash and Cash Equivalents, Including Restricted Amounts, End of Period	\$ 364	\$ 137
Other non-cash investing and financing activities		
<i>Non-cash transactions</i>		
Capital expenditures not paid	\$ 133	\$ 162
Note receivable recorded for future refund of use taxes paid and capitalized	-	29

The accompanying notes are an integral part of these statements.

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Consumers Energy Company

Consolidated Balance Sheets (Unaudited)

ASSETS

	June 30 2017	<i>In Millions</i> December 31 2016
Current Assets		
Cash and cash equivalents	\$ 343	\$ 131
Restricted cash and cash equivalents	17	19
Accounts receivable and accrued revenue, less allowance of \$22 in 2017 and \$24 in 2016	648	800
Notes receivable	30	29
Accounts receivable related parties	2	9
<i>Inventories at average cost</i>		
Gas in underground storage	395	446
Materials and supplies	116	114
Generating plant fuel stock	63	57
Deferred property taxes	179	250
Regulatory assets	9	17
Prepayments and other current assets	110	70
Total current assets	1,912	1,942
Plant, Property, and Equipment		
Plant, property, and equipment, gross	21,451	20,838
Less accumulated depreciation and amortization	6,246	5,994
Plant, property, and equipment, net	15,205	14,844
Construction work in progress	801	759
Total plant, property, and equipment	16,006	15,603
Other Non-current Assets		
Regulatory assets	2,050	2,091
Accounts and notes receivable	28	27
Investments	20	33
Other	189	250
Total other non-current assets	2,287	2,401
Total Assets	\$ 20,205	\$ 19,946

Table of Contents**LIABILITIES AND EQUITY**

	June 30 2017	<i>In Millions</i> December 31 2016
Current Liabilities		
Current portion of long-term debt, capital leases, and financing obligation	\$ 394	\$ 397
Notes payable	-	398
Accounts payable	580	580
Accounts payable related parties	15	18
Accrued rate refunds	77	21
Accrued interest	67	67
Accrued taxes	257	354
Regulatory liabilities	85	95
Other current liabilities	108	164
Total current liabilities	1,583	2,094
Non-current Liabilities		
Long-term debt	5,339	5,253
Non-current portion of capital leases and financing obligation	99	110
Regulatory liabilities	2,054	2,041
Postretirement benefits	712	730
Asset retirement obligations	451	446
Deferred investment tax credit	89	73
Deferred income taxes	3,197	3,042
Other non-current liabilities	219	218
Total non-current liabilities	12,160	11,913
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	4,449	3,999
Accumulated other comprehensive loss	(8)	(3)
Retained earnings	1,143	1,065
Total common stockholder's equity	6,425	5,902
Preferred stock	37	37
Total equity	6,462	5,939
Total Liabilities and Equity	\$ 20,205	\$ 19,946

The accompanying notes are an integral part of these statements.

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Consumers Energy Company

Consolidated Statements of Changes in Equity (Unaudited)

June 30	Three Months Ended		Six Months Ended	
	2017	2016	2017	2016
<i>In Millions</i>				
Total Equity at Beginning of Period	\$ 6,246	\$ 5,716	\$ 5,939	\$ 5,546
Common Stock				
At beginning and end of period	841	841	841	841
Other Paid-in Capital				
At beginning of period	4,249	3,874	3,999	3,724
Stockholder contribution	200	125	450	275
At end of period	4,449	3,999	4,449	3,999
Accumulated Other Comprehensive Loss				
At beginning of period	(9)	(3)	(3)	(6)
<i>Retirement benefits liability</i>				
At beginning of period	(21)	(19)	(21)	(19)
Amortization of net actuarial loss	1	-	1	-
At end of period	(20)	(19)	(20)	(19)
<i>Investments</i>				
At beginning of period	12	16	18	13
Unrealized gain on investments	-	2	2	5
Reclassification adjustments included in net income	-	-	(8)	-
At end of period	12	18	12	18
At end of period	(8)	(1)	(8)	(1)
Retained Earnings				
At beginning of period	1,128	967	1,065	950
Net income	104	132	315	304
Dividends declared on common stock	(88)	(58)	(236)	(213)
Dividends declared on preferred stock	(1)	(1)	(1)	(1)
At end of period	1,143	1,040	1,143	1,040
Preferred Stock				
At beginning and end of period	37	37	37	37
Total Equity at End of Period	\$ 6,462	\$ 5,916	\$ 6,462	\$ 5,916

The accompanying notes are an integral part of these statements.

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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 and to reflect the implementation of new accounting standards. CMS Energy and Consumers are required to make estimates using assumptions that may affect reported amounts and disclosures; actual results could differ from these estimates. In management's opinion, the unaudited information contained in this report reflects all adjustments of a normal recurring nature necessary to ensure that CMS Energy's and Consumers' financial position, results of operations, and cash flows for the periods presented are fairly stated. 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 2016 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

Implementation of New Accounting Standards

ASU 2017-07, Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost: This standard was issued to improve the reporting of net benefit cost by employers that offer defined benefit pension plans and other postretirement benefit plans. The required effective date of the standard for CMS Energy and Consumers is January 1, 2018, but early adoption was permitted in the first interim period of 2017. CMS Energy and Consumers elected to adopt the standard as of January 1, 2017. The standard requires employers to report the service cost component of net benefit cost in the same line item on the income statement as other employee compensation costs, while presenting the other cost components separately outside of operating income. This change is to be applied retrospectively to all prior periods presented. Accordingly, for the three months and six months ended June 30, 2017 and 2016, CMS Energy and Consumers have presented the service cost component of their retirement benefits plans in maintenance and other operating expenses on the consolidated statements of income, while presenting the other components in nonoperating retirement benefits, net, under other income (expense). Prior to this standard, CMS Energy and Consumers had presented all of the cost components in maintenance and other operating expenses. Under a practical expedient permitted by the standard, CMS Energy and Consumers used benefit cost amounts disclosed for prior periods as the basis for retrospective application.

In addition, under this standard, only the service cost component is eligible for capitalization as part of the cost of an asset. This change is to be applied prospectively upon adoption. Accordingly, for the three months and six months ended June 30, 2017, CMS Energy and Consumers capitalized a portion of the service cost component of their retirement benefits plans to plant, property, and equipment, while recognizing the other components in net income. In prior periods, a portion of all cost components was capitalized. For further details on the net periodic cost of

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CMS Energy's and Consumers' retirement benefits plans, see Note 8, Retirement Benefits. The implementation of this standard did not have a material impact on CMS Energy's or Consumers' consolidated net income, cash flows, or financial position.

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New Accounting Standards Not Yet Effective

ASU 2014-09, Revenue from Contracts with Customers: This standard provides new guidance for recognizing revenue from contracts with customers. A primary objective of the standard is to provide a single, comprehensive revenue recognition model that will be applied across entities, industries, and capital markets. 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. The standard will be effective on January 1, 2018 for CMS Energy and Consumers, but early adoption in 2017 is permitted. Entities will have the option to apply the standard retrospectively to all prior periods presented, or to apply it retrospectively only to contracts existing at the effective date, with the cumulative effect of the standard recorded as an adjustment to beginning retained earnings. CMS Energy and Consumers are not adopting the standard early, and are still assessing how they will apply the standard upon adoption.

CMS Energy and Consumers are continuing to evaluate the impact of the standard on their consolidated financial statements; however, they have determined that the standard will have no impact on a majority of their revenues and they have not yet identified any changes in their revenue recognition practices that may be required.

ASU 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities: This standard, which will be effective January 1, 2018 for CMS Energy and Consumers, is intended to improve the accounting for financial instruments. The standard will require investments in equity securities to be measured at fair value, with changes in fair value recognized in net income, except for certain investments such as those that qualify for equity-method accounting. The standard will no longer permit unrealized gains and losses for certain equity investments to be recorded in AOCI. CMS Energy and Consumers presently record unrealized gains and losses on certain equity investments, including the mutual funds in the DB SERP and Consumers' investment in CMS Energy common stock, in AOCI, except that unrealized losses determined to be other than temporary are reported in earnings. For further details on these investments, see Note 6, Financial Instruments. Entities will apply the standard using a modified retrospective approach, with a cumulative-effect adjustment recorded to beginning retained earnings on the effective date.

ASU 2016-02, Leases: This standard establishes a new accounting model for leases. The standard will require entities to recognize lease assets and liabilities on the balance sheet for all leases with a term of more than one year, including operating leases, which are not recorded on the balance sheet under existing standards. As a result, CMS Energy and Consumers expect to recognize additional lease assets and liabilities for their operating leases under this standard. The new guidance will also amend the definition of a lease to require that a lessee control the use of a specified asset, and not simply control or take the output of the asset. On the income statement, leases that meet existing capital lease criteria will generally be accounted for under a financing model, while operating leases will generally be accounted for under a straight-line expense model. The standard will be effective on January 1, 2019 for CMS Energy and Consumers, but early adoption is permitted. CMS Energy and Consumers are continuing to evaluate the impact of the standard on their consolidated financial statements and do not presently expect to adopt the standard early.

ASU 2016-13, Measurement of Credit Losses on Financial Instruments: This standard, which will be effective January 1, 2020 for CMS Energy and Consumers, provides new guidance for estimating and recording credit losses on financial instruments. The standard will apply to the recognition of loan losses at EnerBank as well as to the recognition of uncollectible accounts expense at Consumers. Entities will apply the standard using a modified retrospective approach, with a cumulative-effect adjustment recorded to beginning retained earnings on the effective date. CMS Energy and Consumers are evaluating the impact of the standard on their consolidated financial statements.

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2: REGULATORY MATTERS

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 negatively affect CMS Energy's and Consumers' liquidity, financial condition, and results of operations. Consumers cannot predict the outcome of these proceedings.

There are multiple appeals pending that involve various issues concerning cost recovery from customers, 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.

Electric Rate Case: In March 2016, Consumers filed an application with the MPSC seeking an annual rate increase of \$225 million, based on a 10.7 percent authorized return on equity. In September 2016, Consumers self-implemented an annual rate increase of \$170 million, subject to refund with interest. The MPSC issued an order in February 2017, authorizing an annual rate increase of \$113 million, based on a 10.1 percent authorized return on equity.

In May 2017, Consumers filed a reconciliation of total revenue collected during self-implementation to those that would have been collected under final rates. The reconciliation indicated that a \$17 million refund would be required, which Consumers has recorded as a reserve for customer refunds at June 30, 2017.

Gas Rate Case: In August 2016, Consumers filed an application with the MPSC seeking an annual rate increase of \$90 million, based on a 10.6 percent authorized return on equity. In March 2017, Consumers reduced its requested annual rate increase to \$80 million, of which the majority relates to new investments that will allow Consumers to strengthen infrastructure and improve system capacity and deliverability.

The filing also seeks approval of two rate adjustment mechanisms: one that would reconcile annually Consumers' actual nonfuel revenues with the revenues approved by the MPSC, and another that would provide for additional annual rate increases of \$35 million beginning in 2018 and another \$35 million beginning in 2019 for incremental investments that Consumers plans to make in those years, subject to reconciliation. These future investments are intended to help ensure adequate system capacity, deliverability, and safety.

The MPSC issued an order in January 2017, limiting Consumers' self-implementation to an annual rate increase of \$20 million. Accordingly, in January 2017, Consumers self-implemented an annual rate increase of \$20 million, subject to refund with interest. A final order is expected at the end of July 2017.

Energy Optimization Plan Incentive: In May 2017, Consumers filed its 2016 energy optimization reconciliation, requesting the MPSC's approval to collect the maximum performance incentive of \$18 million from customers for exceeding its statutory savings targets in 2016.

Consumers recognized incentive revenue under this program of \$18 million in 2016.

Depreciation Rate Case: In August 2016, Consumers filed a depreciation rate case related to its gas utility property, requesting to decrease depreciation expense by \$3 million annually. In March 2017, the MPSC approved a settlement agreement authorizing the requested decrease in depreciation expense effective as of January 2017.

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FERC Transmission Order: In September 2016, FERC issued an order reducing the rate of return on equity earned by transmission owners operating within MISO to a base of 10.32 percent from 12.38 percent. FERC ordered MISO and transmission owners to provide refunds, with interest, to transmission customers such as Consumers for the period from November 2013 through February 2015. In February 2017, as a result of this order, Consumers received from MISO a credit of \$28 million, which it will return to its electric customers through the PSCR ratemaking process. The FERC order is subject to further legal proceedings and Consumers' MISO credit may be adjusted accordingly.

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 negatively affect 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 four class action lawsuits and one individual lawsuit arising as a result of alleged inaccurate natural gas price reporting to publications that report trade information. Allegations include 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: treble damages, full consideration damages, exemplary damages, costs, interest, and/or attorneys' fees.

After removal to federal court, all of the cases were transferred to a single federal district court pursuant to the multidistrict litigation process. In 2010 and 2011, all claims against CMS Energy defendants were dismissed by the district court based on FERC preemption. In 2013, the U.S. Court of Appeals for the Ninth Circuit reversed the district court decision. The appellate court found that FERC preemption does not apply under the facts of these cases. The appellate court affirmed the district court's denial of leave to amend to add federal antitrust claims. The matter was appealed to the U.S. Supreme Court, which in 2015 upheld the Ninth Circuit's decision. The cases were remanded back to the federal district court.

In May 2016, the federal district court granted the defendants' motion for summary judgment in the individual lawsuit based on a release in a prior settlement involving similar allegations and reinstated CMS Energy as a defendant in one of the class action lawsuits. The order of summary judgment has been appealed.

In December 2016, CMS Energy entities reached a tentative settlement with the plaintiffs in the three Kansas and Missouri cases for an amount that was not material to CMS Energy. The tentative settlement received preliminary approval by the federal district court and is scheduled for hearing in August 2017. Other CMS Energy entities remain as defendants in the two Wisconsin class action lawsuits.

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In March 2017, the federal district court denied plaintiffs' motion for class certification. The plaintiffs appealed that decision to the U.S. Court of Appeals for the Ninth Circuit, which has accepted the matter for hearing. In June 2017, an unaffiliated company that is also a defendant in these cases filed for bankruptcy, which could increase the risk of loss to CMS Energy.

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

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amount of CMS Energy's reasonably possible loss would be based on widely varying models previously untested in this context. If the outcome after appeals is unfavorable, these cases could negatively affect CMS Energy's liquidity, financial condition, and results of operations.

Bay Harbor: CMS Land 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 Land and the MDEQ finalized an agreement that established the final remedies and the future water quality criteria at the site. CMS Land 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 and renewed in October 2016. The renewed NPDES permit is valid through September 2020.

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. CMS Land and other parties have received a demand for payment from the EPA in the amount of \$8 million, plus interest. The EPA is seeking recovery under CERCLA of response costs allegedly incurred at Bay Harbor. These costs exceed what was agreed to in a 2005 order between CMS Land and the EPA, and CMS Land has communicated to the EPA that it does not believe that this is a valid claim. The EPA has filed a lawsuit to collect these costs.

At June 30, 2017, CMS Energy had a recorded liability of \$50 million for its remaining obligations for environmental remediation. 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 \$63 million. CMS Energy expects to pay the following amounts for long-term liquid disposal and operating and maintenance costs during the remainder of 2017 and in each of the next five years:

	2017	2018	2019	2020	2021	2022
	<i>In Millions</i>					
CMS Energy						
Long-term liquid disposal and operating and maintenance costs	\$ 3	\$ 4	\$ 4	\$ 4	\$ 4	\$ 4

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 2002, CMS Energy sold its oil, gas, and methanol investments in Equatorial Guinea. The government of Equatorial Guinea claims that, in connection with the sale, CMS Energy owes \$152 million in taxes, plus substantial penalties and interest that could be up to the amount of the taxes claimed. The matter is proceeding to formal arbitration. CMS Energy has concluded that the government's tax claim is without merit and is contesting the claim, but cannot predict the financial impact or outcome of the matter. An unfavorable outcome could have a material adverse effect on CMS Energy's liquidity, financial condition, and results of operations.

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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 the 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 \$3 million and \$4 million. At June 30, 2017, Consumers had a recorded liability of \$3 million, the minimum amount in the range of its estimated probable NREPA liability, as no amount in the range was considered a better estimate than any other amount.

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 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 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 known CERCLA sites will be between \$3 million and \$8 million. Various factors, including the number and creditworthiness of potentially responsible parties involved with each site, affect Consumers' share of the total liability. At June 30, 2017, 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, as no amount in the range was considered a better estimate than any other amount.

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. A 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 part of the PCB material and replaced it with non-PCB material. Consumers has had several communications with the EPA regarding this matter, but cannot predict the financial impact or outcome.

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, 2017, Consumers had a recorded liability of \$98 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

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\$107 million. Consumers expects to pay the following amounts for remediation and other response activity costs during the remainder of 2017 and in each of the next five years:

	2017	2018	2019	2020	2021	<i>In Millions</i> 2022
Consumers						
Remediation and other response activity costs	\$ 24	\$ 14	\$ 19	\$ 10	\$ 5	\$ 3

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, 2017, Consumers had a regulatory asset of \$137 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 could reach \$3 million. At June 30, 2017, Consumers had a recorded liability of less than \$1 million, the minimum amount in the range of its estimated probable liability, as no amount in the range was considered a better estimate than any other amount.

Guarantees

Presented in the following table are CMS Energy's and Consumers' guarantees at June 30, 2017:

Guarantee Description	Issue Date	Expiration Date	Maximum Obligation	<i>In Millions</i> Carrying Amount
CMS Energy, including Consumers				
Indemnity obligations from stock and asset sale agreements ¹	Various	Indefinite	\$ 153	\$ 7
Guarantees ²	Various	Indefinite	45	-
Consumers				
Guarantee ²	July 2011	Indefinite	\$ 30	\$ -

¹ These obligations arose from stock and asset sale agreements under which CMS Energy or a subsidiary of CMS Energy indemnified the purchaser for losses resulting from various matters, primarily claims related to taxes. CMS Energy believes the likelihood of material loss to be remote for the indemnity obligations not recorded as liabilities.

2 At Consumers, this obligation comprises a guarantee provided to the U.S. Department of Energy in connection with a settlement agreement regarding damages resulting from the department's failure to accept spent nuclear fuel from nuclear power plants formerly owned by Consumers. At CMS Energy, the guarantee obligations comprise Consumers' guarantee to the U.S. Department of Energy and CMS Energy's 1994 guarantee of non-recourse revenue bonds issued by Genesee.

Additionally, in the normal course of business, CMS Energy, Consumers, and certain other subsidiaries of CMS Energy have entered into various agreements containing tax and other indemnity provisions for which they are unable to estimate the maximum potential obligation. The carrying value of these indemnity obligations is \$1 million. 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.

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Other Contingencies

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

4: FINANCINGS AND CAPITALIZATION

Financings: Presented in the following table is a summary of major long-term debt transactions during the six months ended June 30, 2017.

	Principal (In Millions)	Interest Rate	Issue/Retirement Date	Maturity Date
<i>Debt issuances</i>				
CMS Energy, parent only				
Senior notes	\$ 350	3.450 %	February 2017	August 2027
Consumers				
First mortgage bonds	\$ 350	3.950 %	February 2017	July 2047
<i>Debt retirements</i>				
Consumers				
First mortgage bonds	\$ 250	5.150 %	February 2017	February 2017

Term Loan: In April 2017, CMS Energy reached an agreement to extend the maturity date of its \$180 million term loan by one year, through April 2019.

Revolving Credit Facilities: The following secured revolving credit facilities with banks were available at June 30, 2017:

<i>In Millions</i>				
Expiration Date	Amount of Facility	Amount Borrowed	Letters of Credit Outstanding	Amount Available
CMS Energy, parent only				
May 27, 2022 ^{1,2}	\$ 550	\$ -	\$ 1	\$ 549
Consumers				
May 27, 2022 ^{2,3}	\$ 650	\$ -	\$ 7	\$ 643
November 23, 2018 ³	250	-	2	248
September 9, 2019 ^{3,4}	30	-	30	

¹ During the six months ended June 30, 2017, CMS Energy's average borrowings totaled \$42 million with a weighted-average interest rate of 2.02 percent. Obligations under this facility are secured by Consumers common stock.

² In May 2017, the expiration date of this revolving credit agreement was extended from May 2021 to May 2022.

³ Obligations under this facility are secured by first mortgage bonds of Consumers.

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4 In June 2017, the expiration date of this letter of credit reimbursement agreement was extended from May 2018 to September 2019.

Short-term Borrowings: Under Consumers' commercial paper program, Consumers may issue, in one or more placements, commercial paper notes with maturities of up to 365 days and that bear interest at fixed or floating rates. These issuances are supported by Consumers' revolving credit facilities and may have an aggregate principal amount outstanding of up to \$500 million. While the amount of outstanding commercial paper does not reduce the available capacity of the revolving credit facilities, Consumers does not intend to issue commercial paper in an amount exceeding the available capacity. At June 30, 2017, no commercial paper notes were outstanding under this program.

Dividend Restrictions: At June 30, 2017, payment of dividends by CMS Energy on its common stock was limited to \$4.4 billion under provisions of the Michigan Business Corporation Act of 1972.

Under the provisions of its articles of incorporation, at June 30, 2017, Consumers had \$1.1 billion of unrestricted retained earnings available to pay dividends on its common stock 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, dividends from Consumers on its common stock would not be limited to amounts in Consumers' retained earnings. Any decision by Consumers to pay dividends on its common stock in excess of retained earnings would be based on specific facts and circumstances and would be subject to a formal regulatory filing process.

For the six months ended June 30, 2017, Consumers paid \$236 million in dividends on its common stock to CMS Energy.

Issuance of Common Stock: In March 2017, CMS Energy entered into an updated 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 \$100 million. Presented in the following table are the transactions that CMS Energy entered into under the program:

	Number of Shares Issued	Average Price per Share	Net Proceeds (In Millions)
June 2017	1,494,371	\$ 47.31	\$ 70

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:

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- 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.

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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.

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 recorded at fair value on a recurring basis:

	CMS Energy, including Consumers		Consumers	
	June 30	December 31	June 30	December 31
	2017	2016	2017	2016
<i>In Millions</i>				
<i>Assets¹</i>				
Cash equivalents	\$ 21	\$ 44	\$ -	\$ -
Restricted cash equivalents	17	19	17	19
CMS Energy common stock	-	-	20	33
Nonqualified deferred compensation plan assets	12	12	9	8
<i>DB SERP</i>				
Cash equivalents	6	3	4	2
Mutual funds	144	141	104	102
<i>Derivative instruments</i>				
Commodity contracts	3	1	3	1
Total	\$ 203	\$ 220	\$ 157	\$ 165
<i>Liabilities¹</i>				
Nonqualified deferred compensation plan liabilities	\$ 12	\$ 12	\$ 9	\$ 8
<i>Derivative instruments</i>				
Commodity contracts	2	-	1	-
Total	\$ 14	\$ 12	\$ 10	\$ 8

¹ All assets and liabilities were classified as Level 1 with the exception of some commodity contracts, which were classified as Level 3.

Cash Equivalents: Cash equivalents and restricted cash equivalents consist of money market funds with daily liquidity. Short-term debt instruments classified as 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 net asset values. 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: 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, 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 net asset values. 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.

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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. CMS Energy's and Consumers' remaining derivatives are classified as Level 3.

The majority of these derivatives 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. Under regulatory accounting, all changes in fair value associated with FTRs are deferred as regulatory assets and 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.

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 excludes cash, cash equivalents, short-term financial instruments, and trade accounts receivable and payable whose carrying amounts approximate their fair values. 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.

<i>In Millions</i>										
	June 30, 2017					December 31, 2016				
	Carrying Amount	Total	Fair Value Level			Carrying Amount	Total	Fair Value Level		
			1	2	3			1	2	3
CMS Energy, including Consumers										
<i>Assets</i>										
Long-term receivables ¹	\$ 20	\$ 20	\$ -	\$ -	\$ 20	\$ 22	\$ 22	\$ -	\$ -	\$ 22
Notes receivable ²	1,325	1,411	-	-	1,411	1,326	1,415	-	-	1,415
Securities held to maturity	13	13	-	13	-	13	13	-	13	-
<i>Liabilities</i>										
Long-term debt ³	9,910	10,435	-	9,463	972	9,504	9,953	-	8,990	963
Long-term payables ⁴	17	18	-	-	18	17	17	-	-	17
Consumers										
<i>Assets</i>										
Long-term receivables ¹	\$ 20	\$ 20	\$ -	\$ -	\$ 20	\$ 22	\$ 22	\$ -	\$ -	\$ 22
Notes receivable ⁵	46	46	-	-	46	45	45	-	-	45
<i>Liabilities</i>										
Long-term debt ⁶	5,712	6,045	-	5,073	972	5,628	5,903	-	4,940	963

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1 Includes current accounts receivable of \$13 million at June 30, 2017 and \$12 million at December 31, 2016.

2 Includes current portion of notes receivable of \$211 million at June 30, 2017 and \$219 million at December 31, 2016.

3 Includes current portion of long-term debt of \$819 million at June 30, 2017 and \$864 million at December 31, 2016.

4 Includes current portion of long-term payables of \$1 million at June 30, 2017 and December 31, 2016.

5 Includes current portion of notes receivable of \$30 million at June 30, 2017 and \$29 million at December 31, 2016.

6 Includes current portion of long-term debt of \$373 million at June 30, 2017 and \$375 million at December 31, 2016.

At CMS Energy, notes receivable consist primarily 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.

The effects of third-party credit enhancements are excluded from the fair value measurements of long-term debt. At June 30, 2017 and December 31, 2016, 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.

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

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In Millions

	June 30, 2017				December 31, 2016			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value	Cost	Unrealized Gains	Unrealized Losses	Fair Value
CMS Energy, including Consumers								
<i>Available for sale</i>								
<i>DB SERP</i>								
Mutual funds	\$ 142	\$ 2	\$ -	\$ 144	\$ 141	\$ -	\$ -	\$ 141
<i>Held to maturity</i>								
Debt securities	13	-	-	13	13	-	-	13
Consumers								
<i>Available for sale</i>								
<i>DB SERP</i>								
Mutual funds	\$ 103	\$ 1	\$ -	\$ 104	\$ 102	\$ -	\$ -	\$ 102
CMS Energy common stock	2	18	-	20	4	29	-	33

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.

Table of Contents**7: NOTES RECEIVABLE**

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

	June 30, 2017	<i>In Millions</i> December 31, 2016
CMS Energy, including Consumers		
<i>Current</i>		
EnerBank notes receivable, net of allowance for loan losses	\$ 163	\$ 151
EnerBank notes receivable held for sale	18	39
State of Michigan tax settlement	30	29
<i>Non-current</i>		
EnerBank notes receivable	1,094	1,088
State of Michigan tax settlement	20	19
Total notes receivable	\$ 1,325	\$ 1,326
Consumers		
<i>Current</i>		
State of Michigan tax settlement	\$ 30	\$ 29
<i>Non-current</i>		
State of Michigan tax settlement	16	16
Total notes receivable	\$ 46	\$ 45

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. In March 2017, EnerBank completed a sale of notes receivable, receiving proceeds of \$19 million and recording an insignificant gain. At June 30, 2017, \$18 million of notes receivable remained classified as held for sale; the fair value of notes receivable held for sale exceeded their carrying value. These notes are expected to be sold in 2017.

Authorized contractors pay fees to EnerBank to provide borrowers with same-as-cash, zero interest, or reduced interest loans. Unearned income associated with the loan fees, which is recorded as a reduction to notes receivable on CMS Energy's consolidated balance sheets, was \$84 million at June 30, 2017 and December 31, 2016. Unearned income associated with the loan fees for notes receivable held for sale was \$4 million at June 30, 2017 and \$8 million at December 31, 2016.

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. 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 \$9 million at June 30, 2017 and \$11 million at December 31, 2016.

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At June 30, 2017 and December 31, 2016, \$1 million of EnerBank's loans had been modified as troubled debt restructurings.

[Table of Contents](#)**8: RETIREMENT BENEFITS**

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

CMS Energy and Consumers elected to adopt ASU 2017-07, *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*, as of January 1, 2017. For further details on the implementation of this standard, see Note 1, New Accounting Standards.

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	<i>In Millions</i>							
	DB Pension Plan		OPEB Plan					
	Three Months Ended	Six Months Ended	Three Months Ended	Six Months Ended	2017	2016	2017	2016
	2017	2016	2017	2016	2017	2016	2017	2016
CMS Energy, including Consumers								
<i>Net periodic cost (credit)</i>								
Service cost	\$ 11	\$ 10	\$ 22	\$ 21	\$ 5	\$ 4	\$ 10	\$ 9
Interest cost	22	22	44	43	13	11	26	23
Expected return on plan assets	(38)	(37)	(76)	(74)	(23)	(21)	(45)	(43)
<i>Amortization of:</i>								
Net loss	20	18	40	35	8	6	16	11
Prior service cost (credit)	1	1	2	2	(9)	(11)	(18)	(21)
Net periodic cost (credit)	\$ 16	\$ 14	\$ 32	\$ 27	\$ (6)	\$ (11)	\$ (11)	\$ (21)
Consumers								
<i>Net periodic cost (credit)</i>								
Service cost	\$ 11	\$ 10	\$ 22	\$ 20	\$ 4	\$ 5	\$ 9	\$ 9
Interest cost	22	21	43	42	13	11	26	22
Expected return on plan assets	(37)	(36)	(74)	(72)	(21)	(20)	(42)	(40)
<i>Amortization of:</i>								
Net loss	19	17	39	34	8	5	16	11
Prior service cost (credit)	1	1	2	2	(8)	(10)	(17)	(20)
Net periodic cost (credit)	\$ 16	\$ 13	\$ 32	\$ 26	\$ (4)	\$ (9)	\$ (8)	\$ (18)

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:

Six Months Ended June 30	2017	2016
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	4.7	3.8
Accelerated flow-through of regulatory tax benefits ¹	(4.2)	(4.6)
Employee share-based awards	(1.4)	(1.3)
Other, net	(1.2)	(1.5)
Effective tax rate	32.9%	31.4%
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	4.6	4.6
Accelerated flow-through of regulatory tax benefits ¹	(4.0)	(4.1)
Employee share-based awards	(1.2)	(1.2)
Other, net	(1.6)	(1.1)
Effective tax rate	32.8%	33.2%

¹ Since 2014, Consumers has followed a regulatory treatment ordered by the MPSC that accelerates the return of certain income tax benefits to customers. This change, which also accelerates Consumers' recognition of the income tax benefits, reduced Consumers' income tax expense by \$19 million for the six months ended June 30, 2017 and 2016.

10: EARNINGS PER SHARE CMS ENERGY

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

June 30	Three Months Ended		<i>In Millions, Except Per Share Amounts</i>	
	2017	2016	Six Months Ended 2017	2016
<i>Income available to common stockholders</i>				
Net income	\$ 93	\$ 125	\$ 292	\$ 289
Less income attributable to noncontrolling interests	1	1	1	1
Net income available to common stockholders — basic and diluted	\$ 92	\$ 124	\$ 291	\$ 288
<i>Average common shares outstanding</i>				
Weighted-average shares — basic	279.5	278.2	279.2	277.4
Add dilutive nonvested stock awards	0.8	1.1	0.9	1.2
Weighted-average shares — diluted	280.3	279.3	280.1	278.6
<i>Net income per average common share available to common stockholders</i>				
Basic	\$ 0.33	\$ 0.45	\$ 1.04	\$ 1.04
Diluted	0.33	0.45	1.04	1.04

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Nonvested Stock Awards

CMS Energy's nonvested 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 nonvested stock awards are considered participating securities. As such, the participating nonvested 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.

11: CASH AND CASH EQUIVALENTS

Presented in the following table are the components of total cash and cash equivalents, including restricted amounts, and their location on CMS Energy's and Consumers' consolidated balance sheets:

		<i>In Millions</i>
	June 30	December 31
	2017	2016
CMS Energy, including Consumers		
Cash and cash equivalents	\$ 418	\$ 235
Restricted cash and cash equivalents	17	19
Other non-current assets	6	3
Cash and cash equivalents, including restricted amounts	\$ 441	\$ 257
Consumers		
Cash and cash equivalents	\$ 343	\$ 131
Restricted cash and cash equivalents	17	19
Other non-current assets	4	2
Cash and cash equivalents, including restricted amounts	\$ 364	\$ 152
Cash and Cash Equivalents: Cash and cash equivalents include short-term, highly liquid investments with original maturities of three months or less.		

Restricted Cash and Cash Equivalents: Restricted cash and cash equivalents are held primarily for the repayment of securitization bonds. Cash and cash equivalents may also be restricted to pay other contractual obligations such as leasing of coal rail cars. These amounts are classified as current assets since they relate to payments that could or will occur within one year.

Other Non-current Assets: The cash equivalents classified as other non-current assets represent an investment in a money market fund held in the DB SERP rabbi trust. See Note 5, Fair Value Measurements for more information regarding the DB SERP.

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Implementation of ASU 2016-18, *Restricted Cash*: CMS Energy and Consumers have early adopted the provisions of ASU 2016-18, *Restricted Cash*, which requires restricted cash and cash equivalents to be included with cash and cash equivalents when reconciling beginning-of-period and end-of-period amounts shown on the statement of cash flows. In addition, the standard requires that entities apply the new guidance retrospectively to all prior periods presented. Accordingly, CMS Energy and Consumers made the following adjustments to prior-period amounts on their consolidated statements of cash flows:

	<i>In Millions</i>
Six Months Ended June 30	2016
CMS Energy, including Consumers	
<i>Change in:</i>	
Net cash used in investing activities	\$ (1)
Cash and cash equivalents, including restricted amounts, end of period	21
Consumers	
<i>Change in:</i>	
Net cash used in investing activities	\$ (1)
Cash and cash equivalents, including restricted amounts, end of period	20

12: 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.

CMS Energy

The reportable segments for CMS Energy are:

- electric utility, consisting of regulated activities associated with the generation, transmission, 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

CMS Energy presents EnerBank and corporate interest and other expenses within other reconciling items.

Consumers

The reportable segments for Consumers are:

- electric utility, consisting of regulated activities associated with the generation, transmission, and distribution of electricity in Michigan
- gas utility, consisting of regulated activities associated with the transportation, storage, and distribution of natural gas in Michigan

Consumers' other consolidated entities are presented within other reconciling items.

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

June 30	Three Months Ended		<i>In Millions</i> Six Months Ended	
	2017	2016	2017	2016
CMS Energy, including Consumers				
<i>Operating revenue</i>				
Electric utility	\$ 1,077	\$ 1,022	\$ 2,113	\$ 2,035
Gas utility	285	271	986	981
Enterprises	55	49	114	97
Other reconciling items	32	29	65	59
Total operating revenue CMS Energy	\$ 1,449	\$ 1,371	\$ 3,278	\$ 3,172
Consumers				
<i>Operating revenue</i>				
Electric utility	\$ 1,077	\$ 1,022	\$ 2,113	\$ 2,035
Gas utility	285	271	986	981
Total operating revenue Consumers	\$ 1,362	\$ 1,293	\$ 3,099	\$ 3,016
CMS Energy, including Consumers				
<i>Net income (loss) available to common stockholders</i>				
Electric utility	\$ 94	\$ 113	\$ 218	\$ 204
Gas utility	9	18	96	99
Enterprises	7	3	19	9
Other reconciling items	(18)	(10)	(42)	(24)
Total net income available to common stockholders CMS Energy	\$ 92	\$ 124	\$ 291	\$ 288
Consumers				
<i>Net income available to common stockholder</i>				
Electric utility	\$ 94	\$ 113	\$ 218	\$ 204
Gas utility	9	18	96	99
Total net income available to common stockholder Consumers	\$ 103	\$ 131	\$ 314	\$ 303

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	June 30, 2017	<i>In Millions</i> December 31, 2016
CMS Energy, including Consumers		
<i>Plant, property, and equipment, gross</i>		
Electric utility ¹	\$ 14,937	\$ 14,540
Gas utility ¹	6,499	6,283
Enterprises	161	157
Other reconciling items	31	30
Total plant, property, and equipment, gross CMS Energy	\$ 21,628	\$ 21,010
Consumers		
<i>Plant, property, and equipment, gross</i>		
Electric utility ¹	\$ 14,937	\$ 14,540
Gas utility ¹	6,499	6,283
Other reconciling items	15	15
Total plant, property, and equipment, gross Consumers	\$ 21,451	\$ 20,838
CMS Energy, including Consumers		
<i>Total assets</i>		
Electric utility ¹	\$ 13,772	\$ 13,429
Gas utility ¹	6,393	6,446
Enterprises	270	269
Other reconciling items	1,432	1,478
Total assets CMS Energy	\$ 21,867	\$ 21,622
Consumers		
<i>Total assets</i>		
Electric utility ¹	\$ 13,774	\$ 13,430
Gas utility ¹	6,393	6,446
Other reconciling items	38	70
Total assets Consumers	\$ 20,205	\$ 19,946

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

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Management's discussion and analysis of financial condition and results of operations for CMS Energy and Consumers is contained in Part I Item 1. Financial Statements MD&A, which is incorporated by reference herein.

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 2016 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, Consumers, and certain of their affiliates 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 2016 Form 10-K, see Part I Item 1. Financial Statements Notes to the Unaudited Consolidated Financial Statements Note 2, Regulatory Matters and Note 3, Contingencies and Commitments.

Table of Contents**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 2016 Form 10-K, which Risk Factors are incorporated herein by reference.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**UNREGISTERED SALES OF EQUITY SECURITIES**

None.

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, 2017:

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, 2017 to April 30, 2017	3,266	\$ 45.07	-	-
May 1, 2017 to May 31, 2017	3,847	45.58	-	-
June 1, 2017 to June 30, 2017	2,427	47.77	-	-
Total	9,540	\$ 45.96	-	-

¹ All of the common shares were repurchased 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.

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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

Dated: July 28, 2017

By:

/s/ Rejji P. Hayes

Rejji P. Hayes

Executive Vice President and Chief Financial Officer

CONSUMERS ENERGY COMPANY

Dated: July 28, 2017

By:

/s/ Rejji P. Hayes

Rejji P. Hayes

Executive Vice President and Chief Financial Officer

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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>
<u>10.11</u>	<u>Description of the second \$180,000,000 Term Loan Credit Agreement Extension (Exhibit 10.4 to Form 10-Q for the quarterly period ended March 31, 2017 and incorporated herein by reference)</u>
<u>10.21</u>	<u>Description of the \$550 million Third Amended and Restated Revolving Credit Agreement Extension (Exhibit 10.1 to Form 8-K filed June 1, 2017 and incorporated herein by reference)</u>
<u>10.3</u>	<u>Description of the \$650 million Fourth Amended and Restated Revolving Credit Agreement Extension (Exhibit 10.2 to Form 8-K filed June 1, 2017 and incorporated herein by reference)</u>
<u>12.1</u>	<u>Statement regarding computation of CMS Energy's Ratios of Earnings to Fixed Charges and Combined Fixed Charges and Preferred Dividends</u>
<u>12.2</u>	<u>Statement regarding computation of Consumers' Ratios of Earnings to Fixed Charges and Combined Fixed Charges and Preferred Dividends</u>
<u>31.1</u>	<u>CMS Energy's certification of the CEO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>
<u>31.2</u>	<u>CMS Energy's certification of the CFO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>
<u>31.3</u>	<u>Consumers' certification of the CEO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>
<u>31.4</u>	<u>Consumers' certification of the CFO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>
<u>32.1</u>	<u>CMS Energy's certifications pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u>
<u>32.2</u>	<u>Consumers' certifications pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u>
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Linkbase
101.LAB	XBRL Taxonomy Extension Labels Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase

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