

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

Washington, D.C. 20549

FORM 10-Q

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

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____**

Commission
File Number
1-9513

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

IRS Employer
Identification No.
38-2726431

1-5611

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

38-0442310

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

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

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

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

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

CMS Energy Corporation:

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

(Do not check if a smaller reporting company)

Consumers Energy Company:

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

(Do not check if a smaller reporting company)

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

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

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

CMS Energy Corporation:

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

Consumers Energy Company:

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

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CMS Energy Corporation
Consumers Energy Company

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

March 31, 2014

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

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

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

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

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

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

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FILING FORMAT

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

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

FORWARD-LOOKING STATEMENTS AND INFORMATION

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

EXECUTIVE OVERVIEW

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

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

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

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

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

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

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

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

SAFE, EXCELLENT OPERATIONS

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

CUSTOMER VALUE

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

UTILITY INVESTMENT

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

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

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

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

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

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

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

REGULATION

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

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

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

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

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

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

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

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

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

FINANCIAL PERFORMANCE

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

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

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

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

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

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

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

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

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

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

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

CONSUMERS ELECTRIC UTILITY RESULTS OF OPERATIONS

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

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

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

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

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

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

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

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

CONSUMERS GAS UTILITY RESULTS OF OPERATIONS

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

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

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

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

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

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

ENTERPRISES RESULTS OF OPERATIONS

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

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

CORPORATE INTEREST AND OTHER RESULTS OF OPERATIONS

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

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

CASH POSITION, INVESTING, AND FINANCING

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

Table of Contents**OPERATING ACTIVITIES**

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

Three Months Ended March 31	2014	2013	<i>In Millions</i> Change
CMS Energy, including Consumers			
Net income	\$ 204	\$ 144	\$ 60
Non-cash transactions ¹	326	334	(8)
	530	478	52
Postretirement benefits contributions	(2)	(68)	66
Proceeds from government grant	-	69	(69)
Changes in core working capital ²	149	300	(151)
Changes in other assets and liabilities, net	(66)	(54)	(12)
Net cash provided by operating activities	\$ 611	\$ 725	\$ (114)
Consumers			
Net income	\$ 221	\$ 162	\$ 59
Non-cash transactions ¹	265	289	(24)
	486	451	35
Postretirement benefits contributions	(1)	(67)	66
Proceeds from government grant	-	69	(69)
Changes in core working capital ²	155	296	(141)
Changes in other assets and liabilities, net	6	(36)	42
Net cash provided by operating activities	\$ 646	\$ 713	\$ (67)

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

² Core working capital comprises accounts receivable and accrued revenues, inventories, and accounts payable.

For the three months ended March 31, 2014, net cash provided by operating activities at CMS Energy decreased \$114 million compared with 2013, and net cash provided by operating activities at Consumers decreased \$67 million compared with 2013. The decreases were due primarily to an increase in gas and power supply underrecoveries as a result of severe winter weather and the absence, in 2014, of the receipt of a \$69 million renewable energy grant. These decreases were offset partially by a decrease in postretirement benefits contributions.

Table of Contents**INVESTING ACTIVITIES**

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

In Millions

Three Months Ended March 31	2014	2013	Change
CMS Energy, including Consumers			
Capital expenditures	\$ (304)	\$ (274)	\$ (30)
Costs to retire property and other	(42)	(19)	(23)
Net cash used in investing activities	\$ (346)	\$ (293)	\$ (53)
Consumers			
Capital expenditures	\$ (302)	\$ (273)	\$ (29)
Costs to retire property and other	(13)	(22)	9
Net cash used in investing activities	\$ (315)	\$ (295)	\$ (20)

For the three months ended March 31, 2014, net cash used in investing activities at CMS Energy increased \$53 million compared with 2013, and net cash used in investing activities at Consumers increased \$20 million compared with 2013. The increases were due primarily to an increase in capital expenditures under Consumers capital investment program. At CMS Energy, these changes were also due to an increase in EnerBank consumer lending.

FINANCING ACTIVITIES

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

In Millions

Three Months Ended March 31	2014	2013	Change
CMS Energy, including Consumers			
Issuance of debt	\$ 644	\$ 299	\$ 345
Retirement of debt	(104)	(75)	(29)
Payment of common stock dividends	(72)	(67)	(5)
Decrease in notes payable	(170)	(110)	(60)
Other financing activities	23	14	9
Net cash provided by financing activities	\$ 321	\$ 61	\$ 260
Consumers			
Retirement of debt	\$ (11)	\$ (10)	\$ (1)
Payment of common stock dividends	(135)	(93)	(42)

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Stockholder contribution from CMS Energy	150	150	-
Decrease in notes payable	(170)	(110)	(60)
Other financing activities	(5)	(5)	-
Net cash used in financing activities	\$ (171)	\$ (68)	\$ (103)

For the three months ended March 31, 2014, net cash provided by financing activities at CMS Energy increased \$260 million compared with 2013 and net cash used in financing activities at Consumers increased \$103 million compared with 2013. At CMS Energy, the change was due primarily to an increase in net debt issuances in anticipation of planned debt retirements and refinancings, offset partially by repayments at Consumers under its accounts receivable sales program. At Consumers, the change was due primarily to increases in common stock dividend payments and repayments under Consumers' accounts receivable sales program.

Table of Contents**CAPITAL RESOURCES AND LIQUIDITY**

CMS Energy uses dividends from its subsidiaries and external financing and capital transactions to invest in its utility and non-utility businesses, retire debt, pay dividends, and fund its other obligations. The ability of CMS Energy's subsidiaries, including Consumers, to pay dividends to CMS Energy depends upon each subsidiary's revenues, earnings, cash needs, and other factors. In addition, Consumers' ability to pay dividends is restricted by certain terms included in its debt covenants and articles of incorporation, and potentially by provisions under the Federal Power Act and the Natural Gas Act and FERC requirements. For additional details on Consumers' dividend restrictions, see Note 3, Financings and Capitalization - Dividend Restrictions. For the three months ended March 31, 2014, Consumers paid \$135 million in common stock dividends to CMS Energy.

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

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

Consumers also expects to issue Securitization bonds in 2014, subject to market conditions. The MPSC, in a December 2013 order, authorized Consumers to proceed, at its sole discretion, with the sale of up to \$389 million in highly rated, low-cost Securitization bonds to finance the recovery of the remaining book value of ten electric generating units that Consumers plans to retire by April 2016, provided the Securitization transaction is successful.

CMS Energy's and Consumers' access to the financial and capital markets depends on their credit ratings and on market conditions. As evidenced by past financing transactions, CMS Energy and Consumers have had ready access to these markets and, barring major market dislocations or disruptions, they expect to continue to have such access. If access to these markets were to diminish or otherwise become restricted, however, CMS Energy and Consumers would implement contingency plans to address debt maturities, which could include reduced capital spending. CMS Energy and Consumers had the following secured revolving credit facilities available at March 31, 2014:

	Amount of Facility	Amount Borrowed	Letters of Credit Outstanding	Amount Available	Expiration Date
<i>In Millions</i>					
CMS Energy					
Revolving credit facility ¹	\$ 550	\$ -	\$ 2	\$ 548	December 2018
Consumers					
Revolving credit facility ²	\$ 650	\$ -	\$ -	\$ 650	December 2018
Revolving credit facility ²	30	-	30	-	September 2014

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

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

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

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borrowing. At March 31, 2014, \$250 million of accounts receivable were eligible for transfer under this program.

Certain of CMS Energy's and Consumers' credit agreements, debt indentures, and other facilities contain covenants that require CMS Energy and Consumers to maintain certain financial ratios, as defined therein. At March 31, 2014, 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 March 31, 2014, as presented in the following table:

Credit Agreement, Indenture, or Facility	Description	March 31, 2014	
		Limit	Actual
CMS Energy			
\$550 million revolving credit agreement and			
\$180 million term loan credit agreement	Interest Coverage	> 2.0 to 1.0	4.7 to 1.0
\$650 million and \$30 million revolving credit agreements, \$35 million and \$68 million reimbursement agreements, and \$250 million revolving accounts receivable sales agreement	Debt to Capital	≤ 0.65 to 1.0	0.47 to 1.0

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

OFF-BALANCE-SHEET ARRANGEMENTS

CMS Energy, Consumers, and certain of their subsidiaries also enter into various arrangements in the normal course of business to facilitate commercial transactions with third parties. These arrangements include indemnities, surety bonds, letters of credit, and financial and performance guarantees. Indemnities are usually agreements to reimburse a counterparty that may incur losses due to outside claims or breach of contract terms. The maximum payment that could be required under a number of these indemnity obligations is not estimable; the maximum obligation under indemnities for which such amounts were estimable was \$469 million at March 31, 2014. While CMS Energy and Consumers believe it is unlikely that they will incur any material losses related to indemnities they have not recorded as liabilities, they cannot predict the impact of these contingent obligations on their liquidity and financial condition. For additional details on these and other guarantee arrangements, see Note 2, Contingencies and Commitments - Guarantees.

OUTLOOK

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

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CONSUMERS ELECTRIC UTILITY AND GAS UTILITY BUSINESS OUTLOOK AND UNCERTAINTIES

Rate Matters: Rate matters are critical to Consumers' electric and gas utility businesses. For additional details on rate matters, see Note 1, Regulatory Matters.

In order to minimize increases in customer base rates, Consumers has undertaken several initiatives to reduce costs through voluntary separation plans, accelerated pension funding, employee and retiree health-care cost sharing, negotiated labor agreements, information system efficiencies, and productivity improvement programs. Consumers has also received approval from the MPSC for certain applications that will result in cost savings for customers. These initiatives, together with Consumers' plans to accelerate further cost reductions, should allow Consumers to avoid increasing electric and gas base rates through 2014.

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

Smart Energy: Consumers' grid modernization effort continues. In 2012, Consumers began installing smart meters in Muskegon County, Michigan. One of the functions of smart meters is to allow customers to monitor and manage their energy usage, which Consumers expects will help reduce demand during critical peak times, resulting in lower peak capacity requirements. The installation of smart meters should also provide for both operational and customer benefits. As of March 31, 2014, Consumers had upgraded 210,000 electric residential and small business customers in western Michigan to smart meters. Of the customers scheduled for the upgrade, 0.5 percent have chosen not to participate in the smart meter program.

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

CONSUMERS ELECTRIC UTILITY BUSINESS OUTLOOK AND UNCERTAINTIES

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

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Subject to a successful Securitization transaction, as discussed below, Consumers plans to retire seven smaller coal-fueled electric generating units and three smaller gas-fueled electric generating units by April 2016. Consumers had previously announced plans to mothball the seven coal-fueled units effective April 2016 and had received approval from MISO to do so. The three gas-fueled units were mothballed in April 2009.

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With the planned retirement of these units and the potential tightening of the MISO capacity market, Consumers could experience a shortfall in generation capacity of up to 1,500 MW in 2016. In order to address future capacity requirements and growing electric demand in Michigan, Consumers updated its balanced energy initiative, a comprehensive energy resource plan designed to meet the short-term and long-term electricity needs of its customers through:

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

In December 2013, Consumers signed an agreement to purchase a 540-MW gas-fueled electric generating plant located in Jackson, Michigan for \$155 million from AlphaGen Power LLC and DPC Juniper, LLC, affiliates of JPMorgan Chase & Co. Consumers expects to close the purchase, which is subject to MPSC, FERC, and other approvals, in late 2015. In January 2014, as a result of this planned purchase, Consumers announced plans to defer the development of its proposed 700-MW gas-fueled electric generating plant at its Thetford complex in Genesee County, Michigan, which Consumers estimated would have cost \$700 million.

Electric Rate Matters: In December 2013, the MPSC approved, with modification, Consumers' Securitization application and issued a Securitization financing order that authorizes Consumers to proceed, at its sole discretion, with the sale of up to \$389 million in Securitization bonds to finance the recovery of the remaining book value of the seven smaller coal-fueled electric generating units and three smaller gas-fueled electric generating units described above. Under Michigan law, electric utilities are permitted to use highly rated, low-cost Securitization bonds to finance the recovery of qualified costs. Consumers expects to proceed with the Securitization financing and issue Securitization bonds in 2014, subject to market conditions.

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

As an alternative to its Securitization application, Consumers had filed an application in August 2013 requesting MPSC advanced approval to use standard utility plant retirement accounting in the event of early retirement of these ten units. Specifically, Consumers requested the MPSC to provide assurance that the full amount of the undepreciated investment, demolition costs, and cost of removal, including a return on the assets, would, upon their early retirement, be recovered through retail electric base rates. As a result of the MPSC's issuance of the Securitization financing order, Consumers has taken action to suspend and extend indefinitely the schedule in this case.

For additional details on rate matters, see Note 1, Regulatory Matters.

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

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The 2008 Energy Law also requires Consumers to obtain 500 MW of new capacity from renewable energy resources by the end of 2015, either through generation resources owned by Consumers or through agreements to purchase capacity from other parties. Through March 2014, Consumers has contracted for the purchase of 302 MW of nameplate capacity from renewable energy suppliers and owns 100 MW of nameplate capacity at its Lake Winds® Energy Park.

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

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

Over the next five years, Consumers expects average electric delivery growth of about 0.5 to 1.0 percent annually. This increase reflects growth in electric demand, offset partially by the predicted effects of energy efficiency programs and appliance efficiency standards. Actual delivery levels will depend on:

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

Electric ROA: A Michigan statute enacted in 2000 allows Consumers' electric customers to buy electric generation service from Consumers or from alternative electric suppliers. The 2008 Energy Law revised the statute by limiting alternative electric supply to ten percent of Consumers' weather-adjusted retail sales of the preceding calendar year. At March 31, 2014, electric deliveries under the ROA program were at the ten-percent limit and alternative electric suppliers were providing 786 MW of generation service to ROA customers. Of Consumers' 1.8 million electric customers, 310 customers, or 0.02 percent, purchased electric generation service under the ROA program. Consumers expects 2014 electric deliveries under the ROA program to be at a similar level to 2013.

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

Consumers is unable to predict the outcome of these legislative proposals. In addition, the Michigan legislature has conducted hearings on the subject of energy competition. If the ROA limit were increased or if electric generation service in Michigan were deregulated, it could have a material adverse effect on Consumers' financial results and operations.

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

Electric Transmission: In 2011, FERC issued an order in a rulemaking proceeding concerning regional electric transmission planning and cost allocations. Consumers and several other electric utilities filed a joint petition seeking clarification/rehearing of FERC's order and opposing the allocation methodology. In 2012, following FERC's denial of their requests for clarification/rehearing, Consumers and several other electric utilities filed a petition for review of FERC's order with the U.S. Court of Appeals for the D.C. Circuit. In May 2013, Consumers, along with other electric utilities, filed briefs in this matter.

In a related matter, in 2010, MISO filed and FERC approved a tariff revision proposing a cost allocation methodology for a new category of transmission projects. Under this tariff revision, the cost of these new transmission projects will be spread proportionally across the MISO energy market. Consumers believes that Michigan customers will bear additional costs under MISO's tariff without receiving comparable benefits from these projects. In 2011, Consumers, along with the Michigan Attorney General, ABATE, DTE Electric, and other parties, filed a petition for review of FERC's order with the U.S. Court of Appeals for the Seventh Circuit. In June 2013, the Court of Appeals issued an opinion largely affirming FERC's orders regarding the cost allocation methodology. In October 2013, the Michigan Attorney General filed, and Consumers and other parties joined, a petition with the U.S. Supreme Court seeking review of the Court of Appeals' opinion. In February 2014, the U.S. Supreme Court refused to hear the challenge to the FERC decision. Consumers expects to continue to recover transmission expenses, including those associated with the MISO tariff revision, through the PSCR process.

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

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

Air Quality: In 2011, the EPA released CSAPR, a final replacement rule for CAIR, which requires Michigan and 27 other states to improve air quality by reducing power plant emissions that, according to EPA computer models, contribute to ground-level ozone and fine particle pollution in other downwind states. In 2012, the U.S. Court of Appeals for the D.C. Circuit voided CSAPR and held that CAIR would remain in place until the EPA promulgated a new rule. This matter was appealed to the U.S. Supreme Court and a decision is expected in 2014.

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

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

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

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

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

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

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In January 2014, the EPA published proposed rules pursuant to Section 111 of the Clean Air Act to limit carbon dioxide emissions from new electric generating units. New coal-fueled units would not be able to meet this limit without installing carbon dioxide control equipment using such methods as carbon capture and sequestration. The proposed rules for new sources are expected to be finalized in 2014. President Obama has also directed the EPA to address existing, modified, and reconstructed fossil-fuel-fired steam electric generating units with proposed standards, regulations, or guidelines to be completed by June 1, 2014, and final standards, regulations, or guidelines to be completed by June 1, 2015. Subsequent state implementation plans are due by June 30, 2016. Consumers believes that its balanced energy

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

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

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

Water: The EPA is expected to issue a final rule in 2014 to regulate existing electric generating plant cooling water intake systems under Section 316(b) of the Clean Water Act aimed at reducing alleged harmful impacts on fish and shellfish. Consumers also expects the EPA to issue final regulations in 2015 that may require physical and/or chemical treatment of wastewater discharges from electric generating plants. Consumers will evaluate these rules and their potential impacts on Consumers electric generating plants once they are final.

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

Other electric environmental matters could have a major impact on Consumers outlook. For additional details on other electric environmental matters, see Note 2, Contingencies and Commitments Consumers Electric Utility Contingencies, Electric Environmental Matters.

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CONSUMERS GAS UTILITY BUSINESS OUTLOOK AND UNCERTAINTIES

Gas Deliveries: Consumers expects weather-adjusted gas deliveries in 2014 and over the next five years to remain stable relative to 2013. This outlook reflects modest growth in gas demand offset by the predicted effects of energy efficiency and conservation. Actual delivery levels from year to year may vary from this expectation due to:

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

Gas Transmission: In May 2013, the MPSC approved Consumers' application to build a 24-mile, 36-inch natural gas pipeline in St. Joseph and Branch Counties, Michigan, and Consumers began construction in October 2013. Consumers expects that it will spend about \$120 million for this project, and that the pipeline will be operational by the end of 2014.

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

Gas Pipeline Safety: In 2012, President Obama signed the Pipeline Safety, Regulatory Certainty, and Job Creation Act of 2011. The law reauthorizes existing federal pipeline safety programs of the Pipeline and Hazardous Materials Safety Administration through 2015 and it contains provisions mandating:

- an increase in the maximum fine for safety violations to \$2 million;

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- an increase in the number of pipeline inspectors;
- a study regarding application of integrity management requirements outside of high consequence areas ;
- a survey regarding existing plans for safe management and replacement of cast iron pipelines;
- prescribed notification and on-site incident response times;
- installation of automatic or remotely controlled shut-off valves on new or replaced pipelines where feasible;
- historical design and construction documentation to verify maximum allowable operating pressures; and
- establishment of new regulations for testing (pressure tests or equivalent methods) of previously untested pipelines in high-consequence areas.

Consumers continues to comply with laws and regulations governing natural gas pipeline safety. These laws and regulations could cause Consumers to incur significant additional costs related to its natural gas

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pipeline safety programs. Consumers expects that it would be able to recover the costs in rates, consistent with the recovery of other reasonable costs of complying with laws and regulations.

Gas Environmental Estimates: Consumers expects to incur response activity costs at a number of sites, including 23 former MGP sites. For additional details, see Note 2, Contingencies and Commitments – Consumers Gas Utility Contingencies, Gas Environmental Matters.

ENTERPRISES OUTLOOK AND UNCERTAINTIES

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

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

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

For additional details regarding the enterprises segment’s uncertainties, see Note 2, Contingencies and Commitments.

OTHER OUTLOOK AND UNCERTAINTIES

EnerBank: EnerBank is a Utah state-chartered, FDIC-insured industrial bank providing unsecured consumer installment loans for financing home improvements. EnerBank represented two percent of CMS Energy's net assets at March 31, 2014, and three percent of CMS Energy's net income available to common stockholders for the three months ended March 31, 2014. The carrying value of EnerBank's loan portfolio was \$712 million at March 31, 2014. Its loan portfolio was funded primarily by deposit liabilities of \$668 million. The twelve-month rolling average default rate on loans held by EnerBank has remained stable at 0.6 percent at March 31, 2014. CMS Energy is required both by law and by contract to provide financial support, including infusing additional capital, to ensure that EnerBank satisfies mandated capital requirements and has sufficient liquidity to operate. With its self-funding plan, EnerBank has exceeded these requirements historically and exceeded them as of March 31, 2014.

Litigation: CMS Energy, Consumers, and certain of their subsidiaries are named as parties in various litigation matters, as well as in administrative proceedings before various courts and governmental agencies, arising in the ordinary course of business. For additional details regarding these and other legal matters, see Note 1, Regulatory Matters and Note 2, Contingencies and Commitments.

NEW ACCOUNTING STANDARDS

There are no new accounting standards issued but not yet effective that are expected to have a material impact on CMS Energy's or Consumers' consolidated financial statements.

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CMS Energy Corporation
Consolidated Statements of Income
(Unaudited)

Operating Revenue	\$ 2,523	\$ 1,979
Operating Expenses		
Fuel for electric generation	219	154
Purchased and interchange power	498	333
Purchased power related parties	24	23
Cost of gas sold	834	607
Maintenance and other operating expenses	266	282
Depreciation and amortization	199	181
General taxes	75	70
Total operating expenses	2,115	1,650
Operating Income	408	329
Other Income (Expense)		
Allowance for equity funds used during construction	2	3
Income from equity method investees	4	5
Other income	3	3
Other expense	(7)	(3)
Total other income	2	8
Interest Charges		
Interest on long-term debt	97	94
Other interest expense	5	5
Allowance for borrowed funds used during construction	(1)	(1)
Total interest charges	101	98
Income Before Income Taxes	309	239
Income Tax Expense	105	95
Net Income Available to Common Stockholders	\$ 204	\$ 144
Basic Earnings Per Average Common Share	\$ 0.77	\$ 0.55
Diluted Earnings Per Average Common Share	\$ 0.75	\$ 0.53
Dividends Declared Per Common Share	\$ 0.27	\$ 0.255

The accompanying notes are an integral part of these statements.

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CMS Energy Corporation
Consolidated Statements of Comprehensive Income
(Unaudited)

Net Income	\$	204	\$	144
Retirement Benefits Liability				
Amortization of net actuarial loss, net of tax of \$- and \$-		-		1
Derivative Instruments				
Reclassification adjustments included in net income, net of tax of \$- and \$-		1		-
Other Comprehensive Income		1		1
Comprehensive Income	\$	205	\$	145

The accompanying notes are an integral part of these statements.

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CMS Energy Corporation
Consolidated Statements of Cash Flows
(Unaudited)

Cash Flows from Operating Activities			
Net income	\$	204	\$ 144
<i>Adjustments to reconcile net income to net cash provided by operating activities</i>			
Depreciation and amortization		199	181
Deferred income taxes and investment tax credit		102	87
Postretirement benefits expense		6	47
Other non-cash operating activities		19	19
Postretirement benefits contributions		(2)	(68)
Proceeds from government grant		-	69
<i>Cash provided by (used in) changes in assets and liabilities</i>			
Accounts receivable, notes receivable, and accrued revenue		(313)	(103)
Inventories		345	447
Accounts payable		117	(44)
Accrued expenses		(114)	(101)
Other current and non-current assets and liabilities		48	47
Net cash provided by operating activities		611	725
Cash Flows from Investing Activities			
Capital expenditures (excludes assets placed under capital lease)		(304)	(274)
Cost to retire property		(14)	(9)
Other investing activities		(28)	(10)
Net cash used in investing activities		(346)	(293)
Cash Flows from Financing Activities			
Proceeds from issuance of long-term debt		550	250
Retirements of EnerBank notes, net		16	(16)
Issuance of common stock		33	24
Retirement of long-term debt		(26)	(10)
Payment of common stock dividends		(72)	(67)
Decrease in notes payable		(170)	(110)
Payment of capital lease obligations and other financing costs		(10)	(10)
Net cash provided by financing activities		321	61
Net Increase in Cash and Cash Equivalents		586	493
Cash and Cash Equivalents, Beginning of Period		172	93
Cash and Cash Equivalents, End of Period	\$	758	\$ 586

The accompanying notes are an integral part of these statements.

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CMS Energy Corporation
Consolidated Balance Sheets
(Unaudited)

Current Assets			
Cash and cash equivalents	\$	758	\$ 172
Restricted cash and cash equivalents		31	32
Accounts receivable and accrued revenue, less allowances of \$33 in 2014 and 2013		1,032	914
Notes receivable		69	63
Accounts receivable – related parties		10	10
Accrued power supply and gas revenue		188	-
<i>Inventories at average cost</i>			
Gas in underground storage		340	660
Materials and supplies		112	107
Generating plant fuel stock		85	114
Deferred income taxes		42	126
Deferred property taxes		167	202
Regulatory assets		16	40
Prepayments and other current assets		119	86
Total current assets		2,969	2,526
Plant, Property, and Equipment			
Plant, property, and equipment, gross		16,322	16,184
Less accumulated depreciation and amortization		5,168	5,087
Plant, property, and equipment, net		11,154	11,097
Construction work in progress		1,206	1,149
Total plant, property, and equipment		12,360	12,246
Other Non-current Assets			
Regulatory assets		1,496	1,530
Accounts and notes receivable, less allowances of \$5 in 2014 and 2013		646	646
Investments		61	59
Other		392	409
Total other non-current assets		2,595	2,644
Total Assets	\$	17,924	\$ 17,416

Table of Contents**LIABILITIES AND EQUITY**

	March 31 2014	<i>In Millions</i> December 31 2013
Current Liabilities		
Current portion of long-term debt, capital leases, and financing obligation	\$ 666	\$ 562
Notes payable	-	170
Accounts payable	632	585
Accounts payable related parties	10	10
Accrued rate refunds	-	12
Accrued interest	67	96
Accrued taxes	225	297
Regulatory liabilities	70	67
Other current liabilities	131	146
Total current liabilities	1,801	1,945
Non-current Liabilities		
Long-term debt	7,536	7,101
Non-current portion of capital leases and financing obligation	135	138
Regulatory liabilities	2,236	2,215
Postretirement benefits	240	239
Asset retirement obligations	328	325
Deferred investment tax credit	39	40
Deferred income taxes	1,647	1,616
Other non-current liabilities	307	306
Total non-current liabilities	12,468	11,980
Commitments and Contingencies (Notes 1 and 2)		
Equity		
<i>Common stockholders equity</i>		
Common stock, authorized 350.0 shares; outstanding 268.4 shares in 2014 and 266.1 shares in 2013	3	3
Other paid-in capital	4,746	4,715
Accumulated other comprehensive loss	(21)	(22)
Accumulated deficit	(1,110)	(1,242)
Total common stockholders equity	3,618	3,454
Noncontrolling interests	37	37
Total equity	3,655	3,491
Total Liabilities and Equity	\$ 17,924	\$ 17,416

The accompanying notes are an integral part of these statements.

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CMS Energy Corporation
Consolidated Statements of Changes in Equity
(Unaudited)

	<i>In Millions</i>	
Three Months Ended March 31	2014	2013
Total Equity at Beginning of Period	\$ 3,491	\$ 3,238
Common Stock		
At beginning and end of period	3	3
Other Paid-in Capital		
At beginning of period	4,715	4,669
Common stock issued	37	29
Common stock repurchased	(6)	-
Common stock reissued	-	5
At end of period	4,746	4,703
Accumulated Other Comprehensive Loss		
At beginning of period	(22)	(55)
<i>Retirement benefits liability</i>		
At beginning of period	(21)	(56)
Amortization of net actuarial loss	-	1
At end of period	(21)	(55)
<i>Investments</i>		
At beginning and end of period	-	2
<i>Derivative instruments</i>		
At beginning of period	(1)	(1)
Reclassification adjustments included in net income	1	-
At end of period	-	(1)
At end of period	(21)	(54)
Accumulated Deficit		
At beginning of period	(1,242)	(1,423)
Net income attributable to CMS Energy	204	144
Common stock dividends declared	(72)	(67)
At end of period	(1,110)	(1,346)
Noncontrolling Interests		
At beginning and end of period	37	44
Total Equity at End of Period	\$ 3,655	\$ 3,350

The accompanying notes are an integral part of these statements.

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Consumers Energy Company
Consolidated Statements of Income
(Unaudited)

Three Months Ended March 31	2014	<i>In Millions</i> 2013
Operating Revenue	\$ 2,382	\$ 1,919
Operating Expenses		
Fuel for electric generation	186	133
Purchased and interchange power	484	329
Purchased power – related parties	24	23
Cost of gas sold	768	600
Maintenance and other operating expenses	250	266
Depreciation and amortization	197	180
General taxes	74	69
Total operating expenses	1,983	1,600
Operating Income	399	319
Other Income (Expense)		
Allowance for equity funds used during construction	2	3
Other income	3	7
Other expense	(6)	(3)
Total other income (expense)	(1)	7
Interest Charges		
Interest on long-term debt	59	59
Other interest expense	3	3
Allowance for borrowed funds used during construction	(1)	(1)
Total interest charges	61	61
Income Before Income Taxes	337	265
Income Tax Expense	116	103
Net Income Available to Common Stockholder	\$ 221	\$ 162

The accompanying notes are an integral part of these statements.

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Consumers Energy Company
Consolidated Statements of Comprehensive Income
(Unaudited)

Three Months Ended March 31	2014	<i>In Millions</i> 2013
Net Income	\$ 221	\$ 162
Retirement Benefits Liability		
Amortization of net actuarial loss, net of tax of \$- and \$-	-	1
Investments		
Unrealized gain on investments, net of tax of \$1 and \$-	2	4
Reclassification adjustments included in net income, net of tax of \$- and \$(1)	-	(3)
Other Comprehensive Income	2	2
Comprehensive Income	\$ 223	\$ 164

The accompanying notes are an integral part of these statements.

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Consumers Energy Company

Consolidated Statements of Cash Flows

(Unaudited)

Three Months Ended March 31	2014	<i>In Millions</i> 2013
Cash Flows from Operating Activities		
Net income	\$ 221	\$ 162
<i>Adjustments to reconcile net income to net cash provided by operating activities</i>		
Depreciation and amortization	197	180
Deferred income taxes and investment tax credit	46	44
Postretirement benefits expense	6	47
Other non-cash operating activities	16	18
Postretirement benefits contributions	(1)	(67)
Proceeds from government grant	-	69
<i>Cash provided by (used in) changes in assets and liabilities</i>		
Accounts receivable, notes receivable, and accrued revenue	(303)	(102)
Inventories	338	442
Accounts payable	120	(44)
Accrued expenses	(43)	(80)
Other current and non-current assets and liabilities	49	44
Net cash provided by operating activities	646	713
Cash Flows from Investing Activities		
Capital expenditures (excludes assets placed under capital lease)	(302)	(273)
Cost to retire property	(14)	(9)
Other investing activities	1	(13)
Net cash used in investing activities	(315)	(295)
Cash Flows from Financing Activities		
Retirement of long-term debt	(11)	(10)
Payment of common stock dividends	(135)	(93)
Stockholder contribution	150	150
Decrease in notes payable	(170)	(110)
Payment of capital lease obligations and other financing costs	(5)	(5)
Net cash used in financing activities	(171)	(68)
Net Increase in Cash and Cash Equivalents	160	350
Cash and Cash Equivalents, Beginning of Period	18	5
Cash and Cash Equivalents, End of Period	\$ 178	\$ 355

The accompanying notes are an integral part of these statements.

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

	March 31 2014	<i>In Millions</i> December 31 2013
Current Assets		
Cash and cash equivalents	\$ 178	\$ 18
Restricted cash and cash equivalents	31	31
Accounts receivable and accrued revenue, less allowances of \$31 in 2014 and 2013	1,013	902
Notes receivable	-	14
Accounts receivable related parties	1	4
Accrued power supply and gas revenue	188	-
<i>Inventories at average cost</i>		
Gas in underground storage	340	653
Materials and supplies	107	103
Generating plant fuel stock	84	113
Deferred property taxes	167	202
Regulatory assets	16	40
Prepayments and other current assets	111	77
Total current assets	2,236	2,157
Plant, Property, and Equipment		
Plant, property, and equipment, gross	16,181	16,044
Less accumulated depreciation and amortization	5,102	5,022
Plant, property, and equipment, net	11,079	11,022
Construction work in progress	1,204	1,147
Total plant, property, and equipment	12,283	12,169
Other Non-current Assets		
Regulatory assets	1,496	1,530
Accounts and notes receivable	2	11
Investments	32	29
Other	263	283
Total other non-current assets	1,793	1,853
Total Assets	\$ 16,312	\$ 16,179

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LIABILITIES AND EQUITY

	March 31 2014	<i>In Millions</i> December 31 2013
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