

CONSUMERS ENERGY CO

Form 10-Q/A

March 14, 2003

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549

FORM 10-Q/A  
AMENDMENT NO. 1

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934  
FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2002

OR

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

Commission	Registrant; State of Incorporation;	IRS Employer
File Number	Address; and Telephone Number	Identification No.

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1-5611	CONSUMERS ENERGY COMPANY (A Michigan Corporation) 212 West Michigan Avenue, Jackson, Michigan 49201 (517) 788-0550	38-0442310
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Indicate by check mark whether the Registrants (1) have 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 Registrants were required to file such reports), and (2) have been subject to such filing requirements for the past 90 days. Yes X No  
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Number of shares outstanding of each of the issuer's classes of common stock at October 31, 2002:

CONSUMERS ENERGY COMPANY, \$10 par value, privately held by CMS Energy 84,108,789

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Consumers Energy Company

QUARTERLY REPORT ON FORM 10-Q/A TO THE UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2002

## EXPLANATORY NOTE

This Form 10-Q/A amends Consumers' quarterly report on Form 10-Q for the quarterly period ended September 30, 2002, which was filed with the SEC on November 14, 2002. As discussed below, Consumers' consolidated financial statements for the quarterly period ending September 30, 2002 have been restated, pursuant to audit adjustments resulting from the re-audit of the consolidated financial statements for the years 2001 and 2000, as well as, reviews of the quarterly periods of 2002 of CMS Energy, Consumers' parent company, which included audit and review work at Consumers.

In April 2002, Consumers' Board of Directors, upon the recommendation of the Audit Committee of the Board, voted to discontinue using Arthur Andersen to audit Consumers' financial statements for the year ending December 31, 2002. Consumers had previously retained Arthur Andersen to review its financial statements for the quarter ended March 31, 2002. In May 2002, Consumers' Board of Directors engaged Ernst & Young to audit its financial statements for the year ending December 31, 2002.

In May 2002, as a result of certain financial reporting issues surrounding round-trip trading transactions at CMS MST, Arthur Andersen notified CMS Energy that Arthur Andersen's historical opinions on CMS Energy's financial statements for the fiscal years ended December 31, 2001 and December 31, 2000 could not be relied upon. As a result, Ernst & Young began the process of re-auditing CMS Energy's consolidated financial statements for each of the fiscal years ended December 31, 2001 and December 31, 2000. Although Arthur Andersen's notification did not apply to separate, audited financial statements of Consumers for the applicable years, the re-audit did include audit work at Consumers for these years.

In connection with Ernst & Young's re-audit of the fiscal years ended December 31, 2001 and December 31, 2000, Consumers has made, in consultation with Ernst & Young, certain adjustments to its consolidated financial statements for the fiscal years ended December 31, 2001 and December 31, 2000, which affect the results of the quarterly periods within 2001 and 2002. Therefore, the consolidated financial statements for the four quarters of 2001, the years ended December 31, 2001 and 2000, and the subsequent three quarters of 2002 have been restated from amounts previously reported. The three primary restated items: 1) adjust the timing of the recognition of Consumers' losses for underrecoveries of power costs on power purchases from the MCV, 2) account for Consumers' new headquarters building as a capital lease and 3) as of September 30, 2002, recognize a \$29 million federal income tax sharing allocation from CMS Energy as a dividend to be paid by Consumers to CMS Energy instead of income tax expense. A summary of the principal effects of the restatement on Consumers' consolidated financial statements for the quarterly periods ended September 30, 2002 and September 30, 2001 is contained in Note 4, Restatement, and unaudited restated financial statements for the first and second quarters of 2002, with comparable restated

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periods for 2001, are contained in Note 6, Restated Financial Statements for First and Second Quarters, in the notes to the consolidated financial statements.

Each item of the September 30, 2002 Form 10-Q that is affected by the restatement has been amended and restated. Generally, no attempt has been made in this Form 10-Q/A to modify or update other disclosures as presented in the September 30, 2002 Form 10-Q except as required to reflect the effects of the restatement. However, material subsequent events have been reported in a separate section of the MD&A, entitled "Subsequent Events", and in Note 5, Subsequent Events, in the notes to the consolidated financial statements. In addition, certain financial information from the first and second quarters of 2002 and 2001 has been included in the Results of Operations and Capital Resources and Liquidity sections of the MD&A, and restated financial statements for March 31, 2002 and 2001 and June 30, 2002 and 2001 have been included in Note 6, Restated Financial Statements for First and Second Quarters, in the notes to the consolidated financial statements. For further information about Consumers' restated financial statements for December 31, 2001 and December 31, 2000, see Consumers' Form 10-K/A for the fiscal year ended December 31, 2001, which was filed with the SEC on February 21, 2003.

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CONSUMERS ENERGY COMPANY

QUARTERLY REPORT ON FORM 10-Q/A TO THE  
UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
FOR THE QUARTER ENDED SEPTEMBER 30, 2002

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GLOSSARY

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

ABATE...Association of Businesses Advocating Tariff Equity
AEP...American Electric Power Company
ALJ...Administrative Law Judge
AMT...Alternative Minimum Tax
APB...Accounting Principles Board
APB Opinion No. 30...APB Opinion No. 30, "Reporting Results of Operations--
of Disposal of a Segment of a Business"
Accumulated Benefit Obligation...The liabilities of a pension plan based on service and
differs from the Projected Benefit Obligation that is
that it does not reflect expected future salary increa
Alliance...Alliance Regional Transmission Organization
Arthur Andersen...Arthur Andersen LLP
Articles...Articles of Incorporation
Attorney General...Michigan Attorney General
bcf...Billion cubic feet
Big Rock...Big Rock Point nuclear power plant, owned by Consumers

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Board of Directors.....	Board of Directors of CMS Energy
Bookouts.....	Unplanned netting of transactions from multiple contra
CEO.....	Chief Executive Officer
CFO.....	Chief Financial Officer
Clean Air Act.....	Federal Clean Air Act, as amended
CMS Energy.....	CMS Energy Corporation, the parent of Consumers and En
CMS Energy Common Stock.....	Common stock of CMS Energy, par value \$.01 per share
CMS Holdings.....	CMS Midland Holdings Company, a subsidiary of Consumer
CMS Midland.....	CMS Midland Inc., a subsidiary of Consumers
CMS MST.....	CMS Marketing, Services and Trading Company, a subsidi
Consumers.....	Consumers Energy Company, a subsidiary of CMS Energy
Consumers Campus Holdings.....	Consumers Campus Holdings, L.L.C., a wholly owned subs
Consumers Receivables Funding.....	Consumers Receivables Funding,, L.L.C., a wholly owned
Court of Appeals.....	Michigan Court of Appeals
Customer Choice Act.....	Customer Choice and Electricity Reliability Act, a Mic June 2000 that allows all retail customers choice of a suppliers as of January 1, 2002, provides for full rec costs and implementation costs, establishes a five per residential rates, establishes rate freeze and rate ca Securitization
Detroit Edison.....	The Detroit Edison Company, a non-affiliated company
DOE.....	U.S. Department of Energy
Dow.....	The Dow Chemical Company, a non-affiliated company
Energy Michigan.....	Energy Michigan is a trade association for the cogener and waste to energy industries in Michigan.
Enterprises.....	CMS Enterprises Company, a subsidiary of CMS Energy
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EPA.....	U. S. Environmental Protection Agency
EPS.....	Earnings per share
ERISA.....	Employee Retirement Income Security Act
Ernst & Young.....	Ernst & Young LLP
FASB.....	Financial Accounting Standards Board
FERC.....	Federal Energy Regulatory Commission
FMLP.....	First Midland Limited Partnership, a partnership that in the MCV facility
GCR.....	Gas cost recovery
GWh.....	Gigawatt-hour
Health Care Plan.....	The medical, dental, and prescription drug programs of employees of Panhandle, Consumers and CMS Energy
IPP.....	Independent Power Producer
ISO.....	Independent System Operator
kWh.....	Kilowatt-hour
LIBOR.....	London Inter-Bank Offered Rate
Ludington.....	Ludington pumped storage plant, jointly owned by Consu
MACT.....	Maximum Achievable Control Technology

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mcf.....	Thousand cubic feet
MCV Facility.....	A natural gas-fueled, combined-cycle cogeneration facility
	Partnership
MCV Partnership.....	Midland Cogeneration Venture Limited Partnership in which
	percent interest through CMS Midland
MD&A.....	Management's Discussion and Analysis
MEPCC.....	Michigan Electric Power Coordination Center
METC.....	Michigan Electric Transmission Company, formally a subsidiary
	Energy and now an indirect subsidiary of Trans-Elect
Michigan Gas Storage.....	Michigan Gas Storage Company, a subsidiary of Consumers
MISO.....	Midwest Independent System Operator
Moody's .....	Moody's Investors Service, Inc.
MPSC.....	Michigan Public Service Commission
MTH.....	Michigan Transco Holdings, Limited Partnership
MW.....	Megawatts
NEIL.....	Nuclear Electric Insurance Limited, an industry mutual
	by member utility companies
NMC.....	Nuclear Management Company, LLC, formed in 1999 by Northern
	Company (now Xcel Energy Inc.), Alliant Energy, Wisconsin
	Company, and Wisconsin Public Service Company to operate
	generating facilities owned by the four utilities
NRC.....	Nuclear Regulatory Commission
OATT.....	Open Access Transmission Tariff
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OPEB.....	Postretirement benefit plans other than pensions for non-
Palisades.....	Palisades nuclear power plant, which is owned by Consumers
Panhandle.....	Panhandle Eastern Pipe Line Company, including its subsidiary
	Gas Storage, Panhandle Storage, and Panhandle Holdings
	owned subsidiary of CMS Gas Transmission
PCB.....	Polychlorinated biphenyl
Pension Plan.....	The trusteed, non-contributory, defined benefit pension plan
	Consumers and CMS Energy
PJM.....	Pennsylvania-Jersey-Maryland
PPA.....	The Power Purchase Agreement between Consumers and the
	35-year term commencing in March 1990
Price-Anderson Act.....	Price-Anderson Act, enacted in 1957 as an amendment to the
	of 1954, as revised and extended over the years. This Act
	nuclear licensees and the U.S. government the insurance and
	responsibility, and legal liability for nuclear accidents
PSCR.....	Power supply cost recovery
PUHCA.....	Public Utility Holding Company Act of 1935
PURPA.....	Public Utility Regulatory Policies Act of 1978
RTO.....	Regional Transmission Organization
SEC.....	U.S. Securities and Exchange Commission
Securitization.....	A financing method authorized by statute and approved by
	a utility to set aside and pledge a portion of the rate base
	its customers for the repayment of Securitization bond
	purpose entity affiliated with such utility
SERP.....	Supplemental Executive Retirement Plan

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SFAS.....	Statement of Financial Accounting Standards
SFAS No. 5.....	SFAS No. 5, "Accounting for Contingencies"
SFAS No. 13.....	SFAS No. 13 "Accounting for Leases"
SFAS No. 71.....	SFAS No. 71, "Accounting for the Effects of Certain Ty
SFAS No. 87.....	SFAS No. 87, "Employers' Accounting for Pensions"
SFAS No. 106.....	SFAS No. 106, "Employers' Accounting for Postretiremen Pensions"
SFAS No. 115.....	SFAS No. 115, "Accounting for Certain Investments in D Securities"
SFAS No. 121.....	SFAS No. 121, "Accounting for the Impairment of Long-L Long-Lived Assets to be Disposed Of"
SFAS No. 133.....	SFAS No. 133, "Accounting for Derivative Instruments a as amended and interpreted"
SFAS No. 142.....	SFAS No. 142, "Goodwill and Other Intangible Assets"
SFAS No. 143.....	SFAS No. 143, "Accounting for Asset Retirement Obligat
SFAS No. 144.....	SFAS No. 144, "Accounting for the Impairment or Dispos
SFAS No. 145.....	SFAS No. 145, "Rescission of FASB Statements No. 4, 44 FASB Statement No. 13, and Technical Corrections"

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SFAS No. 146.....	SFAS No. 146, "Accounting for Costs Associated with Ex Activities"
SFAS No. 147.....	SFAS No. 147, "Acquisitions of Certain Financial Insti
Special Committee.....	A special committee of independent directors, establis Board of Directors, to investigate matters surrounding
Stranded Costs.....	Costs incurred by utilities in order to serve their cu monopoly environment, which may not be recoverable in environment because of customers leaving their systems pay for their costs. These costs could include owned a generation and regulatory assets
Superfund.....	Comprehensive Environmental Response, Compensation and
Transition Costs.....	Stranded Costs, as defined, plus the costs incurred in competition
Trust Preferred Securities.....	Securities representing an undivided beneficial intere statutory business trusts, the interests of which have respect to certain trust distributions over the intere or Consumers, as applicable, as owner of the common be the trusts
VEBA Trusts.....	VEBA (voluntary employees' beneficiary association) Tr accounts established to specifically set aside employe pay for future expenses of the OPEB plan

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CONSUMERS ENERGY COMPANY  
MANAGEMENT'S DISCUSSION AND ANALYSIS

CHANGE IN AUDITORS AND RESTATEMENT

Consumers' consolidated financial statements for the quarterly period ended September 30, 2002 have been restated, pursuant to audit adjustments resulting from the re-audit of the consolidated financial statements for the years 2001 and 2000, as well as, reviews of the quarterly periods of 2002 of CMS Energy, Consumers' parent company, which included audit and review work at Consumers.

In April 2002, Consumers' Board of Directors, upon the recommendation of the Audit Committee of the Board, voted to discontinue using Arthur Andersen to audit Consumers' financial statements for the year ending December 31, 2002. Consumers had previously retained Arthur Andersen to review its financial statements for the quarter ended March 31, 2002. In May 2002, Consumers' Board of Directors engaged Ernst & Young to audit its financial statements for the year ending December 31, 2002.

In May 2002, as a result of certain financial reporting issues surrounding round-trip trading transactions at CMS MST, Arthur Andersen notified CMS Energy that Arthur Andersen's historical opinions on CMS Energy's financial statements for the fiscal years ended December 31, 2001 and December 31, 2000 could not be relied upon. As a result, Ernst & Young began the process of re-auditing CMS Energy's consolidated financial statements for each of the fiscal years ended December 31, 2001 and December 31, 2000. Although Arthur Andersen's notification did not apply to separate, audited financial statements of Consumers for the applicable years, the re-audit did include audit work at Consumers for these years.

In connection with Ernst & Young's re-audit of the fiscal years ended December 31, 2001 and December 31, 2000, Consumers has made, in consultation with Ernst & Young, certain adjustments to its consolidated financial statements for the fiscal years ended December 31, 2001 and December 31, 2000, which affect the results of the quarterly periods within 2001 and 2002. Therefore, the consolidated financial statements for the four quarters of 2001, the years ended December 31, 2001 and 2000, and the subsequent three quarters of 2002 have been restated from amounts previously reported. At the time it adopted the accounting treatment for these items, Consumers believed that such accounting was appropriate under generally accepted accounting principles and Arthur Andersen concurred.

The audit adjustments: 1) change the accounting associated with the PPA reserve, which results in: the reversal of the 2001 increase to the PPA reserve of \$126 million; the reversal of a net \$12 million charged to operating expenses associated with the PPA in 2001; and the reversal of \$29 million of the amount charged to the PPA reserve in 2000; and 2) recognize Consumers' new headquarters lease as a capital lease, instead of an operating lease, and record the lease obligation and capitalize costs incurred. Each of these transactions involved estimates, assumptions, and judgment based on the best information available at the time the transactions occurred. The audit adjustments reflect current judgment on these matters. In addition, the audit adjustments recognize immaterial reconciling adjustments to advertising costs, Consumers' OPEB



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liability and related party receivables and payables. Consumers has also made an additional adjustment associated with its financial statements as of September 30, 2002. This additional adjustment by Consumers recognizes the \$29 million federal income tax sharing allocation from CMS Energy as a dividend to be paid by Consumers to CMS Energy instead of income tax expense as originally recorded in September 2002. A summary of the principal effects of the restatement on Consumers' consolidated financial statements for the quarterly period ended September 30, 2002 and September 30, 2001 is contained in Note 4, Restatement, and unaudited restated financial statements for the first and second

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quarters of 2002, with comparable restated periods for 2001 are contained in Note 6, Restated Financial Statements for First and Second Quarters, in the notes to the consolidated financial statements. In addition, certain financial information from the first and second quarters of 2002 and 2001 has been included in the Results of Operations and Capital Resources and Liquidity sections of this MD&A. For further information about Consumers' restated financial statements for December 31, 2001 and December 31, 2000, see Consumers' Form 10-K/A for the fiscal year ended December 31, 2001, which was filed with the SEC on February 21, 2003.

### MODIFIED MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis has been modified for the restatement, including the first and second quarters of 2002 and 2001, and should be read in combination with Consumers' consolidated financial statements and notes to those statements included in this Form 10-Q/A, and Consumers' 2001 Form 10-K/A that was previously filed with the SEC on February 21, 2003. All note references within this MD&A refer to the notes to Consumers' consolidated financial statements.

Consumers, a subsidiary of CMS Energy, a holding company, is an electric and gas utility company that provides service to customers in Michigan's Lower Peninsula. Consumers' customer base includes a mix of residential, commercial and diversified industrial customers, the largest segment of which is the automotive industry.

### FORWARD-LOOKING STATEMENTS AND RISK FACTORS

The MD&A of this Form 10-Q/A should be read along with the MD&A and other parts of Consumers' 2001 Form 10-K/A. This MD&A refers to, and in some sections specifically incorporates by reference, Consumers' Condensed Notes to Consolidated Financial Statements and should be read in conjunction with such Consolidated Financial Statements and Notes. This Form 10-Q/A and other written and oral statements that Consumers may make contain forward-looking statements as defined by the Private Securities Litigation Reform Act of 1995. Consumers' intentions with the use of the words, "anticipates," "believes," "estimates," "expects," "intends," and "plans," and variations of such words and similar expressions, are solely to identify forward-looking statements that involve risk and uncertainty. These forward-looking statements are subject to various factors that could cause Consumers' actual results to differ materially from the results anticipated in such statements. Consumers has 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 such statements. Consumers does, however, discuss certain risk factors, uncertainties and assumptions in this MD&A and in Item 1 of the 2001 Form 10-K/A in the section entitled "Consumers Forward-Looking Statements Cautionary Factors and

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Uncertainties" and in various public filings it periodically makes with the SEC. In addition to any assumptions and other factors referred to specifically in connection with such forward-looking statements, there are numerous factors that could cause our actual results to differ materially from those contemplated in any forward-looking statements. Such factors include our inability to predict and/or control:

- Ability to successfully access the capital markets;
- Achievement of operating synergies and revenue enhancements;
- Capital and financial market conditions, including current price of CMS Energy's Common Stock, interest rates and availability of financing to CMS Energy, Consumers, Panhandle or any of their affiliates and the energy industry;

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- CMS Energy, Consumers, Panhandle or any of their affiliates' securities ratings;
- Market perception of the energy industry, CMS Energy, Consumers, Panhandle or any of their affiliates;
- Factors affecting utility and diversified energy operations such as unusual weather conditions, catastrophic weather-related damage, unscheduled generation outages, maintenance or repairs, unanticipated changes to fossil fuel, nuclear fuel or gas supply costs or availability due to higher demand, shortages, transportation problems or other developments, environmental incidents, or electric transmissions or gas pipeline system constraints;
- National, regional and local economic, competitive and regulatory conditions and developments;
- Adverse regulatory or legal decisions, including environmental laws and regulations;
- Federal regulation of electric sales and transmission of electricity including re-examination by Federal regulators of the market-based sales authorizations by which Consumers and its affiliates participate in wholesale power markets without price restrictions and proposals by FERC to change the way it currently lets Consumers and other public utilities and natural gas companies interact with each other;
- Energy markets, including the timing and extent of unanticipated changes in commodity prices for oil, coal, natural gas liquids, electricity and certain related products due to lower or higher demand, shortages, transportation problems or other developments;
- Nuclear power plant performance, decommissioning, policies, security, procedures, incidents, and regulation, including the availability of spent nuclear fuel storage;
- Technological developments in energy production, delivery and usage;
- Changes in financial or regulatory accounting principles or policies;

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- Outcome, cost and other effects of legal and administrative proceedings, settlements, investigations and claims;
- Disruptions in the normal commercial insurance and surety bond markets that may increase costs or reduce traditional insurance coverage, particularly terrorism and sabotage insurance and performance bonds.
- Other business or investment considerations that may be disclosed from time to time in CMS Energy's, Consumers' or Panhandle's SEC filings or in other publicly disseminated written documents, which are difficult to predict and many of which are beyond our control.

Consumers designed this discussion of potential risks and uncertainties, which is by no means comprehensive, to highlight important factors that may impact Consumers' business and financial outlook. This Form 10-Q/A also describes material contingencies in Consumers Notes to Consolidated Financial Statements, and Consumers encourages its readers to review these Notes.

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### COMPLIANCE WITH THE SARBANES-OXLEY ACT OF 2002

In July 2002, the Sarbanes-Oxley Act of 2002 was enacted and requires companies to: 1) make certain certifications related to their Form 10-Q's, including financial statements, disclosure controls and procedures and internal controls; and 2) make certain disclosures about its disclosure controls and procedures, and internal controls as follows:

#### CEO AND CFO CERTIFICATIONS

The Sarbanes-Oxley Act of 2002 requires CEOs and CFOs of public companies to make certain certifications relating to their Form 10-Q's, including the financial statements. The certifications required by the Sarbanes-Oxley Act of 2002 relating to this Form 10-Q/A for the period ended September 30, 2002 are filed herewith.

#### DISCLOSURE CONTROLS AND PROCEDURES

Consumers' CEO and CFO are responsible for establishing and maintaining Consumers' disclosure controls and procedures. Management, under the direction of Consumers' principal executive and financial officers, has evaluated the effectiveness of Consumers' disclosure controls and procedures as of February 17, 2003. Based on this evaluation, Consumers' CEO and CFO have concluded that Consumers' disclosure controls and procedures are effective to ensure that material information was presented to them, particularly during the third quarter of 2002. There have been no significant changes in Consumers' internal controls or in other factors that could significantly affect internal controls subsequent to February 17, 2003.

#### CRITICAL ACCOUNTING POLICIES

Presenting financial statements in accordance with accounting principles generally accepted in the United States requires using estimates, assumptions, and accounting methods that are often subject to judgment. Presented below, are the accounting policies and assumptions that Consumers believes are most critical to both the presentation and understanding of its financial statements. Applying these accounting policies to financial statements can involve very complex judgments. Accordingly, applying different judgments, estimates or

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assumptions could result in a different financial presentation.

### USE OF ESTIMATES IN ACCOUNTING FOR CONTINGENCIES

The principles in SFAS No. 5 guide the recording of estimated liabilities for contingencies within the financial statements. SFAS No. 5 requires a company to record estimated liabilities when it is probable that a current event will cause a future loss payment and that loss amount can be reasonably estimated. Consumers used this principle to record or disclose estimated liabilities for the following significant events.

**ELECTRIC ENVIRONMENTAL ESTIMATES:** Consumers is subject to costly and increasingly stringent environmental regulations. Consumers expects to incur significant costs for future environmental compliance, especially compliance with clean air laws.

The EPA has issued final regulations regarding nitrogen oxide emissions from certain generators, including some of Consumers' electric generating facilities. These regulations will require Consumers to make significant capital expenditures estimated to be \$770 million. As of September 2002, Consumers has incurred \$372 million in capital expenditures to comply with these regulations and anticipates that the remaining capital expenditures will be incurred between the remainder of 2002 and 2009. Additionally, Consumers will

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supplement its compliance plan with the purchase of nitrogen oxide emissions credits in the years 2005 through 2008. The cost of these credits based on the current market is estimated to be an average of \$6 million per year, however, the market for nitrogen oxide emissions credits is volatile and the price could change significantly. At some point, if new environmental standards become effective, Consumers may need additional capital expenditures to comply with the standards. These and other required environmental expenditures, if not recovered in Consumers' rates, may have a material adverse effect upon Consumers' financial condition and results of operations. For further information see Note 2, Uncertainties, "Electric Contingencies - Electric Environmental Matters."

**GAS ENVIRONMENTAL ESTIMATES:** Under the Michigan Natural Resources and Environmental Protection Act, Consumers expects that it will incur investigation and remedial action costs at a number of sites. Consumers estimates the costs for 23 former Manufactured Gas Plant sites will be between \$82 million and \$113 million, using the Gas Research Institute-Manufactured Gas Plant Probabilistic Cost Model. These estimates are based on discounted 2001 costs and follow EPA recommended use of discount rates between 3 and 7 percent. Consumers expects to recover a significant portion of these costs through MPSC-approved rates charged to its customers. Any significant change in assumptions, such as remediation techniques, nature and extent of contamination, and legal and regulatory requirements, could change the remedial action costs for the sites. For further information see Note 2, Uncertainties, "Gas Contingencies -Gas Environmental Matters."

**MCV UNDERRECOVERIES:** The MCV Partnership, which leases and operates the MCV Facility, contracted to sell electricity to Consumers for a 35-year period beginning in 1990 and to supply electricity and steam to Dow. Consumers, through two wholly owned subsidiaries, holds a partnership interest in the MCV Partnership, and a lessor interest in the MCV Facility.

Consumers' annual obligation to purchase capacity from the MCV Partnership is 1,240 MW through the termination of the PPA in 2025. The PPA requires Consumers

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to pay, based on the MCV Facility's availability, a levelized average capacity charge of 3.77 cents per kWh, a fixed energy charge, and a variable energy charge based primarily on Consumers' average cost of coal consumed for all kWh delivered. Consumers has not been allowed full recovery of the capacity charges in rates. After September 2007, the PPA's terms obligate Consumers to pay the MCV Partnership only those capacity and energy charges that the MPSC has authorized for recovery from electric customers.

In 1992, Consumers recognized a loss and established a PPA liability for the present value of the estimated future underrecoveries of power supply costs under the PPA based on MPSC cost recovery orders. The loss has been recorded in the income statement and as a non-current liability on the balance sheet. The PPA liability is expected to be depleted in late 2004.

In March 1999, Consumers and the MCV Partnership reached an agreement effective January 1, 1999, that capped availability payments to the MCV Partnership at 98.5 percent. If the MCV Facility's generating availability remains at the maximum 98.5 percent level during the next six years, Consumers' after-tax cash underrecoveries associated with the PPA could be as follows:

	2002	2003	2004	2005
Estimated cash underrecoveries at 98.5% net of tax	\$38	\$37	\$36	\$36

It is currently estimated that 51 percent of the actual cash underrecoveries for the years 2002 through 2004 will be charged to the PPA liability, with the remaining portion charged to operating expense as a result of

Consumers Energy Company

Consumers' 49 percent ownership in the MCV Partnership. All cash underrecoveries will be expensed directly to income once the PPA liability is depleted.

In 1992, Consumers originally accounted for losses associated with the PPA by establishing a reserve for the difference between the amount that Consumers was paying for power in accordance with the terms of the PPA, and the amount that Consumers was ultimately allowed by the MPSC to recover from electric customers. At that time, the reserve did not take into account earnings Consumers would receive from its 49 percent interest in the MCV Partnership due to uncertainties with the level of performance of the facility.

In 2000, Consumers reviewed its estimate of the economic losses it would experience with respect to the PPA and re-evaluated all of the current facts and circumstances used to calculate the disallowance reserve, including earnings from its 49 percent interest in the MCV Partnership. Consumers concluded that no adjustment to the reserve was required in 2000. However, as conditions surrounding MCV Partnership operations evolved in 2001, Consumers concluded that it needed to increase the reserve by \$126 million (pre-tax) in the third quarter of 2001, and did so.

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In connection with the re-audit of CMS Energy's consolidated financial statements for the fiscal years 2000 and 2001, Consumers reviewed its 2000 and 2001 PPA accounting and related assumptions, and determined that the reserve balance as of January 1, 2000 did appropriately reflect Consumers' probable losses as of that date. However, as a result of reconsideration of all subsidiary accounting effects, the re-evaluation of the PPA accounting did result in an increase to operating expenses associated with the PPA of \$29 million in 2000, a net reduction of operating expenses associated with the PPA of \$12 million for 2001, the reversal of the \$126 million increase to the reserve originally recorded in 2001, and immaterial adjustments to accretion expense for both years.

The following table reflects the audit adjustments associated with the MCV PPA accounting and the related net income effects for the periods ended December 31, 2001 and December 31, 2000:

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In Millions  
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	Inc
Reverse the original operating charge associated with continuing losses on the MCV PPA	
Charge 49 percent of annual capacity losses associated with the MCV PPA to operating expense instead of to the reserve	
Net operating expense decrease/(increase)	
Reverse the 2001 increase to the MCV PPA reserve	
Accretion Expense	
Pre-tax effect of adjustments	
Income tax effect	
Net income impact of MCV PPA adjustments	

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For further information see "Change in Auditors and Restatement" above, Note 2, Uncertainties "Other Electric Uncertainties - The Midland Cogeneration Venture," and Note 4, "Restatement" for additional detail.

### ACCOUNTING FOR DERIVATIVE AND FINANCIAL INSTRUMENTS AND MARKET RISK INFORMATION

DERIVATIVE INSTRUMENTS: Consumers uses SFAS No. 133 criteria to determine which contracts must be accounted for as derivative instruments. These rules, however, are numerous and complex. As a result, significant judgment is required, and similar contracts can sometimes be accounted for differently.

Consumers currently accounts for the following contracts as derivative instruments: interest rate swaps,

certain electric call options and fixed priced gas supply contracts with embedded put options, gas fuel swaps, fixed priced weather-based gas supply call

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options and fixed price gas supply put options. Consumers does not account for the following contracts as derivative instruments: electric capacity and energy contracts, gas supply contracts without embedded options, coal and nuclear fuel supply contracts, and purchase orders for numerous supply items.

Consumers believes that certain of its electric capacity and energy contracts are not derivatives due to the lack of an active energy market in the state of Michigan, as defined by SFAS No. 133, and the transportation cost to deliver the power under the contracts to the closest active energy market at the Cinergy hub in Ohio. If a market develops in the future, Consumers may be required to account for these contracts as derivatives. The mark-to-market impact on earnings related to these contracts, particularly related to the PPA, could be material to the financial statements.

If a contract is accounted for as a derivative instrument, it is recorded in the financial statements as an asset or a liability, at the fair value of the contract. Any difference between the recorded book value and the fair value is reported either in earnings or other comprehensive income, depending on certain qualifying criteria. The recorded fair value of the contract is then adjusted quarterly to reflect any change in the market value of the contract.

In order to fair value the contracts that are accounted for as derivative instruments, Consumers uses a combination of market quoted prices and mathematical models. Option models require various inputs, including forward prices, volatilities, interest rates and exercise periods. Changes in forward prices or volatilities could significantly change the calculated fair value of the call option contracts. At September 30, 2002, Consumers assumed a market-based interest rate of 4.5 percent in calculating the fair value of its electric call options.

In order for derivative instruments to qualify for hedge accounting under SFAS No. 133, the hedging relationship must be formally documented at inception and be highly effective in achieving offsetting cash flows or offsetting changes in fair value, attributable to the risk being hedged. If hedging a forecasted transaction, the forecasted transaction must be probable. If a derivative instrument, used as a cash flow hedge, is terminated early because it is probable that a forecasted transaction will not occur, any gain or loss as of such date is immediately recognized in earnings. If a derivative instrument, used as a cash flow hedge, is terminated early for other economic reasons, any gain or loss as of the termination date is deferred and recorded when the forecasted transaction affects earnings.

**FINANCIAL INSTRUMENTS:** Consumers accounts for its debt and equity investment securities in accordance with SFAS No. 115. As such, debt and equity securities can be classified into one of three categories: held-to-maturity, trading, or available-for-sale securities. Consumers' investments in equity securities, including its investment in CMS Energy Common Stock, are classified as available-for-sale securities. They are reported at fair value, with any unrealized gains or losses from changes in fair value reported in equity as part of other comprehensive income and excluded from earnings. Unrealized gains or losses from changes in the fair value of Consumers' nuclear decommissioning investments are reported in accumulated depreciation. The fair value of these investments is determined from quoted market prices.

**MARKET RISK INFORMATION:** Consumers is exposed to market risks including, but not limited to, changes in interest rates, commodity prices, and equity security prices. Consumers' market risk, and activities designed to minimize this risk, are subject to the direction of an executive oversight committee consisting of designated members of senior management and a risk committee, consisting of business unit managers. The risk committee's role is to review the corporate commodity position and ensure that net corporate exposures are within the economic risk tolerance levels established by Consumers' Board of Directors.

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Established policies and procedures are used to manage the risks associated with market fluctuations.

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Consumers uses various contracts, including swaps, options, and forward contracts to manage its risks associated with the variability in expected future cash flows attributable to fluctuations in interest rates and commodity prices. Contracts used to manage interest rate and commodity price risk may be considered derivative instruments that are subject to derivative and hedge accounting pursuant to SFAS No. 133. All risk management contracts are entered to for purposes other than trading.

These instruments contain credit risk if the counterparties, including financial institutions and energy marketers, fail to perform under the agreements. Consumers minimizes such risk by performing financial credit reviews using, among other things, publicly available credit ratings of such counterparties.

In accordance with SEC disclosure requirements, Consumers performs sensitivity analyses to assess the potential loss in fair value, cash flows and earnings based upon a hypothetical 10 percent adverse change in market rates or prices. Management does not believe that sensitivity analyses alone provide an accurate or reliable method for monitoring and controlling risks. Therefore, Consumers relies on the experience and judgment of its senior management to revise strategies and adjust positions, as it deems necessary. Losses in excess of the amounts determined in sensitivity analyses could occur if market rates or prices exceed the 10 percent shift used for the analyses.

**INTEREST RATE RISK:** Consumers is exposed to interest rate risk resulting from the issuance of fixed-rate debt and variable-rate debt, and from interest rate swap agreements. Consumers uses a combination of these instruments to manage and mitigate interest rate risk exposure when it deems it appropriate, based upon market conditions. These strategies attempt to provide and maintain the lowest cost of capital. As of September 30, 2002, Consumers had outstanding \$1.202 billion of variable-rate debt, including variable rate swaps. At September 30, 2002, assuming a hypothetical 10 percent adverse change in market interest rates, Consumers' before tax earnings exposure on its variable rate debt would be \$2 million. As of September 30, 2002, Consumers had entered into floating-to-fixed interest rate swap agreements for a notional amount of \$75 million. These swaps exchange variable-rate interest payment obligations for fixed-rate interest payment obligations in order to minimize the impact of potential adverse interest rate changes. As of September 30, 2002, Consumers had outstanding long-term fixed-rate debt, including fixed-rate swaps, of \$2.768 billion, with a fair value of \$2.702 billion. As of September 30, 2002, assuming a hypothetical 10 percent adverse change in market rates, Consumers would have an exposure of \$136 million to the fair value of these instruments if it had to refinance all of its long-term fixed-rate debt. Consumers does not intend to refinance its fixed-rate debt in the near term and believes that any adverse change in debt price and interest rates would not have a material effect on either its consolidated financial position, results of operation or cash flows.

**COMMODITY MARKET RISK:** For purposes other than trading, Consumers enters into electric call options, gas fuel for generation call options and swap contracts, fixed price gas supply contracts containing embedded put options, fixed priced weather-based gas supply call options and fixed priced gas supply put options. The electric call options are used to protect against risk due to fluctuations in the market price of electricity and to ensure a reliable source of capacity to meet customers' electric needs. The gas fuel for generation call options and swap contracts are used to protect generation activities against risk due to



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fluctuations in the market price of natural gas. The gas supply contracts containing embedded put options, the weather-based gas supply call options, and the gas supply put options are used to purchase reasonably priced gas supply.

As of September 30, 2002, the fair value based on quoted future market prices of electricity-related call option and swap contracts was \$8 million. At September 30, 2002, assuming a hypothetical 10 percent adverse change in market prices, the potential reduction in fair value associated with these contracts would be \$2 million. As of September 30, 2002, Consumers had an asset of \$30 million, related to premiums incurred for electric call option contracts. Consumers' maximum exposure associated with the call option contracts is limited to the premiums incurred. As of September 30, 2002, the fair value based on quoted future market

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prices of gas supply-related call and put option contracts was \$1 million. At September 30, 2002, assuming a hypothetical 10 percent adverse change in market prices, the potential reduction in fair value associated with these contracts would be \$300 thousand.

EQUITY SECURITY PRICE RISK: Consumers owns less than 20 percent of the outstanding shares of CMS Energy Common Stock. At September 30, 2002, a hypothetical 10 percent adverse change in market price would have resulted in a \$4 million change in its investment. This investment is currently marked-to-market through equity. Consumers believes that such an adverse change would not have a material effect on its consolidated financial position, results of operation or cash flows.

For further information on market risk and derivative activities, see Note 1, Corporate Structure and Summary of Significant Accounting Policies, "Risk Management Activities and Derivative Transactions" and "Implementation of New Accounting Standards", Note 2, Uncertainties, "Other Electric Uncertainties - Derivative Activities", "Other Gas Uncertainties - Derivative Activities", and Note 3, Short-Term Financings and Capitalization, "Derivative Activities."

### ACCOUNTING FOR LEASES

Consumers uses SFAS No. 13 to account for any leases to which it may be a party. Depending upon satisfaction of certain criteria, they are classified as operating leases or capital leases. Under an operating lease, payments are expensed as incurred, and there is no recognition of an asset or liability on the balance sheet. Capital leases, on the other hand, require that an asset and liability be recorded on the balance sheet at the inception of the lease for the present value of the minimum lease payments required during the term of the lease.

To determine whether to classify a lease as operating or capital under SFAS No. 13 and related statements, Consumers must use judgment. A lease must be evaluated for transfer of ownership, provision for bargain purchase option, the lease term relative to the estimated economic life of the leased property, and the present value of the minimum lease payments at the beginning of the lease term. Judgment is required for leases involving special purpose entities such as trusts, sales and leasebacks and when the lessee is involved in the construction of the property it will lease. Different financial presentations of leases could result if different judgment, estimates or assumptions are made.

Consumers is party to a number of leases, the most significant are the leases associated with its service vehicles, its new headquarters building, and its

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railroad coal cars. For further information see "Contractual Obligations and Commercial Commitments" in the Capital Resources and Liquidity section and Note 1, Corporate Structure and Summary of Significant Accounting Policies, "Accounting for Headquarters Building Lease".

### ACCOUNTING FOR THE EFFECTS OF INDUSTRY REGULATION

Because Consumers is involved in a regulated industry, regulatory decisions affect the timing and recognition of revenues and expenses. Consumers uses SFAS No. 71 to account for the effects of these regulatory decisions. As a result, Consumers may defer or recognize revenues and expenses differently than a non-regulated entity.

For example, items that a non-regulated entity would normally expense, Consumers may capitalize as regulatory assets if the actions of the regulator indicate such expenses will be recovered in future rates. Conversely, items that non-regulated entities may normally recognize as revenues, Consumers may record as regulatory liabilities if the actions of the regulator indicate they will require such revenues to later be refunded to customers. Judgment is required to discern the recoverability of items recorded as regulatory assets and

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liabilities. As of September 30, 2002, Consumers had \$1.104 billion recorded as regulatory assets and \$301 million recorded as regulatory liabilities.

### ACCOUNTING FOR PENSION AND OPEB

Consumers provides postretirement benefits under its Pension Plan, and postretirement health and life benefits under its OPEB plans to substantially all its retired employees. Consumers uses SFAS No. 87 to account for pension costs and uses SFAS No. 106 to account for other postretirement benefit costs. These statements require liabilities to be recorded on the balance sheet at the present value of these future obligations to employees net of any plan assets. The calculation of these liabilities and associated expenses require the expertise of actuaries and are subject to many assumptions including life expectancies, present value discount rates, expected long-term rate of return on plan assets, rate of compensation increase and anticipated health care costs. Any change in these assumptions can significantly change the liability and associated expenses recognized in any given year. As of January 2002, OPEB plan claims are paid from the VEBA Trusts.

Pension and OPEB plan assets, net of contributions, have been reduced in value from the previous year due to the downturn in the equities market, and a decrease in the price of CMS Energy Common Stock. As a result, Consumers expects to see an increase in pension and OPEB expense levels over the next several years unless market performance of plan assets improves. Consumers anticipates pension expense and OPEB expense to rise in 2002 by approximately \$8 million and \$20 million, respectively, over 2001 expenses. For pension expense, this increase is due to a downturn in value of pension assets during the past two years, forecasted increases in pay and added service, decline in the interest rate used to value the liability of the plan, and expiration of the transition gain amortization. For OPEB expense, the increase is due to the trend of rising health care costs, the market return on plan assets being below expected levels, and a lower discount rate, based on recent economic conditions, used to compute the benefit obligation. Under the OPEB plans' assumptions, health care costs increase at a slower rate from current levels through 2009; however, Consumers

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cannot predict the impact that future health care costs and interest rates or market returns will have on pension and OPEB expense in the future.

The recent significant downturn in the equities markets has affected the value of the Pension Plan assets. If the plan's Accumulated Benefit Obligation exceeds the value of these assets at December 31, 2002, Consumers Energy will be required to recognize an additional minimum liability for this excess in accordance with SFAS No. 87. Consumers cannot predict the future fair value of the plan's assets but it is probable, without significant appreciation in the plan's assets, that Consumers will need to book an additional minimum liability through a charge to other comprehensive income. The value of the Plan assets and the Accumulated Benefit Obligation are determined by the Plan's actuary in the fourth quarter of each year.

In January 2002, Consumers contributed \$62 million to the Plans' trust accounts. This amount represents \$47 million of pension related benefits and \$15 million of postretirement health care and life insurance benefits. In June 2002 and September 2002, Consumers made additional contributions, in the amount of \$21 million and \$18 million, respectively, for postretirement health care and life insurance benefits. Consumers expects to make an additional contribution to the Pension Plan of approximately \$187 million in the third quarter of 2003.

In order to keep health care benefits and costs competitive, Consumers has announced several changes to the Health Care Plan. These changes are effective January 1, 2003. The most significant change is that Consumers' future increases in health care costs will be shared with employees.

Consumers also provides retirement benefits under a defined contribution 401(k) plan. Consumers previously offered an employer's contribution match of 50 percent of the employee's contribution up to six percent (three percent maximum), as well as an incentive match in years when Consumers' financial performance exceeded

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targeted levels. Effective September 1, 2002, the employer's match was suspended until January 1, 2005, and the incentive match was permanently eliminated. Amounts charged to expense for the employer's match and incentive match during 2001 were \$12 million and \$8 million, respectively.

### ACCOUNTING FOR NUCLEAR DECOMMISSIONING COSTS

Consumers' decommissioning cost estimates for the Big Rock and Palisades plants assume that each plant site will eventually be restored to conform to the adjacent landscape with all contaminated equipment and material removed and disposed of in a licensed burial facility and the site released for unrestricted use. A March 1999 MPSC order provided for fully funding the decommissioning trust funds for both sites. The order set the annual decommissioning surcharge for the Palisades decommissioning at \$6 million a year. Consumers estimates that at the time of the decommissioning of Palisades, its decommissioning trust fund will also be fully funded. Earnings assumptions are that the trust funds are invested in equities and fixed income investments that are then converted to fixed income and cash before expenditures are made. Decommissioning costs have been developed, in part, by independent contractors with expertise in decommissioning. These costs estimates use various inflation rates for labor, non-labor, and contaminated equipment disposal costs.

On December 31, 2000, the Big Rock trust fund was considered fully funded. A portion of its current decommissioning cost is due to the failure of the DOE to remove fuel from the site. These costs, and similar costs incurred at Palisades,

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would not be necessary but for the failure of the DOE to take possession of the spent fuel as required by the Nuclear Waste Policy Act of 1982. Consumers anticipates future recoveries from the DOE, after litigation that has yet to be commenced and successfully concluded, to defray the significant costs it will incur for the storage of spent fuel until DOE takes possession as required by law.

The funds provided by the trusts and added to from DOE litigation are expected to fully fund the decommissioning costs. Variance from trust earnings, recovery of costs from the DOE, changes in decommissioning technology, regulations, estimates or assumptions could affect the cost of decommissioning these sites.

RELATED PARTY TRANSACTIONS

Consumers enters into a number of significant transactions with related parties. These transactions include the purchase of capacity and energy from the MCV Partnership and from affiliates of Enterprises, the purchase of electricity and gas supply from CMS MST, the sale of electricity to CMS MST, the purchase of gas transportation from CMS Bay Area Pipeline, L.L.C., the purchase of gas transportation from Trunkline, a subsidiary of Panhandle, the payment of parent company overhead costs to CMS Energy, the sale, storage and transportation of natural gas and other services to the MCV Partnership, certain transactions involving derivative instruments with CMS MST, and an investment in CMS Energy Common Stock.

Transactions involving CMS Energy and its affiliates and the sale, storage and transportation of natural gas and other services to the MCV Partnership are based on regulated prices, market prices or competitive bidding. Transactions involving the power supply purchases from the MCV Partnership, and certain affiliates of CMS Enterprises, are based upon avoided costs under PURPA and competitive bidding; and the payment of parent company overhead costs to CMS Energy are based upon use or accepted industry allocation methodologies.

In 2002, Consumers also sold its transmission facilities to MTH, a non-affiliated limited partnership whose general partner is a subsidiary of Trans-Elect, Inc., an independent company, whose management includes former executive employees of Consumers. The transaction was based on competitive bidding.

For detailed information about related party transactions see Note 2, Uncertainties, "Electric Rate Matters - Transmission", and "Other Electric Uncertainties - The Midland Cogeneration Venture".

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RESULTS OF OPERATIONS

CONSUMERS CONSOLIDATED EARNINGS

	In Millions		
September 30	2002 Restated	2001 Restated	Change
Three months ended	\$ 74	\$11	\$63
Nine months ended	267	145	122
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2002 COMPARED TO 2001: For the three months ended September 30, 2002, Consumers' net income available to the common stockholder totaled \$74 million, an increase of \$63 million from the comparable period in 2001. The earnings increase reflects the after-tax benefit of decreased electric power costs of \$65 million from the comparable period in 2001. This reduction in power costs was primarily due to higher replacement power supply costs in 2001, resulting from an outage at Palisades in the third quarter of 2001 along with the lower volume and lower cost of power options and dispatchable capacity contracts purchased for 2002. Increased electric deliveries to the higher-margin residential and commercial sectors also contributed to the earnings increase. Offsetting these increases is a \$9 million decrease resulting from the recognition of a 4 bcf loss of natural gas from inventory along with increased other operating expenses for the period. This loss recognition results from Consumers' refinement of its inventory measurement techniques.

For the nine months ended September 30, 2002, Consumers' net income available to the common stockholder totaled \$267 million, an increase of \$122 million from the comparable period in 2001. The earnings increase reflects the after-tax benefit of decreased electric power costs of \$73 million from the comparable period in 2001. This reduction in power costs was primarily due to the need to purchase higher replacement power resulting from a refueling outage and an unscheduled forced outage at Palisades in 2001. This reduction in power costs also can be attributed to the lower price of power options and dispatchable capacity contracts purchased for 2002. The increase in earnings reflects the \$26 million gain from the May 2002 sale of Consumers' electric transmission system to MTH. Also contributing to the earnings increase is a \$22 million increase in the fair value of certain long-term gas contracts held by the MCV Partnership. The fair value of these contracts is adjusted, through earnings, on a quarterly basis in accordance with SFAS No. 133. For further information on SFAS No. 133, see Note 2, Uncertainties. Increased electric deliveries to the higher-margin residential and commercial sectors also contributed to the earnings increase. Offsetting these increases is a \$9 million decrease resulting from the recognition of a 4 bcf loss of natural gas from inventory along with increased other operating expenses. This loss recognition results from Consumers' refinement of its inventory measurement techniques.

	In Millions		
June 30	2002 Restated	2001 Restated	Change
Three months ended	\$113	\$ 35	\$78
Six months ended	193	134	59

2002 COMPARED TO 2001: For the three months ended June 30, 2002, Consumers' net income available to the common stockholder totaled \$113 million, an increase of \$78 million from the comparable period in 2001. The earnings increase reflects the after-tax benefit of decreased electric power costs of \$22 million from the comparable period in 2001. This reduction in power costs was primarily due to higher replacement power supply costs in 2001, resulting from outages at Palisades in the second quarter of 2001. The increase in earnings also reflects a \$26 million gain from the May 2002, sale of Consumers' electric transmission facilities to MTH, a non-affiliated limited partnership whose general partner is a subsidiary of Trans-Elect Inc. Also contributing to the earnings increase is a \$22 million increase in the fair value of certain long-term gas

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contracts held by the MCV Partnership. The fair value of these contracts is adjusted, through earnings, on a quarterly basis in accordance with SFAS No. 133. For further information on SFAS No. 133, see Note 2, Uncertainties. Also contributing to this increase in earnings are reduced fixed charges due to declining interest rates.

For the six months ended June 30, 2002, Consumers' net income available to the common stockholder totaled \$193 million, an increase of \$59 million from the comparable period in 2001. This increase includes the same items identified for the second quarter and also reflects the benefit of an increase in gas distribution tariff rates because of an interim rate increase, partially offset by increased operating costs and higher replacement power costs resulting from a plant outage at Palisades in early 2002.

In Millions			
March 31	2002 Restated	2001 Restated	Change
Three months ended	\$ 81	\$ 99	\$ (18)

2002 COMPARED TO 2001: For the three months ended March 31, 2002, Consumers' net income available to the common stockholder totaled \$81 million, a decrease of \$18 million from the comparable period in 2001. The earnings decrease reflects reduced electric and gas deliveries due to milder winter temperatures, the continued economic downturn, and increased electric operating expense in 2002, primarily for replacement power supply costs related to an unscheduled plant outage. These decreases to net income are partially offset by the interim gas rate increase granted in December of 2001.

For further information, see "Change in Auditors and Restatement" at the beginning of this MD&A, the Electric and Gas Utility Results of Operations sections and Note 2, Uncertainties.

ELECTRIC UTILITY RESULTS OF OPERATIONS

In Millions			
September 30	2002 Restated	2001 Restated	Change
Three months ended	\$ 89	\$16	\$73
Nine months ended	223	111	112

Reasons for change	Three Months Ended September 30 2002 vs 2001 Restated	End 2002 v
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Electric deliveries	\$ 25
Power supply costs and related revenue	100
Other operating expenses and non-commodity revenue	(16)
Gain on asset sales	--
Fixed charges	4
Income taxes	(40)
<hr/>	
Total change	\$ 73
<hr/>	

ELECTRIC DELIVERIES: For the three months ended September 30, 2002, electric delivery revenues increased by \$25 million from the 2001 level. Electric deliveries, including transactions with other wholesale market participants and other electric utilities, were 10.9 billion kWh, a decrease of 0.1 billion kWh, or 0.9 percent

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from the comparable period in 2001. This reduction in electric deliveries is primarily due to reduced transactions with other utilities and the expiration of wholesale power sales contracts with certain Michigan municipal utilities. Although total deliveries were below the 2001 level, increased deliveries to the higher-margin residential and commercial sectors, along with growth in retail deliveries, more than offset the impact of reductions to the lower-margin customers. Even though deliveries were below the 2001 level, Consumers set an all-time monthly sendout record during the month of July, and a monthly hourly peak demand record of 7,312 MW was set on September 9, 2002.

For the nine months ended September 30, 2002, electric delivery revenues increased by \$30 million from the 2001 level. Electric deliveries, including transactions with other wholesale market participants and other electric utilities, were 29.5 billion kWh, a decrease of 0.7 billion kWh, or 2.5 percent from the comparable period in 2001. Again, this reduction in electric deliveries is primarily due to reduced transactions with other utilities and the expiration of wholesale power sales contracts with certain Michigan municipal utilities. Even though total deliveries were below the 2001 level, increased deliveries to the higher-margin residential and commercial sectors, along with growth in retail deliveries, more than offset the impact of reductions to the lower-margin customers. For the year, Consumers has set an all-time monthly sendout record during the month of July, and monthly hourly peak demand records were set on April 16, 2002, June 25, 2002, and September 9, 2002.

POWER SUPPLY COSTS AND RELATED REVENUE: For the three months ended September 30, 2002, power supply costs and related revenues increased by \$100 million from the comparable period in 2001. This net increase was primarily due to reduced purchased power costs resulting from the Palisades plant being returned to service in 2002. In 2001, Consumers purchased higher cost replacement power during the unscheduled forced outage at Palisades that began in June of 2001. Also contributing to the overall decrease in power costs was the lower volume and lower priced power options and dispatchable capacity contracts that were purchased for 2002.

For the nine months ended September 30, 2002, power supply costs and related revenues increased by a total of \$113 million from the comparable period in

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2001. This net increase was primarily due to reduced purchased power costs resulting from the Palisades plant being returned to service in 2002. In 2001, Consumers purchased higher cost replacement power during the refueling outage that began in March and ended in May and the unscheduled forced outage at Palisades that began in June and ended in January 2002. Also contributing to this decrease is lower-priced power options and dispatchable capacity contracts that were purchased for 2002.

**OTHER OPERATING EXPENSES AND NON-COMMODITY REVENUES:** For the three and nine months ended September 30, 2002, other operating expenses increased \$16 million and \$28 million, respectively, from the comparable period in 2001. Both of these increases are attributed to higher amortization of securitized assets, higher depreciation expense resulting from higher plant in service along with increased operating costs resulting from higher health care and storm restoration expenses.

**GAIN ON ASSET SALES:** For the nine months ended September 30, 2002, asset sales increased as a result of the \$31 million pretax gain associated with the May 2002 sale of Consumers' electric transmission system and a \$7 million pretax gain on the sale of nuclear equipment from the cancelled Midland project.

**INCOME TAXES:** For the three and nine months ended September 30, 2002, income tax expense increased due to increased earnings by the electric utility. Income taxes associated with the transmission system sale reflect a \$5 million benefit due to the recognition of the remaining unutilized investment tax credit related to the assets sold.

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In Millions			
June 30	2002 Restated	2001 Restated	Change
Three months ended	\$ 84	\$32	\$52
Six months ended	134	95	39
=====			
Reasons for change	Three Months Ended June 30 2002 vs 2001 Restated		2002 v
Electric deliveries	\$ 10		
Power supply costs and related revenue	34		
Other operating expenses and non-commodity revenue	(14)		
Gain on asset sales	38		
Fixed charges	6		
Income taxes	(22)		
=====			
Total change	\$ 52		
=====			



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**ELECTRIC DELIVERIES:** For the three months ended June 30, 2002, electric delivery revenues increased by \$10 million from the 2001 level. Electric deliveries, including transactions with other electric utilities, were 9.4 billion kWh, an increase of 0.1 billion kWh, or 1.4 percent from the comparable period in 2001. The increase in total electric deliveries was primarily due to higher residential usage resulting from warmer June 2002 temperatures.

For the six months ended June 30, 2002, electric delivery revenues increased by \$6 million from the 2001 level. Electric deliveries, including transactions with other electric utilities, were 18.6 billion kWh, a decrease of 0.7 billion kWh, or 3.4 percent from the comparable period in 2001. This decrease is the result of reduced first quarter industrial usage due to the economic downturn.

**POWER SUPPLY COSTS AND RELATED REVENUE:** For the three months ended June 30, 2002, power supply costs and related revenues increased by \$34 million from the comparable period in 2001. This increase is primarily the result of decreased power costs in 2002 due to the higher availability of the lower priced Palisades Nuclear Plant. In the 2001 period, Consumers was required to purchase greater quantities of higher-priced power to offset the loss of internal generation resulting from outages at Palisades.

For the six months ended June 30, 2002, power supply costs and related revenues increased by a total of \$18 million from the comparable period in 2001. This decrease was also the result of the Palisades outage described for the current quarter partially offset by a plant outage at Palisades in early 2002.

**OTHER OPERATING EXPENSES AND NON-COMMODITY REVENUES:** For the three months ended 2002, other operating expenses increased \$14 million due to higher amortization of securitized assets, increased depreciation expense resulting from higher plant in service along with a decrease in miscellaneous revenues. For the six months ended 2002, other operating expenses increased \$18 million due to higher amortization of securitized assets, increased depreciation expense resulting from higher plant in service along with a decrease in miscellaneous revenues.

**GAIN ON ASSET SALES:** For the three and six months ended 2002, asset sales increased as a result of the \$31 million pre-tax gain associated with the May 2002 sale of Consumers' electric transmission system and a \$7 million pre-tax gain on the sale of unused nuclear equipment from the cancelled Midland project.

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Consumers Energy Company

**INCOME TAXES:** For the three and six months ended June 30, 2002, income tax expense increased due to increased earnings by the electric utility. Income taxes associated with the transmission system sale reflect a \$5 million benefit due to the recognition of the remaining unutilized investment tax credit related to the assets sold.

In Millions			
March 31	2002 Restated	2001 Restated	Change
Three months ended	\$50	\$63	\$(13)

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Reasons for the change:

Electric deliveries	\$ (4)
Power supply costs and related revenue	(16)
Other operating expenses and non-commodity revenue	(4)
Fixed charges	2
Income taxes	9
	----
 Total change	 \$ (13)
=====	

**ELECTRIC DELIVERIES:** For the period ending March 31, 2002, electric delivery revenues decreased by \$4 million from the 2001 level. Electric deliveries, including transactions with other electric utilities, were 9.2 billion kWh, a decrease of 0.8 billion kWh or 7.9 percent from the comparable period in 2001. Total electric deliveries decreased primarily due to lower industrial usage driven by the economic downturn.

**POWER SUPPLY COSTS AND RELATED REVENUE:** For the period ending March 31, 2002, electric net income was adversely affected by lower power cost related revenues. Additionally, the average power supply cost increased due to the need to purchase greater quantities of higher-priced power to offset the loss of internal generation resulting from the unscheduled Palisades outage.

**OTHER OPERATING EXPENSES:** For the period ending March 31, 2002, other operating expenses decreased by \$4 million from the comparable period in 2001 due to lower operating and maintenance costs resulting from cost controls throughout the business unit.

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### GAS UTILITY RESULTS OF OPERATIONS

	In Millions		
September 30	2002 Restated	2001 Restated	Change
Three months ended	\$ (18)	\$ (10)	\$ (8)
Nine months ended	13	19	(6)
=====			

	Three Months Ended September 30 2002 vs 2001 Restated	Nine Months Ended September 30 2002 vs 2001 Restated
Reasons for change		
Gas deliveries	\$ (2)	\$ (2)
Gas rate increase	1	10
Gas wholesale and retail services	3	3

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Operation and maintenance	(17)	(17)
Other operating expenses	3	(2)
Income taxes	4	2
-----		
Total change	\$ (8)	\$ (6)
=====		

For the three months ended September 30, 2002, gas revenues decreased due to warmer temperatures compared to the third quarter 2001. Gas wholesale and retail service revenues increased principally due to growth in the appliance service plan. Operation and maintenance cost increases reflect recognition of gas storage inventory losses, and additional expenditures on customer reliability and service. System deliveries, including miscellaneous transportation volumes, totaled 40.1 bcf, a decrease of 1.7 bcf or 4.1 percent compared with 2001.

For the nine months ended September 30, 2002, gas revenues increased due to an interim gas rate increase granted in December of 2001, partially offset by a decrease in gas delivery revenue due to warmer temperatures and less economic demand. Operation and maintenance cost increases reflect recognition of gas storage inventory losses, and additional expenditures on customer reliability and service. System deliveries, including miscellaneous transportation volumes, totaled 254.7 bcf, a decrease of 3.7 bcf or 1.4 percent compared with 2001.

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Consumers Energy Company

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In Millions			
June 30	2002 Restated	2001 Restated	Change
-----			
Three months ended	\$ 3	\$ 1	\$ 2
Six months ended	31	29	2
=====			

-----			
Reasons for change	Three Months		Six Months
	Ended June 30		Ended June 30
-----			
	2002 vs 2001 Restated	2002 vs 2001 Restated	
-----			
Gas deliveries	\$ 9		\$ -
Gas rate increase	2		9
Gas wholesale and retail services	1		-
Operation and maintenance	(4)		-
Other operating expenses	(4)		(5)
Income taxes	(2)		(2)
-----			
Total change	\$ 2		\$ 2
=====			

For the three months ended June 30, 2002, gas revenues increased due to colder

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temperatures compared to the second quarter 2001. Operation and maintenance cost increases reflect additional expenditures on customer reliability and service. System deliveries, including miscellaneous transportation volumes, totaled 65.3 bcf, an increase of 8.3 bcf or 14.7 percent compared with 2001.

For the six months ended June 30, 2002, gas revenues increased due to an interim gas rate increase granted in December of 2001. System deliveries, including miscellaneous transportation volumes, totaled 214.5 bcf, a decrease of 2 bcf or .9 percent compared with 2001.

In Millions			
March 31	2002 Restated	2001 Restated	Change
Three months ended	\$28	\$28	\$-

Reasons for the change:

Gas deliveries	\$ (9)
Rate increase	7
Other operating expenses and non-commodity revenue	2
Fixed charges	1
Income taxes	(1)
Total change	\$-

For the period ending March 31, 2002, gas delivery revenues decreased due to significantly milder temperatures during the first quarter of 2002. This decrease was significantly offset by an interim gas rate increase granted in December of 2001. System deliveries, including miscellaneous transportation volumes, totaled 149 bcf, a decrease of 10 bcf or 6.5 percent compared with 2001.

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### CAPITAL RESOURCES AND LIQUIDITY

#### CASH POSITION, INVESTING AND FINANCING

**OPERATING ACTIVITIES:** Consumers' principal source of liquidity is from cash derived from operating activities involving the sale and transportation of natural gas and the generation, delivery and sale of electricity. Cash from operations totaled \$420 million and \$321 million for the first nine months of 2002 and 2001, respectively. The \$99 million increase resulted primarily from an increase in cash due to lower expenditures for natural gas and lower electric power purchase costs as a result of Palisades return to service, partially offset by a decrease in cash collected from customers and related parties.

Cash from operations totaled \$435 million and \$379 million for the first six

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months of 2002 and 2001, respectively. The \$56 million increase resulted primarily from a \$223 million increase in cash due to fewer expenditures for natural gas inventories, partially offset by \$144 million decrease in cash collected from customers and related parties.

Cash from operations totaled \$270 million and \$479 million for the first three months of 2002 and 2001, respectively. The \$209 million decrease resulted primarily from a \$168 million decrease in cash collected from customers and related parties and a \$115 million decrease in sale of accounts receivable, partially offset by a \$70 million increase in cash due to fewer expenditures for natural gas inventories.

Consumers primarily uses cash derived from operating activities to operate, maintain, expand and construct its electric and gas systems, to retire portions of long-term debt, and to pay dividends. A decrease in cash from operations could reduce the availability of funds and result in additional short-term financings, see Note 3, Short-Term Financings and Capitalization for additional details about this source of funds.

**INVESTING ACTIVITIES:** Cash used for investing activities totaled \$144 million and \$511 million for the first nine months of 2002 and 2001, respectively. The change of \$367 million is primarily the result of \$298 million cash from the sale of METC and other assets, and fewer capital expenditures to comply with the Clean Air Act than the first nine months of 2001.

Cash used for investing activities totaled \$7 million and \$395 million for the first six months of 2002 and 2001, respectively. The change of \$388 million is primarily the result of \$293 million cash from the sale of METC and other assets, and fewer capital expenditures to comply with the Clean Air Act than the first six months of 2001.

Cash used for investing activities totaled \$154 million and \$204 million for the first three months of 2002 and 2001, respectively. The change of \$50 million is primarily the result of fewer capital expenditures to comply with the Clean Air Act than the first three months of 2001.

**FINANCING ACTIVITIES:** Cash used by financing activities totaled \$168 million for the first nine months of 2002 compared to \$193 million provided in the first nine months of 2001, respectively. The change of \$361 million is primarily the result of \$407 million retirement of bonds and other long-term debt, \$100 million decrease in stockholder's contribution and the absence of \$121 million proceeds from preferred securities, offset by \$250 million of net proceeds from issuance of senior notes.

Cash used by financing activities totaled \$393 million for the first six months of 2002 compared to \$9 million provided in the first six months of 2001, respectively. The change of \$402 million is primarily the result of \$371 million retirement of bonds and other long-term debt, \$178 million net decrease in notes payable, the absence of \$121 million proceeds from preferred securities and an acceleration of \$58 million in the payment of common stock dividends, offset by \$304 million of net proceeds from issuance of senior notes.

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Cash used in financing activities totaled \$105 million and \$286 million for the first three months of 2002 and 2001, respectively. The change of \$181 million is primarily the result of a \$150 million cash infusion from CMS Energy, \$298 million net proceeds from issuance of senior notes, and \$94 million net increase

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in notes payable, offset by a \$344 million retirement of bonds and other long-term debt.

**OFF-BALANCE SHEET ARRANGEMENTS:** Consumers' use of long-term contracts for the purchase of commodities and services, the sale of its accounts receivables, and operating leases are considered to be off-balance sheet arrangements. Consumers has responsibility for the collectability of the accounts receivables sold, and the full obligation of its leases become due in case of lease payment default. Consumers uses these off-balance sheet arrangements in its normal business operations.

**CONTRACTUAL OBLIGATIONS AND COMMERCIAL COMMITMENTS:** The following schedule of material contractual obligations and commercial commitments is provided to aggregate information in a single location so that a picture of liquidity and capital resources is readily available. For further information see Note 2, Uncertainties, and Note 3, Short-Term Financings and Capitalization.

### Contractual Obligations

September 30	Total	Payments Due				
		2002	2003	2004	2005	2006
<b>On-balance sheet:</b>						
Long-term debt	\$ 2,912	\$ 144	\$ 333	\$ 328	\$ 470	
Notes payable	235	-	235	-	-	
Capital lease obligations (a)	138	50	21	19	18	
<b>Off-balance sheet:</b>						
Headquarters building lease (a)	20	7	13	-	-	
Operating leases	83	5	12	9	8	
Non-recourse debt of FMLP	276	65	8	54	41	
Sale of accounts receivable	325	325	-	-	-	
Unconditional purchase Obligations	18,049	956	1,175	929	860	

(a) The headquarters building capital lease is estimated to be \$65 million of which a \$45 million construction obligation has been incurred and recorded on Consumers' balance sheet.

Unconditional purchase obligations include natural gas, electricity, and coal purchase contracts and their associated cost of transportation. These obligations represent normal business operating contracts used to assure adequate supply and to minimize exposure to market price fluctuations. Operating leases are predominately railroad coal car leases, and capital leases are predominately for leased service vehicles. Consumers has long-term power purchase agreements with various generating plants including the MCV Facility. These contracts require monthly capacity payments based on the plants' availability or deliverability. These payments are approximately \$45 million per month for year 2002, which includes \$33 million related to the MCV Facility. If a plant is not available to deliver electricity to Consumers, then Consumers would not be obligated to make the capacity payment while the plant is unavailable to deliver. See Electric Utility Results of Operations above and Note 2, Uncertainties, "Electric Rate Matters - Power Supply Costs" and "Other Electric Uncertainties - The Midland Cogeneration Venture" for further information concerning power supply costs.

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Commercial Commitments

September 30	Total	Commitment Expiration				2005	2006
		2002	2003	2004	2005		
Off-balance sheet:							
Indemnities	16	-	-	-	-	-	-
Letters of Credit	7	7	-	-	-	-	-

Indemnities are three-party agreements used to assure performance of contracts by Consumers. Letters of credit are issued by banks guaranteeing Consumers' payment of its drafts. Drafts are for a stated amount and for a specified period; they substitute the bank's credit for Consumers' and eliminate the credit risk for the other party.

As of September 2002, Consumers had a \$250 million credit facility of which \$235 million is outstanding and a \$225 million term loan of which approximately \$84 million is outstanding. In addition, Consumers has, through its wholly owned subsidiary Consumers Receivables Funding, a \$325 million trade receivable sale program in place as anticipated sources of funds for general corporate purposes and currently expected capital expenditures. At September 30, 2002 and 2001, the receivables sold totaled \$325 million for each year. During 2002, \$248 million cash proceeds were received under the trade receivables sale program. Accounts receivable and accrued revenue in the Consolidated Balance Sheets have been reduced to reflect receivables sold.

In July 2002, the credit rating of the publicly traded securities of Consumers was downgraded by the major rating agencies. The rating downgrade is purported to be largely a function of the uncertainties associated with CMS Energy's financial condition and liquidity pending resolution of the round-trip trading investigations and lawsuits, the special board committee investigation, restatement and re-audit of 2000 and 2001 financial statements, and uncertain future access to the capital markets.

As a result of certain of these downgrades, a few commodity suppliers to Consumers have requested advance payments or other forms of assurances in connection with maintenance of ongoing deliveries of gas and electricity. Consumers is addressing these issues as required.

In July 2002, Consumers reached agreement with its lenders on two credit facilities as follows: a \$250 million revolving credit facility maturing July 11, 2003 and a \$300 million term loan maturing July 11, 2003. In September 2002, the term loan maturity was extended by one year at Consumers' option and now has a maturity date of July 11, 2004. These two facilities aggregating \$550 million replace a \$300 million revolving credit facility that matured July 14, 2002, as well as various credit lines aggregating \$200 million. The prior credit facilities and lines were unsecured. The two new credit facilities are secured with Consumers first mortgage bonds.

Consumers' \$250 million revolving credit facility has an interest rate of LIBOR

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plus 200 basis points, although the rate may fluctuate depending on the rating of Consumers' first mortgage bonds, and the interest rate on the \$300 million term loan is LIBOR plus 450 basis points which may also fluctuate depending on the rating of Consumers' first mortgage bonds. Consumers' bank and legal fees associated with arranging the facilities were \$6 million. The term loan was issued at a 4 percent discount.

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The credit facilities have contractual restrictions that require Consumers to maintain, as of the last day of each fiscal quarter, the following:

Required Ratio	Limitation	Ratio a
Debt to Capital Ratio (a)	Not more than 0.65 to 1.00	
Interest Coverage Ratio (a)	Not less than 2.0 to 1.0	

(a) Violation of this ratio would constitute an event of default under the facility which provides the lender, among other remedies, the right to declare the principal and interest immediately due and payable.

Also pursuant to restrictive covenants in the new facilities, Consumers is limited to dividend payments that will not exceed \$300 million in any calendar year. In 2001, Consumers paid \$189 million in common stock dividends to CMS Energy. Consumers' common dividend was \$183 million and Consumers paid \$154 million through September 2002.

In October 2002, Consumers entered into a new Term Loan Agreement collateralized by First Mortgage Bonds and simultaneously, a new Gas Inventory Term Loan Agreement collateralized by Consumers' natural gas in storage. These agreements contain complementary collateral packages that provide Consumers, as additional first mortgage bonds become available, borrowing capacity of up to \$225 million. Consumers drew \$220 million of the capacity upon execution of the Agreements and is expected to be in a position to draw the full \$225 million by mid-November of 2002. The interest rate under the Agreements is currently LIBOR plus 300 basis points, but will increase by 100 basis points for any period after December 1, 2002 during which the banks thereunder have not yet received, among other deliveries, certified restated financial statements for CMS Energy's 2000 and 2001 fiscal years. The bank and legal fees associated with the Agreement were \$2 million. The first net amortization payment under these Agreements currently is scheduled to occur at the end of 2002 with monthly amortization scheduled until full repayment is completed in mid-April of 2003. This financing should eliminate the need for Consumers to access the capital markets for the remainder of 2002.

Consumers' debt maturities for 2003 includes \$333 million of long-term debt, a \$250 million revolving credit agreement and an estimated remaining balance of \$207 million on the new Gas Inventory Term Loan Agreement. At a minimum, \$500 million is expected to be refinanced. In addition, Consumers expects to put in place a new gas inventory facility. Replacing this debt with new financing is subject, in part, to capital market acceptance and receptivity to utility industry securities in general and to Consumers securities issuance in



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particular. Consumers cannot predict the capital market's acceptance of its securities or the impact of its restatement of its consolidated financial statements and is exploring other financing options.

For further information, see Note 3, Short-Term Financings and Capitalization.

### OUTLOOK

#### LIQUIDITY AND CAPITAL RESOURCES

Consumers' liquidity and capital requirements are generally a function of its results of operations, capital expenditures, contractual obligations, working capital needs and collateral requirements. Consumers has historically met its consolidated cash needs through its operating and financing activities through access to bank financing and the capital markets. As discussed above, for the remainder of year 2002 and during 2003, Consumers has contractual obligations and planned capital expenditures that would require substantial amounts of cash. Consumers also has approximately \$800 million of publicly issued and credit facility debt maturing in 2003, including the Consumers' credit facilities described above. In addition, Consumers may also become subject to commercial commitments as indicated above.

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Consumers is addressing its near-to-mid-term liquidity and capital requirements primarily through reduced capital expenditures. Consumers believes that its current level of cash and borrowing capacity, along with anticipated cash flows from operating and investing activities, will be sufficient to meet its liquidity needs through 2003, including the approximate \$800 million of debt maturities in 2003.

On November 26, 2002, Consumers' various bank groups waived delivery of financial statements for the period ended September 30, 2002 until February 28, 2003. Consumers provided the banks with the required financial statements before the waivers expired.

As a result of the impact of the restatement, ratings downgrades and related changes in its financial situation, Consumers' access to bank financing and the capital markets and its ability to incur additional indebtedness may be restricted. In the event Consumers is unable to access bank financing or the capital markets to incur or refinance indebtedness it could have a material adverse effect on Consumers' liquidity and operations. In such event, it would be required to consider the full range of strategic measures available to companies in similar circumstances.

SEC INVESTIGATION: As a result of the round-trip trading transactions at CMS MST, CMS Energy's Board of Directors established a Special Committee of independent directors to investigate matters surrounding the transactions and retained outside counsel to assist in the investigation. The Special Committee completed its investigation and reported its findings to the Board of Directors in October 2002. The special committee concluded, based on an extensive investigation, that the round-trip trades were undertaken to raise CMS MST's profile as an energy marketer with the goal of enhancing its ability to promote its services to new customers. The committee found no apparent effort to manipulate the price of CMS Energy Common Stock or affect energy prices. The special committee also made recommendations designed to prevent any reoccurrence of this practice, some of which have already been implemented, including the termination of the speculative trading business and revisions to CMS Energy's

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risk management policy. The Board of Directors adopted, and CMS Energy has begun implementing, the remaining recommendations of the special committee.

CMS Energy is cooperating with other investigations concerning round-trip trading, including an investigation by the SEC regarding round-trip trades and the CMS Energy's financial statements, accounting policies and controls, and investigations by the United States Department of Justice, the Commodity Futures Trading Commission and the FERC. CMS Energy has also received subpoenas from the United States Attorney's Office for the Southern District of New York and from the United States Attorney's Office in Houston regarding investigations of these trades and has received a number of shareholder class action lawsuits. CMS Energy is unable to predict the outcome of these matters, and Consumers is unable to predict what effect, if any, these investigations will have on its business.

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### Consumers Energy Company

**SECURITIES CLASS ACTION LAWSUITS:** Beginning on May 17, 2002, a number of securities class action complaints have been filed against CMS Energy, Consumers, and certain officers and directors of CMS Energy and its affiliates. The complaints have been filed in the United States District Court for the Eastern District of Michigan as purported class actions by individuals who allege that they purchased CMS Energy's securities during a purported class period. At least two of the complaints contain purported class periods beginning on August 3, 2000 and running through May 10, 2002 or May 14, 2002. These complaints generally seek unspecified damages based on allegations that the defendants violated United States securities laws and regulations by making allegedly false and misleading statements about the company's business and financial condition. CMS Energy believes that additional suits might be commenced against it and that all such suits against it will eventually be consolidated. Consumers intends to vigorously defend against these actions. Consumers cannot predict the outcome of this litigation.

**ERISA CASES:** Consumers is a named defendant, along with CMS Energy, CMS MST and certain named and unnamed officers and directors in two lawsuits brought as purported class actions on behalf of participants and beneficiaries of the 401(k) Plan. The two cases, filed in July 2002 in the United States District Court for the Eastern District of Michigan, were consolidated by the trial judge. Plaintiffs allege breaches of fiduciary duties under the ERISA and seek restitution on behalf of the Plan with respect to a decline in value of the shares of CMS Energy Common Stock held in the Plan. Plaintiffs also seek other equitable relief and legal fees. These cases will be vigorously defended. Consumers cannot predict the outcome of this litigation.

### CAPITAL EXPENDITURES OUTLOOK

Consumers estimates the following capital expenditures, including new lease commitments, by expenditure type and by business segments during 2002 through 2004. Consumers prepares these estimates for planning purposes and may revise them.

	In Millions		
Years Ended December 31	2002	2003	2004
	Restated	Restated	

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Construction	\$583	\$432	\$511
Nuclear fuel	9	33	32
Other capital leases	89	38	32
	\$681	\$503	\$575
=====			
Electric utility operations (a) (b)	\$474	\$352	\$410
Gas utility operations (a)	207	151	165
	\$681	\$503	\$575
=====			

(a) These amounts include an attributed portion of Consumers' anticipated capital expenditures for plant and equipment common to both the electric and gas utility businesses.

(b) These amounts include estimates for capital expenditures that may be required by recent revisions to the Clean Air Act's national air quality standards.

ELECTRIC BUSINESS OUTLOOK

GROWTH: Over the next five years, Consumers expects electric deliveries (including both full service sales and delivery service to customers who choose to buy generation service from an alternative electric supplier, but excluding transactions with other wholesale market participants including other electric utilities) to grow at an

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average rate of approximately two percent per year based primarily on a steadily growing customer base. This growth rate reflects a long-range expected trend of growth. Growth from year to year may vary from this trend due to customer response to abnormal weather conditions and changes in economic conditions including, utilization and expansion of manufacturing facilities. Consumers has experienced much stronger than expected growth in 2002 as a result of warmer than normal summer weather. Assuming that normal weather conditions will occur in 2003, electric deliveries are expected to grow less than one percent over the strong 2002 electric deliveries.

COMPETITION AND REGULATORY RESTRUCTURING: The enactment in 2000 of Michigan's Customer Choice Act and other developments will continue to result in increased competition in the electric business. Generally, increased competition can reduce profitability and threatens Consumers' market share for generation services. The Customer Choice Act allowed all of the company's electric customers to buy electric generation service from Consumers or from an alternative electric supplier as of January 1, 2002. As a result, alternative electric suppliers for generation services have entered Consumers' market. As of November 2002, 446 MW of generation services were being provided by such suppliers. To the extent Consumers experiences "net" Stranded Costs as determined by the MPSC, the Customer Choice Act allows for the company to

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recover such "net" Stranded Costs by collecting a transition surcharge from those customers who switch to an alternative electric supplier.

Stranded and Implementation Costs: The Customer Choice Act allows electric utilities to recover the act's implementation costs and "net" Stranded Costs (without defining the term). The act directs the MPSC to establish a method of calculating "net" Stranded Costs and of conducting related true-up adjustments. In December 2001, the MPSC adopted a methodology which calculated "net" Stranded Costs as the shortfall between: (a) the revenue required to cover the costs associated with fixed generation assets, generation-related regulatory assets, and capacity payments associated with purchase power agreements, and (b) the revenues received from customers under existing rates available to cover the revenue requirement. Consumers has initiated an appeal at the Michigan Court of Appeals related to the MPSC's December 2001 "net" Stranded Cost order, as a result of the uncertainty associated with the outcome of the proceeding described in the following paragraph.

According to the MPSC, "net" Stranded Costs are to be recovered from retail open access customers through a Stranded Cost transition charge. Even though the MPSC set Consumers' Stranded Cost transition charge at zero for calendar year 2000, those costs for 2000 will be subject to further review in the context of the MPSC's subsequent determinations of "net" Stranded Costs for 2001 and later years. The MPSC authorized Consumers to use deferred accounting to recognize the future recovery of costs determined to be stranded. In April 2002, Consumers made "net" Stranded Cost filings with the MPSC for \$22 million and \$43 million for 2000 and 2001, respectively. In the same filing, Consumers estimated that it would experience "net" Stranded Costs of \$126 million for 2002. After a series of appeals and hearings, Consumers, in its hearing brief, filed in August 2002, revised its request for Stranded Costs to \$7 million and \$4 million for 2000 and 2001, respectively, and an estimated \$73 million for 2002. The single largest reason for the difference in the filing was the exclusion of all costs associated with expenditures required by the Clean Air Act. Consumers, in a separate filing, requested regulatory asset accounting treatment for its Clean Air Act expenditures through 2003. The outcome of these proceedings before the MPSC is uncertain at this time.

Since 1997, Consumers has incurred significant electric utility restructuring implementation costs. The following table outlines the applications filed by Consumers with the MPSC and the status of recovery for these costs.

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Year Filed	Year Incurred	Requested	Pending	Allowed
1999	1997 & 1998	\$20	\$ -	\$15
2000	1999	30	-	25
2001	2000	25	-	20
2002	2001	8	8	-

The MPSC disallowed certain costs based upon a conclusion that these amounts did

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not represent costs incremental to costs already reflected in electric rates. In the orders received for the years 1997 through 2000, the MPSC also reserved the right to review again the total implementation costs depending upon the progress and success of the retail open access program, and ruled that due to the rate freeze imposed by the Customer Choice Act, it was premature to establish a cost recovery method for the allowable implementation costs. In addition to the amounts shown, as of September 2002, Consumers incurred and deferred as a regulatory asset, \$3 million of additional implementation costs and has also recorded as a regulatory asset \$13 million for the cost of money associated with total implementation costs. Consumers believes the implementation costs and the associated cost of money are fully recoverable in accordance with the Customer Choice Act. Cash recovery from customers will probably begin after the rate freeze or rate cap period has expired. Consumers cannot predict the amounts the MPSC will approve as allowable costs.

Consumers is also pursuing recovery, through the MISO of approximately \$7 million in certain electric utility restructuring implementation costs related to its former participation in the development of the Alliance RTO. However, Consumers cannot predict the amounts it will be reimbursed by the MISO.

**Rate Caps:** The Customer Choice Act imposes certain limitations on electric rates that could result in Consumers being unable to collect from customers its full cost of conducting business. Some of these costs are beyond Consumers' control. In particular, if Consumers needs to purchase power supply from wholesale suppliers while retail rates are frozen or capped, the rate restrictions may make it impossible for Consumers to fully recover purchased power and associated transmission costs from its customers. As a result, Consumers may be unable to maintain its profit margins in its electric utility business during the rate freeze or rate cap periods. The rate freeze is in effect through December 31, 2003. The rate caps are in effect through at least December 31, 2004 for small commercial and industrial customers, and at least through December 31, 2005 for residential customers.

**Industrial Contracts:** In response to industry restructuring efforts, Consumers entered into multi-year electric supply contracts with certain large industrial customers to provide electricity at specially negotiated prices, usually at a discount from tariff prices. The MPSC approved these special contracts as part of its phased introduction to competition. Unless terminated or restructured these contracts are in effect through 2005. As of September 2002, some contracts have expired, but outstanding contracts involve approximately 500 MW. Consumers cannot predict the ultimate financial impact of changes related to these power supply contracts, or whether additional contracts will be necessary or advisable.

**Code of Conduct:** In December 2000, as a result of the passage of the Customer Choice Act, the MPSC issued a new code of conduct that applies to electric utilities and alternative electric suppliers. The code of conduct seeks to prevent cross-subsidization, information sharing, and preferential treatment between a utility's regulated and unregulated services. The new code of conduct is broadly written, and as a result, could affect Consumers' retail gas business, the marketing of unregulated services and equipment to Michigan customers, and internal transfer pricing between Consumers' departments and affiliates. In October 2001, the new code of conduct was reaffirmed without substantial modification. Consumers appealed the MPSC orders related to the code of conduct and sought a stay of the orders until the appeal was complete; however, the request for a

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stay was denied. Consumers filed a compliance plan in accordance with the code of conduct. It also sought waivers to the code of conduct in order to continue utility activities that provide approximately \$50 million in annual revenues. In October 2002, the MPSC denied waivers for three programs that provide approximately \$32 million in revenues. The waivers denied included all waivers associated with the appliance service plan program that has been offered by Consumers for many years. Consumers filed a renewed motion for a stay of the effectiveness of the code of conduct and an appeal of the waiver denials with the Michigan Court of Appeals. On November 8, 2002, the Michigan Court of Appeals denied Consumers' request for a stay. Consumers is continuing to explore its options which may include seeking an appeal of the Michigan Court of Appeals' ruling. The full impact of the new code of conduct on Consumers' business will remain uncertain until the appellate courts issue definitive rulings. Recently, in an appeal involving affiliate pricing guidelines, the Michigan Court of Appeals struck the guidelines down because of a procedurally defective manner of enactment by the MPSC. A similar procedure was used by the MPSC in enacting the new code of conduct.

**Energy Policy:** Uncertainty exists regarding the enactment of a national comprehensive energy policy, specifically federal electric industry restructuring legislation. A variety of bills introduced in the United States Congress in recent years aimed to change existing federal regulation of the industry. If the federal government enacts a comprehensive energy policy or electric restructuring legislation, then that legislation could potentially affect company operations and financial requirements.

**Transmission:** In 1999, the FERC issued Order No. 2000, strongly encouraging electric utilities to transfer operating control of their electric transmission system to an RTO, or sell the facilities to an independent company. In addition, in June 2000, the Michigan legislature passed Michigan's Customer Choice Act, which also requires utilities to divest or transfer the operating authority of transmission facilities to an independent company. Consumers chose to offer its electric transmission system for sale rather than own and invest in an asset it could not control. In May 2002, Consumers sold its electric transmission system for approximately \$290 million in cash to MTH, a non-affiliated limited partnership whose general partner is a subsidiary of Trans-Elect, Inc.

Trans-Elect, Inc. submitted the winning bid through a competitive bidding process, and various federal agencies approved the transaction. Consumers did not provide any financial or credit support to Trans-Elect, Inc. Certain of Trans-Elect's officers and directors are former officers and directors of CMS Energy, Consumers and their subsidiaries. None of them were employed by CMS Energy, Consumers, or their affiliates when the transaction was discussed internally and negotiated with purchasers. As a result of the sale, Consumers anticipates that its after-tax earnings will increase by approximately \$17 million in 2002, due to the recognition of a \$26 million one time gain on the sale of the electric transmission system. This one time gain is offset by a loss of revenue from wholesale and retail open access customers who will buy services directly from MTH, including the loss of a return on the sold electric transmission system. Consumers anticipates that the future impact of the loss of revenue from wholesale and retail open access customers who will buy services directly from MTH and the loss of a return on the sold electric transmission system on its after-tax earnings will be a decrease of \$15 million in 2003, and a decrease of approximately \$14 million annually for the next three years.

Under the agreement with MTH, and subject to certain additional RTO surcharges, contract transmission rates charged to Consumers will be fixed at current levels through December 31, 2005, and subject to FERC ratemaking thereafter. MTH will complete the capital program to expand the transmission system's capability to import electricity into Michigan, as required by the Customer Choice Act, and

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Consumers will continue to maintain the system under a five-year contract with MTH. Effective April 30, 2002, Consumers and METC withdrew from the Alliance RTO. For further information, see Note 2, Uncertainties, "Electric Rate Matters - Transmission."

In July 2002, the FERC issued a 600-page notice of proposed rulemaking on standard market design for electric

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bulk power markets and transmission. Its stated purpose is to remedy undue discrimination in the use of the interstate transmission system and give the nation the benefits of a competitive bulk power system. The proposal is subject to public comment until November 15, 2002 and January 10, 2003 for certain standard market design issues. Consumers is currently studying the effects of the proposed rulemaking and intends to file comments with the FERC. The proposed rulemaking is primarily designed to correct perceived problems in the electric transmission industry. Consumers sold its electric transmission system in 2002, but is a transmission customer. The financial impact to Consumers is uncertain, but the final standard market design rules could significantly increase delivered power costs to Consumers and the retail electric customers it serves.

There are multiple proceedings pending before the FERC regarding transitional transmission pricing mechanisms intended to mitigate the revenue impact on transmission owners resulting from the elimination of "Rate Pancaking". "Rate Pancaking" represents the application of the transmission rate of each individual transmission owner whose system is utilized on the scheduled path of an energy delivery and its elimination could result in "lost revenues" for transmission owners. It is unknown what mechanism(s) may result from the proceedings currently pending before the FERC, and as such, it is not possible at this time to identify the specific effect on Consumers. It should be noted, however, that Consumers believes the results of these proceedings could also significantly increase the delivered power costs to Consumers and the retail electric customers it serves.

Similarly, other proceedings before the FERC involving rates of transmission providers of Consumers could increase Consumers' cost of transmitting power to its customers in Michigan. As RTOs develop and mature in Consumers' area of electrical operation, and those RTOs respond to FERC initiatives concerning the services they must provide and the systems they maintain, Consumers believes that there is likely to be an upward cost trend in transmission used by Consumers, ultimately increasing the delivered cost of power to Consumers and the retail electric customers it serves. The specific financial impact on Consumers of such proceedings and trends are not currently quantifiable.

Wholesale Market Competition: In 1996, Detroit Edison gave Consumers its four-year notice to terminate their joint operating agreements for the MEPCC. Detroit Edison and Consumers restructured and continued certain parts of the MEPCC control area and joint transmission operations, but expressly excluded any merchant operations (electricity purchasing, sales, and dispatch operations). On April 1, 2001, Detroit Edison and Consumers began separate merchant operations. This opened Detroit Edison and Consumers to wholesale market competition as individual companies. Consumers has successfully operated its independent merchant system since April 1, 2001. Although Consumers cannot predict the long-term financial impact of terminating these joint merchant operations, this change places Consumers in the same competitive position as all other wholesale market participants.

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Wholesale Market Pricing: The FERC authorizes Consumers to sell electricity at wholesale market prices. In authorizing sales at market prices, the FERC considers the seller's level of "market power," due to the seller's dominance of generation resources and surplus generation resources in adjacent wholesale markets. To continue its authorization to sell at market prices, Consumers filed a traditional market dominance analysis and indicated its compliance therewith in October 2001. In November 2001, the FERC issued an order modifying the traditional method of determining market power. In September 2002, a Consumers' affiliate, CMS MST, was required by the FERC to file an updated market power study to determine if CMS MST or any of its affiliates, including Consumers, had market power. The study, using FERC's modified method, found that neither CMS MST nor its affiliates possess market power.

Consumers cannot predict the impact of these electric industry-restructuring issues on its financial position, liquidity, or results of operations.

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Consumers Energy Company

PERFORMANCE STANDARDS: In July 2001, the MPSC proposed electric distribution performance standards for Consumers and other Michigan electric distribution utilities. The proposal would establish standards related to restoration after an outage, safety, and customer relations. Failure to meet the standards would result in customer bill credits. Consumers submitted comments to the MPSC. In December 2001, the MPSC issued an order stating its intent to initiate a formal rulemaking proceeding to develop and adopt performance standards. On November 7, 2002, the MPSC issued an order initiating the formal rulemaking proceeding. Consumers will continue to participate in this process. Consumers cannot predict the nature of the proposed standards or the likely effect, if any, on Consumers.

For further information and material changes relating to the rate matters and restructuring of the electric utility industry, see Note 1, Corporate Structure and Summary of Significant Accounting Policies, and Note 2, Uncertainties, "Electric Rate Matters - Electric Restructuring" and "Electric Rate Matters - Electric Proceedings."

UNCERTAINTIES: Several electric business trends or uncertainties may affect Consumers' financial results and condition. These trends or uncertainties have, or Consumers reasonably expects could have, a material impact on net sales, revenues, or income from continuing electric operations. Such trends and uncertainties include: 1) the need to make additional capital expenditures and increase operating expenses for Clean Air Act compliance; 2) environmental liabilities arising from various federal, state and local environmental laws and regulations, including potential liability or expenses relating to the Michigan Natural Resources and Environmental Protection Acts and Superfund; 3) uncertainties relating to the storage and ultimate disposal of spent nuclear fuel and the successful operation of Palisades by NMC; 4) electric industry restructuring issues, including those described above; 5) Consumers' ability to meet peak electric demand requirements at a reasonable cost, without market disruption, and successfully implement initiatives to reduce exposure to purchased power price increases; 6) the recovery of electric restructuring implementation costs; 7) Consumers new status as an electric transmission customer and not as an electric transmission owner/operator; 8) sufficient reserves for OATT rate refunds; 9) the effects of derivative accounting and potential earnings volatility, and 10) Consumers' continuing ability to raise funds at reasonable rates in order to meet the cash requirements of its electric business. For further information about these trends or uncertainties, see Note 2, Uncertainties.



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### GAS BUSINESS OUTLOOK

**GROWTH:** Over the next five years, Consumers expects gas deliveries, including gas customer choice deliveries (excluding transportation to the MCV Facility and off-system deliveries), to grow at an average rate of approximately one percent per year based primarily on a steadily growing customer base. This growth rate reflects a long-range expected trend of growth. Growth from year to year may vary from this trend due to customer response to abnormal weather conditions, use of gas by independent power producers, changes in competitive and economic conditions, and the level of natural gas consumption per customer.

**GAS RATE CASE:** In June 2001, Consumers filed an application with the MPSC seeking a \$140 million distribution service rate increase. Contemporaneously with this filing, Consumers requested partial and immediate relief in the annual amount of \$33 million. In October 2001, Consumers revised its filing to reflect lower operating costs and requested a \$133 million annual distribution service rate increase. In December 2001, the MPSC authorized a \$15 million annual interim increase in distribution service revenues. In February 2002, Consumers revised its filing to reflect lower estimated gas inventory prices and revised depreciation expense and requested a \$105 million distribution service rate increase. On November 7, 2002, the MPSC issued a final order approving a \$56 million annual distribution service rate increase, which includes the \$15 million interim increase, with an 11.4 percent authorized return on equity, for service effective November 8, 2002. See Note 2, Uncertainties "Gas Rate Matters - Gas Rate Case" for further information.

**UNBUNDLING STUDY:** In July 2001, the MPSC directed gas utilities under its jurisdiction to prepare and file an

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Consumers Energy Company

unbundled cost of service study. The purpose of the study is to allow parties to advocate or oppose the unbundling of the following services: metering, billing information, transmission, balancing, storage, backup and peaking, and customer turn-on and turn-off services. Unbundled services could be separately priced in the future and made subject to competition by other providers. The subject is likely to remain the topic of further study by the utilities in 2002 and 2003 and further consideration by the MPSC. Consumers cannot predict the outcome of unbundling costs on its financial results and conditions.

In September 2002, the FERC issued an order rejecting a filing by Consumers to assess certain rates for non-physical gas title tracking services offered by Consumers. Despite Consumers' arguments to the contrary, the Commission asserted jurisdiction over such activities and allowed Consumers to refile and justify a title transfer fee not based on volumes as Consumers proposed. Because the order was issued 6 years after Consumers made its original filing initiating the proceeding, over \$3 million in non-title transfer tracking fees had been collected. No refunds have been ordered, and Consumers sought rehearing of the September order. Consumers has made no reservations for refunds in this matter. If refunds were ordered they may include interest which would increase the refund liability to more than the \$3 million collected. Consumers is unable to say with certainty what the final outcome of this proceeding might be.

**UNCERTAINTIES:** Several gas business trends or uncertainties may affect Consumers' financial results and conditions. These trends or uncertainties have, or Consumers reasonably expects could have, a material impact on net sales,

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revenues, or income from continuing gas operations. Such trends and uncertainties include: 1) potential environmental costs at a number of sites, including sites formerly housing manufactured gas plant facilities; 2) future gas industry restructuring initiatives; 3) any initiatives undertaken to protect customers against gas price increases; 4) an inadequate regulatory response to applications for requested rate increases; 5) market and regulatory responses to increases in gas costs, including a reduced average use per residential customer; 6) increased costs for pipeline integrity and safety and homeland security initiatives that are not recoverable on a timely basis from customers; and 7) Consumers' continuing ability to raise funds at reasonable rates in order to meet the cash requirements of its gas business. For further information about these uncertainties, see Note 2, Uncertainties.

### OTHER OUTLOOK

See Outlook, "Pending Restatement", "Liquidity & Capital Resources", "SEC Investigation", "Securities Class Action Lawsuits", and "ERISA Cases" above.

**TAX LOSS ALLOCATIONS:** The Job Creation and Worker Assistance Act of 2002 provided to corporate taxpayers a 5-year carryback of tax losses incurred in 2001 and 2002. As a result of this legislation, CMS Energy was able to carry back a consolidated 2001 tax loss to tax years 1996 through 1999 and obtain refunds of prior years tax payments totaling \$217 million. The tax loss carryback, however, resulted in a reduction in AMT credit carryforwards that previously had been recorded by CMS Energy as deferred tax assets in the amount of \$41 million. This one-time non-cash reduction in AMT credit carryforwards was originally reflected in the tax provisions of CMS Energy and each of its consolidated subsidiaries as of September 2002, according to their contributions to the consolidated CMS Energy tax loss, of which \$29 million was allocated to Consumers under the CMS Energy tax sharing agreement. As of September 30, 2002, the \$29 million tax sharing allocation has been restated for financial reporting purposes and reflected as a dividend to be paid by Consumers to CMS Energy. In December 2002, Consumers' estimated \$29 million dividend was adjusted to \$25 million upon calculation of the final tax allocation.

**TERRORIST ATTACKS:** Since the September 11, 2001 terrorist attacks in the United States, Consumers has increased security at all facilities and over its infrastructure, and will continue to evaluate security on an ongoing basis. Consumers may be required to comply with federal and state regulatory security measures promulgated

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Consumers Energy Company

in the future. As a result, Consumers anticipates increased operating costs for security that could be significant. Consumers would try to recover these costs from customers.

**ENERGY-RELATED SERVICES:** Consumers offers a variety of energy-related services to retail customers that focus on appliance maintenance, home safety, commodity choice, and assistance to customers purchasing heating, ventilation and air conditioning equipment. Consumers continues to look for additional growth opportunities in providing energy-related services to its customers. The ability to offer all or some of these services and other utility related revenue-generating services, which provide approximately \$50 million in annual revenues, may be restricted by the new code of conduct issued by the MPSC, as discussed above in Electric Business Outlook, "Competition and Regulatory Restructuring - Code of Conduct."

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### OTHER MATTERS

#### NEW ACCOUNTING STANDARDS

SFAS NO. 143, ACCOUNTING FOR ASSET RETIREMENT OBLIGATIONS: Beginning January 1, 2003, companies must comply with SFAS No. 143. The standard requires companies to record the fair value of the legal obligations related to an asset retirement in the period in which it is incurred. When the liability is initially recorded, the company would capitalize an offsetting amount by increasing the carrying amount of the related long-lived asset. Over time, the initial liability is accreted to its present value each period and the capitalized cost is depreciated over the related asset's useful life. Consumers is currently inventorying assets that may have a retirement obligation and consulting with counsel to determine if a legal retirement obligation exists. If one exists, any removal cost estimate will be determined based on fair value cost estimates as required by the new standard. The present value of the legal retirement obligations will be used to quantify the effects of adoption of this standard.

SFAS NO. 145, RESCISSION OF FASB STATEMENTS NO. 4, 44, AND 64, AMENDMENT OF FASB STATEMENT NO. 13, AND TECHNICAL CORRECTIONS: Issued by the FASB in April 2002, this standard rescinds SFAS No. 4, Reporting Gains and Losses from Extinguishment of Debt, and SFAS No. 64, Extinguishment of Debt Made to Satisfy Sinking-Fund Requirements. As a result, any gain or loss on extinguishment of debt should be classified as an extraordinary item only if it meets the criteria set forth in APB Opinion No. 30. The provisions of this section are applicable to fiscal years beginning 2003. SFAS No. 145 amends SFAS No. 13, Accounting for Leases, to require sale-leaseback accounting for certain lease modifications that have similar economic impacts to sale-leaseback transactions. This provision is effective for transactions occurring after May 15, 2002. Finally, SFAS No. 145 amends other existing authoritative pronouncements to make various technical corrections and rescinds SFAS No. 44, Accounting for Intangible Assets of Motor Carriers. These provisions are effective for financial statements issued on or after May 15, 2002. Consumers believes there will be no impact on its financial statements upon adoption of the standard.

SFAS NO. 146, ACCOUNTING FOR COSTS ASSOCIATED WITH EXIT OR DISPOSAL ACTIVITIES: Issued by the FASB in July 2002, this standard requires companies to recognize costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan. This standard is effective for exit or disposal activities initiated after December 31, 2002. Consumers believes there will be no impact on its financial statements upon adoption of the standard.

#### SUBSEQUENT EVENTS

Subsequent to November 14, 2002, the date of filing Consumers' Form 10-Q for the third quarter 2002, a number of material events have occurred. Below is a summary of these events:

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Consumers Energy Company

#### CHANGE IN EXECUTIVE OFFICERS

Subsequent to March 1, 2002, certain changes have occurred in Consumers' executive officers. On May 24, 2002, the Board of Directors of Consumers elected Kenneth Whipple as Chairman of the Board and Chief Executive Officer; on June

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27, 2002, S. Kinnie Smith, Jr. was elected Vice Chairman of the Board; on July 22, 2002, Thomas J. Webb was elected Executive Vice President and Chief Financial Officer; on August 2, 2002, John F. Drake was elected Senior Vice President and on December 6, 2002, Michael T. Monahan and Joseph F. Paquette, Jr. joined the Board of Directors of Consumers.

### LIQUIDITY AND CAPITAL RESOURCES

During the summer months, Consumers purchases natural gas and stores it for resale primarily during the winter heating season. Recently the market price for natural gas has increased. If continued, this price increase could impose liquidity needs beyond what was previously anticipated for 2003. Although Consumers' natural gas purchases are recoverable from its customers, the amount paid for natural gas stored as inventory could require additional liquidity due to the timing of when those costs are recovered.

**DIVIDENDS:** Consumers paid \$233 million in common stock dividends in 2002, including the \$25 million tax sharing allocation from CMS Energy.

**FINANCING:** In October 2002, Consumers simultaneously entered into a new term loan agreement collateralized by first mortgage bonds and a new gas inventory term loan agreement collateralized by Consumers' natural gas in storage. These agreements contain complementary collateral packages that provide Consumers, as additional first mortgage bonds become available, borrowing capacity of up to \$225 million. Consumers drew \$220 million of the capacity upon execution of the agreements. In November 2002, Consumers paid \$80 million on the gas inventory loan and drew \$85 million under the term loan agreement. The bank and legal fees associated with the agreements were \$2 million. The first amortization payment under these agreements occurred in December 2002 with monthly amortization payments scheduled until full repayment is completed in mid-April of 2003. This financing eliminated the need for Consumers to access the capital markets for the remainder of 2002.

As of December 31, 2002, Consumers' debt maturities for 2003 include \$305 million of long-term debt, the \$250 million revolving credit facility and an estimated remaining balance of \$207 million on the new gas inventory term loan agreement. Consumers expects to borrow approximately \$1.1 billion in total in 2003, which includes an amount to refinance the majority of the maturing debt described above. Replacing maturing debt with new financing is subject, in part, to capital market acceptance and receptivity to utility industry securities in general and to Consumers' securities issuances in particular. Consumers cannot guarantee the capital market's acceptance of its securities or predict the impact of the restatement of its consolidated financial statements on such acceptance and is exploring other financing options which may include, but are not limited to, first mortgage bond collateralized bank term loans and inventory collateralized bank term loans.

### ACCOUNTING FOR PENSION AND OPEB

The Pension Plan includes amounts for employees of CMS Energy and non-utility affiliates, including Panhandle, which were not distinguishable from the Pension Plan's total assets. On December 21, 2002, a definitive agreement was executed to sell Panhandle. The sale is expected to close in 2003. No portion of the Pension Plan will be transferred with the sale of Panhandle. At the closing of the sale, all employees of Panhandle will no longer be eligible to accrue additional benefits. The Pension Plan will retain pension payment obligations under the Pension Plan for Panhandle employees who are vested under the Pension Plan.

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The recent significant downturn in the equities markets has affected the value of the Pension Plan's assets. The estimated fair value of the Pension Plan's assets at December 31, 2002 was \$607 million. The Accumulated Benefit Obligation was estimated at \$1.055 billion. The Pension Plan's Accumulated Benefit Obligation exceeded the value of these assets at December 31, 2002, and as a result, Consumers and the other participants of the plan were required to recognize an additional minimum liability for this excess in accordance with SFAS No. 87. As of December 31, 2002, the additional minimum liability allocated to Consumers was \$325 million, of which \$40 million was recorded as an intangible asset, and \$285 million was charged to other comprehensive income (\$185 million after-tax).

As of December 31, 2001, the balance of Pension Plan and OPEB plan assets was \$845 million and \$475 million, respectively. These amounts consisted primarily of stocks and bonds, including CMS Energy Common Stock of \$126 million in the Pension Plan's assets and \$3 million in the OPEB plan's assets at December 31, 2001. As of January 31, 2003, the market value of CMS Energy Common Stock in these plans was \$30 million in the Pension Plan and \$1 million in the OPEB plan.

In January 2002, Consumers' portion of contributions made to the plans' trust accounts was \$62 million. This amount represents \$47 million for pension related benefits and \$15 million for postretirement health care and life insurance benefits. In June 2002, September 2002, and December 2002, Consumers made additional contributions, in the amount of \$22 million, \$18 million, and \$18 million respectively, for postretirement health care and life insurance benefits. Consumers expects similar contributions for postretirement health care and life insurance benefits will be made in 2003, 2004, and 2005. Consumers expects its share of additional contributions to the Pension Plan to be approximately \$158 million in the third quarter of 2003, \$209 million in 2004, and \$24 million in 2005.

## CAPITAL EXPENDITURES OUTLOOK

Consumers estimates the following revised capital expenditures, including new lease commitments, as of December 31, 2002 by expenditure type and by business segments during 2002 through 2004. Consumers prepares these estimates for planning purposes and may revise them.

	In Millions		
Years Ended December 31	2002	2003	2004
Construction	\$561	\$424	\$520
Nuclear fuel	1	33	32
Other capital leases	55	28	23
	\$617	\$485	\$575
Electric utility operations (a) (b)	\$436	\$341	\$408
Gas utility operations (a)	181	144	167
	\$617	\$485	\$575

=====

(a) These amounts include an attributed portion of Consumers' anticipated capital expenditures for plant and equipment common to both the electric and gas utility businesses.

(b) These amounts include estimates for capital expenditures that may be required by recent revisions to the Clean Air Act's national air quality standards. For further information see Note 2, Uncertainties.

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Consumers Energy Company

#### ELECTRIC OUTLOOK

**STRANDED AND IMPLEMENTATION COSTS:** In December 2002, the MPSC issued an order finding that Consumers experienced zero "net" Stranded Costs in 2000 and 2001, but declined to establish a defined methodology that would allow a reliable prediction of the level of stranded costs for 2002 and future years. In January 2003, Consumers filed a petition for rehearing of the December 2002 stranded cost order in which it asked the MPSC to grant a rehearing and revise certain features of the order. Several other parties also filed rehearing petitions with the MPSC. The request for regulatory asset accounting treatment for Clean Air Act expenditures remains pending before the MPSC.

On March 4, 2003, Consumers filed an application with the MPSC seeking approval of net stranded costs incurred in 2002, and for approval of a net stranded cost recovery charge. In the application, Consumers indicated that if Consumers' proposal to securitize Clean Air Act expenditures and post-2000 Palisades expenditures were approved as proposed in its securitization case as discussed below, then Consumers' net stranded costs incurred in 2002 are approximately \$35 million. If the proposal to securitize those costs is not approved, then Consumers indicated that the costs would be properly included in the 2002 net stranded cost calculation, which would increase Consumers' 2002 net stranded costs to approximately \$103 million.

**SECURITIZATION:** On March 4, 2003, Consumers filed an application with the MPSC seeking approval to issue additional securitization bonds in the amount of approximately \$1.084 billion. If approved, this would allow the recovery of costs associated with Clean Air Act expenditures, post-2000 Palisades expenditures, retail open access implementation costs, electric pension fund costs, and expenses associated with the issuance of the bonds and the retirement of existing Consumers' debt. Consumers will use the proceeds from securitization for refinancing or retirement of debt.

**CODE OF CONDUCT:** In December 2002, Consumers filed a renewed request with the MPSC for a temporary waiver until April 2004 for the appliance service plan, which, in February 2003, was granted only until December 2003. The MPSC has issued a notice inviting comments on this request. The full impact of the new code of conduct on Consumers' business will remain uncertain until the appellate courts issue definitive rulings.

**TRANSMISSION:** Consumers is a customer of AEP, holding 500 MW of transmission service reservations through the AEP transmission system. AEP recently indicated its intent to turn control of its transmission system over to the PJM RTO and become part of the PJM market sometime after May 1, 2003, which requires approval by FERC. This will require current AEP customers to become members of, and resubmit reservation requests to, PJM. Consumers filed an intervention

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requesting clarification in January 2003. Upon FERC's approval of this transfer, Consumers will complete the application process to join PJM.

In addition to the potential cost impacts identified in the section entitled "Electric Business Outlook - Transmission" in the original text above, and in "Transmission" directly above, Consumers is evaluating whether or not there may be impacts on electric reliability associated with the outcomes of the various transmission related proceedings identified. Consumers cannot assure that all risks to reliability can be avoided.

### GAS OUTLOOK

**GAS RATE CASE:** On November 7, 2002, the MPSC issued a final order approving a \$56 million annual gas distribution service rate increase, which includes the \$15 million interim increase, with an 11.4 percent authorized return on equity, for service effective November 8, 2002. As part of this order, the MPSC approved Consumers' proposal to absorb the assets and liabilities of Michigan Gas Storage Company into Consumers' rate base and rates. This has occurred through a statutory merger of Michigan Gas Storage Company into Consumers and this is not expected to have an impact on Consumers' consolidated financial statements.

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Consumers Energy Company

On March 14, 2003, Consumers filed an application with the MPSC seeking an increase in its gas delivery and transportation rates based on a 2004 test year. If approved, the request would add about \$6.40 per month, or about 9 percent, to the typical residential customers' average monthly distribution bill. Consumers is seeking a 13.5 percent authorized return on equity along with a \$156 million revenue deficiency. Contemporaneously with this filing, Consumers has requested interim rate relief in the same amount.

### OTHER OUTLOOK

**TERRORIST ATTACKS:** In December 2002, the Michigan legislature passed, and the governor signed, a bill that would allow Consumers to seek recovery of additional security costs incurred during the rate freeze and cap periods imposed by the Customer Choice Act. On February 5, 2003, the MPSC adopted filing requirements for the recovery of enhanced security costs.

### OTHER MATTERS

#### NEW ACCOUNTING STANDARDS

**SFAS NO. 143, ACCOUNTING FOR ASSET RETIREMENT OBLIGATIONS:** Beginning January 1, 2003, companies must comply with SFAS No. 143. The standard requires companies to record the fair value of the legal obligations related to an asset retirement in the period in which it is incurred. When the liability is initially recorded, the company would capitalize an offsetting amount by increasing the carrying amount of the related long-lived asset. Over time, the initial liability is accreted to its present value each period and the capitalized cost is depreciated over the related asset's useful life. Consumers has determined that it has some legal asset retirement obligations, particularly in regard to its nuclear plants, but has not as yet finalized its assessment of the obligation. Once Consumers' assessment is finalized, its removal cost estimate will be determined based on fair value cost estimates as required by the new standard. The fair value of the legal retirement obligations will be present valued and used to quantify the effects of adoption of this standard.

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SFAS NO. 148, ACCOUNTING FOR STOCK-BASED COMPENSATION - TRANSITION AND DISCLOSURE: Issued by the FASB in December 2002, this standard provides for alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, the statement amends the disclosure requirements of SFAS No. 123 to require more prominent and more frequent disclosures in financial statements about the effects of stock-based compensation. The transition guidance and annual disclosure provisions of the statement are effective as of December 31, 2002 and interim disclosure provisions are effective for interim financial reports starting in 2003. Consumers has decided to voluntarily adopt the fair value based method of accounting for stock-based employee compensation effective December 31, 2002, applying the prospective method of adoption which requires recognition of all employee awards granted, modified, or settled after the beginning of the year in which the recognition provisions are first

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Consumers Energy Company

applied. Therefore, Consumers recorded expense for the fair value of stock options issued in 2002. The implementation had an immaterial effect on Consumers' financial statements upon adoption of the method.

FASB INTERPRETATION NO. 45, GUARANTOR'S ACCOUNTING AND DISCLOSURE REQUIREMENT FOR GUARANTEES, INCLUDING INDIRECT GUARANTEES OF INDEBTEDNESS OF OTHERS: Issued by the FASB in November 2002, the interpretation elaborates on existing disclosures requirements for most guarantees, and clarifies that at the time a company issues a guarantee, the company must recognize an initial liability for the fair value, or market value, of the obligations it assumes under that guarantee and must disclose that information in its interim and annual financial statements. The interpretation is effective for guarantees issued or modified after December 31, 2002. Consumers would be required to recognize a liability for any guarantees it may issue on or after January 1, 2003, but will not change the accounting for guarantees it may have issued before that date.

FASB INTERPRETATION NO. 46, CONSOLIDATION OF VARIABLE INTEREST ENTITIES: Issued by the FASB in January 2003, the interpretation expands upon and strengthens existing accounting guidance that addresses when a company should include in its financial statements the assets, liabilities and activities of another entity. The consolidation requirements of the interpretation apply immediately to variable interest entities created after January 31, 2003. For Consumers, the consolidation requirements apply to older entities beginning July 1, 2003. Certain of the disclosure requirements apply to all financial statements initially issued after January 31, 2003. Consumers will be required to consolidate any entities that meet the requirements of the interpretation. Consumers is in the process of studying the interpretation, and has yet to determine the effects, if any, on its consolidated financial statements.

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CONSUMERS ENERGY COMPANY  
CONSOLIDATED STATEMENTS OF INCOME  
(UNAUDITED)  
(AS RESTATED, SEE NOTE 4)



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SEPTEMBER 30	THREE MONTHS ENDED		NIN
	2002	2001	200
-----			
In Millions			
OPERATING REVENUE			
Electric	\$ 775	\$ 739	\$2,0
Gas	135	150	1,0
Other	11	11	
	-----	-----	
	921	900	3,0
-----			
OPERATING EXPENSES			
Operation			
Fuel for electric generation	98	102	2
Purchased power - related parties	143	155	4
Purchased and interchange power	111	187	2
Cost of gas sold	20	40	5
Cost of gas sold - related parties	34	32	
Other	182	151	4
	-----	-----	
	588	667	2,0
Maintenance	43	41	1
Depreciation, depletion and amortization	77	71	2
General taxes	43	44	1
	-----	-----	
	751	823	2,5
-----			
PRETAX OPERATING INCOME (LOSS)			
Electric	175	69	4
Gas	(14)	(1)	
Other	9	9	
	-----	-----	
	170	77	5
-----			
OTHER INCOME (DEDUCTIONS)			
Dividends and interest from affiliates	-	2	
Accretion expense	(1)	(2)	
Other, net	1	-	
	-----	-----	
	-	-	
-----			
INTEREST CHARGES			
Interest on long-term debt	41	35	1
Other interest	5	14	
Capitalized interest	(3)	(1)	
	-----	-----	
	43	48	1
-----			
INCOME BEFORE INCOME TAXES			
	127	29	4
INCOME TAXES			
	42	6	1
	-----	-----	
NET INCOME			
	85	23	3
PREFERRED STOCK DIVIDENDS			
	-	-	
PREFERRED SECURITIES DISTRIBUTIONS			
	11	12	
	-----	-----	

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NET INCOME AVAILABLE TO COMMON STOCKHOLDER \$ 74 \$ 11 \$ 2

THE ACCOMPANYING CONDENSED NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS.

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CONSUMERS ENERGY COMPANY  
 CONSOLIDATED STATEMENTS OF CASH FLOWS  
 (UNAUDITED)  
 (AS RESTATED, SEE NOTE 4)

SEPTEMBER 30 N  
2002

CASH FLOWS FROM OPERATING ACTIVITIES	
Net income	\$ 301
Adjustments to reconcile net income to net cash provided by operating activities	
Depreciation, depletion and amortization (includes nuclear decommissioning of \$5 and \$5, respectively)	256
Deferred income taxes and investment tax credit	(18)
Capital lease and other amortization	11
Gain on sale of METC and other assets	(38)
Undistributed earnings of related parties	(48)
Changes in assets and liabilities	
Increase in inventories	(37)
Decrease in accounts receivable and accrued revenue	98
Increase (decrease) in accounts payable	(79)
Changes in other assets and liabilities	(26)
Net cash provided by operating activities	420
CASH FLOWS FROM INVESTING ACTIVITIES	
Capital expenditures (excludes assets placed under capital lease)	(400)
Cost to retire property, net	(50)
Investment in Electric Restructuring Implementation Plan	(6)
Investments in nuclear decommissioning trust funds	(5)
Proceeds from nuclear decommissioning trust funds	19
Associated company preferred stock redemption	--
Proceeds from sale of METC, and other assets	298
Net cash used in investing activities	(144)
CASH FLOWS FROM FINANCING ACTIVITIES	
Retirement of bonds and other long-term debt	(409)
Decrease in notes payable, net	(182)
Payment of common stock dividends	(154)
Redemption of preferred securities	(30)
Preferred securities distributions	(33)
Payment of capital lease obligations	(11)
Payment of preferred stock dividends	(1)

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Proceeds from preferred securities	--
Stockholder's contribution, net	50
Proceeds from senior notes and bank loans	602
	-----
Net cash provided from (used) in financing activities	(168)
-----	
NET INCREASE IN CASH AND TEMPORARY CASH INVESTMENTS	108
CASH AND TEMPORARY CASH INVESTMENTS, BEGINNING OF PERIOD	17
	-----
CASH AND TEMPORARY CASH INVESTMENTS, END OF PERIOD	\$ 125
=====	
OTHER CASH FLOW ACTIVITIES AND NON-CASH INVESTING AND FINANCING ACTIVITIES WERE:	
CASH TRANSACTIONS	
Interest paid (net of amounts capitalized)	\$ 116
Income taxes paid (net of refunds)	83
Pension and OPEB cash contribution	101
NON-CASH TRANSACTIONS	
Nuclear fuel placed under capital lease	\$ --
Other assets placed under capital leases	50
=====	

All highly liquid investments with an original maturity of three months or less are considered cash equivalents.

THE ACCOMPANYING CONDENSED NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS.

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CONSUMERS ENERGY COMPANY  
CONSOLIDATED BALANCE SHEETS  
(AS RESTATED, SEE NOTE 4)

ASSETS	SEPTEMBER 30 2002 (UNAUDITED)	DECEMBER 31 2001
-----		
PLANT (AT ORIGINAL COST)		
Electric	\$ 7,504	\$ 7,661
Gas	2,692	2,593
Other	22	23
	-----	-----
	10,218	10,277
Less accumulated depreciation, depletion and amortization	5,856	5,934
	-----	-----
	4,362	4,343
Construction work-in-progress	463	480
	-----	-----
	4,825	4,823
-----		
INVESTMENTS		
Stock of affiliates	21	59

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First Midland Limited Partnership	250	253
Midland Cogeneration Venture Limited Partnership	370	300
	641	612
<hr/>		
CURRENT ASSETS		
Cash and temporary cash investments at cost, which approximates market	125	17
Accounts receivable and accrued revenue, less allowances of \$4, \$4 and \$3, respectively	36	125
Accounts receivable - related parties	18	18
Inventories at average cost		
Gas in underground storage	601	569
Materials and supplies	71	69
Generating plant fuel stock	49	52
Deferred property taxes	82	144
Regulatory assets	19	19
Other	27	14
	1,028	1,027
<hr/>		
NON-CURRENT ASSETS		
Regulatory assets		
Securitization costs	699	717
Postretirement benefits	191	209
Abandoned Midland Project	11	12
Other	173	167
Nuclear decommissioning trust funds	530	581
Other	108	173
	1,712	1,859
<hr/>		
TOTAL ASSETS	\$ 8,206	\$ 8,321
<hr/>		

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STOCKHOLDERS' INVESTMENT AND LIABILITIES	(AS RESTATED, SEE	
	SEPTEMBER 30 2002 (UNAUDITED)	DECEMBER 31 2001
<hr/>		
CAPITALIZATION		
Common stockholder's equity		
Common stock	\$ 841	\$ 841
Paid-in capital	682	632
Other comprehensive income	(8)	4
Retained earnings since December 31, 1992	525	441
	2,040	1,918
Preferred stock	44	44
Company-obligated mandatorily redeemable preferred securities		

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of subsidiaries (a)	490	520
Long-term debt	2,701	2,472
Non-current portion of capital leases	110	72
	5,385	5,026
-----		
CURRENT LIABILITIES		
Current portion of long-term debt and capital leases	224	257
Notes payable	235	416
Accounts payable	212	282
Accrued taxes	162	214
Accounts payable - related parties	85	96
Notes Payable - related parties	-	-
Deferred income taxes	18	12
Current portion of purchase power agreement-MCV Partnership	22	24
Other	253	247
	1,211	1,548
-----		
NON-CURRENT LIABILITIES		
Deferred income taxes	752	784
Postretirement benefits	224	276
Regulatory liabilities for income taxes, net	282	276
Power purchase agreement - MCV Partnership	30	52
Deferred investment tax credit	92	102
Other	230	257
	1,610	1,747
-----		
COMMITMENTS AND CONTINGENCIES (Notes 1 and 2)		
TOTAL STOCKHOLDERS' INVESTMENT AND LIABILITIES	\$ 8,206	\$ 8,321
=====		

(a) See Note 3, Short-Term Financings and Capitalization

THE ACCOMPANYING CONDENSED NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS.

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CONSUMERS ENERGY COMPANY  
CONSOLIDATED STATEMENTS OF COMMON STOCKHOLDER'S EQUITY  
(UNAUDITED)  
(AS RESTATED, SEE NOTE 4)

SEPTEMBER 30	THREE MONTHS ENDED		NI
	2002	2001	
-----			
In Millions			
COMMON STOCK			
At beginning and end of period (a)	\$ 841	\$ 841	\$ 8
-----			

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OTHER PAID-IN CAPITAL			
At beginning of period	682	646	6
Stockholder's contribution	-	150	1
Return of Stockholder's contribution	-	-	(1)
	-----		
At end of period	682	796	6
-----			
OTHER COMPREHENSIVE INCOME			
Investments			
At beginning of period	(5)	26	(
Unrealized loss on investments (b)	(4)	(15)	(
	-----		
At end of period	(9)	11	(
Derivative Instruments			
At beginning of period (c)	(3)	(10)	(
Unrealized gain (loss) on derivative instruments (b)	1	(9)	(
Reclassification adjustments included in net income (b)	3	4	(
	-----		
At end of period	1	(15)	(
-----			
RETAINED EARNINGS			
At beginning of period	480	524	4
Net income	85	23	3
Cash dividends declared- Common Stock	(29)	(94)	(1)
Cash dividends declared- Preferred Stock	-	-	(
Preferred securities distributions	(11)	(12)	(
	-----		
At end of period	525	441	5
-----			
TOTAL COMMON STOCKHOLDER'S EQUITY	\$ 2,040	\$ 2,074	\$ 2,0
=====			

(a) Number of shares of common stock outstanding was 84,108,789 for all periods presented.

(b) Disclosure of Comprehensive Income:

Other Comprehensive Income			
Investments			
Unrealized loss on investments, net of tax of \$3, \$8, \$14 and \$12, respectively	\$ (4)	\$ (15)	\$ (
Derivative Instruments			
Unrealized gain (loss) on derivative instruments, net of tax of \$(1), \$4, \$(4) and \$15, respectively	1	(9)	(
Reclassification adjustments included in net income, net of tax of \$(2), \$(2), \$(4) and \$2, respectively	3	4	(
Net income	85	23	3
	-----		
Total Comprehensive Income	\$ 85	\$ 3	\$ 2
=====			

(c) Nine Months Ended 2001 is the cumulative effect of change in accounting principle, as of 7/1/01, net of \$(9) tax. (Note 1)

THE ACCOMPANYING CONDENSED NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS.

Consumers Energy Company

CONSUMERS ENERGY COMPANY  
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(UNAUDITED)

Consumers' consolidated financial statements for the quarterly period ended September 30, 2002 have been restated, as discussed in Note 4, Restatement, pursuant to audit adjustments resulting from the re-audit of the consolidated financial statements for the years 2001 and 2000, as well as, reviews of the quarterly periods of 2002 of CMS Energy, Consumers' parent company, which included audit and review work at Consumers.

Except for the addition of Notes 4, 5, and 6 the following notes to the consolidated financial statements have generally only been modified for the effects of the restatement. For further information about Consumers' restated financial statements for December 31, 2001 and December 31, 2000, see Consumers' Form 10-K/A for the fiscal year ended December 31, 2001, which was filed with the SEC on February 21, 2003.

MODIFIED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

In April 2002, Consumers' Board of Directors, upon the recommendation of the Audit Committee of the Board, voted to discontinue using Arthur Andersen to audit the Consumers' financial statements for the year ending December 31, 2002. Consumers previously retained Arthur Andersen to review its financial statements for the quarter ended March 31, 2002. In May 2002, Consumers' Board of Directors engaged Ernst & Young to audit its financial statements for the year ending December 31, 2002.

In May 2002, as a result of certain financial reporting issues surrounding round-trip trading transactions at CMS MST, Arthur Andersen notified CMS Energy that Arthur Andersen's historical opinions on CMS Energy's financial statements for the fiscal years ended December 31, 2001 and December 31, 2000 could not be relied upon. As a result, Ernst & Young began the process of re-auditing CMS Energy's consolidated financial statements for each of the fiscal years ended December 31, 2001 and December 31, 2000. Although Arthur Andersen's notification did not apply to separate, audited financial statements of Consumers for the applicable years, the re-audit did include audit work at Consumers for these years.

In connection with Ernst & Young's re-audit of the fiscal years ended December 31, 2001 and December 31, 2000, Consumers has made, in consultation with Ernst & Young, certain adjustments to its consolidated financial statements for the fiscal years ended December 31, 2001 and December 31, 2000, which affect the results of the quarterly periods within 2001 and 2002. Therefore, the consolidated financial statements for the four quarters of 2001, the years ended December 31, 2001 and 2000, and the subsequent three quarters of 2002 have been restated from amounts previously reported. A summary of the principal effects of the restatement on Consumers' consolidated financial statements for the quarterly periods ended September 30, 2002 and September 30, 2001 is contained in Note 4, Restatement, and unaudited restated financial statements for the first and second quarters of 2002, with comparable restated periods for 2001, are contained in Note 6, Restated Financial Statements for First and Second Quarters. For further information about Consumers' restated financial statements

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for December 31, 2001 and December 31, 2000, see Consumers' Form 10-K/A for the fiscal year ended December 31, 2001, which was filed with the SEC on February 21, 2003.

These interim Consolidated Financial Statements have been prepared by Consumers in accordance with SEC rules and regulations, and reflect all normal recurring adjustments, which in the opinion of management, are necessary for the fair presentation of the results of the interim periods presented. In accordance with SEC rules and regulations, certain information and footnote disclosures normally included in full-year financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted. Certain prior year amounts have been reclassified to conform to the presentation in the current year. The Condensed Notes to Consolidated Financial Statements and the related Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements and Notes to

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Consumers Energy Company

Consolidated Financial Statements contained in the Consumers Form 10-K/A for the year ended December 31, 2001. Consumers' electric and gas utility operations are seasonal in nature. During the summer months, there is usually an increase in demand for electric energy, principally due to the use of air conditioners and other cooling equipment, thereby affecting revenues. Also during the summer months, Consumers injects natural gas into storage for use during the winter months when demand for natural gas is higher. Peak demand for natural gas usually occurs in the winter due to colder temperatures and the resulting increased demand for heating fuels. Due to the seasonal nature of Consumers operations, the results as presented for this interim period are not necessarily indicative of results to be achieved for the fiscal year.

### 1: CORPORATE STRUCTURE AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**CORPORATE STRUCTURE:** Consumers, a subsidiary of CMS Energy, a holding company, is an electric and gas utility company that provides service to customers in Michigan's Lower Peninsula. Consumers' customer base includes a mix of residential, commercial and diversified industrial customers, the largest segment of which is the automotive industry.

**BASIS OF PRESENTATION:** The consolidated financial statements include Consumers and its wholly owned subsidiaries. Consumers prepared the financial statements in conformity with accounting principles generally accepted in the United States that include the use of management's estimates. Consumers uses the equity method of accounting for investments in its companies and partnerships where it has more than a twenty percent but less than a majority ownership interest and includes these results in operating income.

**REPORTABLE SEGMENTS:** Consumers has two reportable segments: electric and gas. The electric segment consists of activities associated with the generation and distribution of electricity. The gas segment consists of activities associated with the transportation, storage and distribution of natural gas. Consumers' reportable segments are domestic strategic business units organized and managed by the nature of the product and service each provides. The accounting policies of the segments are the same as those described in Consumers' 2001 Form 10-K/A. Consumers' management has changed its evaluation of the performance of the electric and gas segments from pretax operating income to net income available to common stockholder. The Consolidated Statements of Income show operating revenue and pretax operating income by reportable segment. Intersegment sales and transfers are accounted for at current market prices and are eliminated in



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consolidated net income available to common stockholder by segment. The net income available to common stockholder by reportable segment is as follows:

September 30	Three Months Ended		200
	2002	2001	200
	(Restated)	(Restated)	(Restate
Net income available to common stockholder			
Electric	\$89	\$16	\$2
Gas	(18)	(10)	
Other	3	5	
<b>Total Consolidated</b>	<b>\$74</b>	<b>\$11</b>	<b>\$2</b>

June 30	Three Months Ended		200
	2002	2001	200
	(Restated)	(Restated)	(Restate
Net income available to common stockholder			
Electric	\$84	\$32	\$1
Gas	3	1	
Other	26	2	
<b>Total Consolidated</b>	<b>\$113</b>	<b>\$35</b>	<b>\$1</b>

March 31			T
			200
			(Restate
Net income available to common stockholder			
Electric			\$
Gas			
Other			
<b>Total Consolidated</b>			<b>\$</b>

UTILITY REGULATION: Consumers accounts for the effects of regulation based on SFAS No. 71. As a result, the actions of regulators affect when Consumers

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recognizes revenues, expenses, assets and liabilities.

In March 1999, Consumers received MPSC electric restructuring orders and, as a result, discontinued application of SFAS No. 71 for the electric supply portion of its business. Discontinuation of SFAS No. 71

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Consumers Energy Company

for the electric supply portion of Consumers' business resulted in Consumers reducing the carrying value of its Palisades plant-related assets by approximately \$535 million and establishing a regulatory asset for a corresponding amount. According to current accounting standards, Consumers can continue to carry its electric supply-related regulatory assets if legislation or an MPSC rate order allows the collection of cash flows to recover these regulatory assets from its regulated distribution customers. As of September 30, 2002, Consumers had a net investment in electric supply facilities of \$1.426 billion included in electric plant and property. See Note 2, Uncertainties, "Electric Rate Matters - Electric Restructuring."

**RISK MANAGEMENT ACTIVITIES AND DERIVATIVE TRANSACTIONS:** Consumers is exposed to market risks including, but not limited to, changes in interest rates, commodity prices, and equity security prices. Consumers' market risk, and activities designed to minimize this risk, are subject to the direction of an executive oversight committee consisting of designated members of senior management and a risk committee, consisting of business unit managers. The risk committee's role is to review the corporate commodity position and ensure that net corporate exposures are within the economic risk tolerance levels established by Consumers' Board of Directors. Established policies and procedures are used to manage the risks associated with market fluctuations.

Consumers uses various contracts, including swaps, options, and forward contracts to manage its risks associated with the variability in expected future cash flows attributable to fluctuations in interest rates and commodity prices. Consumers enters into all risk management contracts for purposes other than trading. Contracts to manage interest rate and commodity price risk may be considered derivative instruments that are subject to derivative and hedge accounting pursuant to SFAS No. 133.

For further discussion see "Implementation of New Accounting Standards" below, Note 2, Uncertainties, "Other Electric Uncertainties - Derivative Activities", "Other Gas Uncertainties - Derivative Activities" and Note 3, Short-Term Financings and Capitalization, "Derivative Activities."

**IMPLEMENTATION OF NEW ACCOUNTING STANDARDS:** Consumers adopted SFAS No. 133 on January 1, 2001. This standard requires Consumers to recognize at fair value all contracts that meet the definition of a derivative instrument on the balance sheet as either assets or liabilities. The standard also requires Consumers to record all changes in fair value directly in earnings, or other comprehensive income if the derivative meets certain qualifying hedge criteria. Consumers determines fair value based upon quoted market prices and mathematical models using current and historical pricing data. Any ineffective portion of all hedges is recognized in earnings.

Consumers believes that the majority of its contracts are not subject to derivative accounting because they qualify for the normal purchases and sales exception of SFAS No. 133. Derivative accounting is required, however, for certain contracts used to limit Consumers' exposure to electricity and gas commodity price risk and interest rate risk.

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Consumers believes that certain of its electric capacity and energy contracts are not derivatives due to the lack of an active energy market, as defined by SFAS No. 133, in the state of Michigan and the transportation cost to deliver the power under the contracts to the closest active energy market at the Cinergy hub in Ohio. If a market develops in the future, Consumers may be required to account for these contracts as derivatives. The mark-to-market impact in earnings related to these contracts, particularly related to the PPA, could be material to the financial statements.

On January 1, 2001, upon initial adoption of the standard, Consumers recorded a \$21 million, net of tax, (\$32 million, pretax) cumulative effect transition adjustment as an unrealized gain increasing accumulated other comprehensive income. Consumers then reclassified to earnings \$12 million as a reduction to the cost of gas; \$1 million as a reduction to the cost of power supply; \$2 million as an increase in interest expense; and \$8

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Consumers Energy Company

million as an increase in other revenue for the twelve months ended December 31, 2001. The remaining \$9 million difference between the initial transition adjustment and the amounts reclassified to earnings has been reduced to zero, decreasing other comprehensive income, and represents an unrealized loss in the fair value of the derivative instruments since January 1, 2001. As a result, as of December 31, 2001, there were no amounts remaining in accumulated other comprehensive income related to the initial transition adjustment.

On January 1, 2001, upon initial adoption of SFAS No. 133, derivative and hedge accounting for certain utility industry contracts, particularly electric call option contracts and option-like contracts, and contracts subject to Bookouts was uncertain. Consumers did not record these contracts on the balance sheet at fair value, but instead accounted for these types of contracts as derivatives that qualified for the normal purchase exception of SFAS No. 133. In June and December 2001, the FASB issued guidance that resolved the accounting for these contracts. As a result, on July 1, 2001, Consumers recorded a \$3 million, net of tax, cumulative effect adjustment as an unrealized loss, decreasing accumulated other comprehensive income, and on December 31, 2001, recorded an \$11 million, net of tax, cumulative effect adjustment, as a decrease to earnings. These adjustments relate to the difference between the fair value and the recorded book value of certain electric call option contracts.

As of September 30, 2002, Consumers recorded a total of \$5 million, net of tax, as an unrealized gain in other comprehensive income related to its proportionate share of the effects of derivative accounting related to its equity investment in the MCV Partnership. Consumers expects to reclassify this gain, if this value remains, as an increase to other operating revenue during the next 12 months.

For further discussion of derivative activities, see Note 2, Uncertainties, "Other Electric Uncertainties - Derivative Activities" and "Other Gas Uncertainties - Derivative Activities" and Note 3, Short-Term Financings and Capitalization, "Derivative Activities."

SFAS NO. 142, GOODWILL AND OTHER INTANGIBLE ASSETS: SFAS No. 142, issued in July 2001, requires that goodwill no longer be amortized to earnings, but instead be reviewed for impairment. Effective, January 1, 2002, the provisions of SFAS No. 142 had no impact on Consumers' consolidated results of operations or financial position.

SFAS NO. 143, ACCOUNTING FOR ASSET RETIREMENT OBLIGATIONS: Issued by the FASB in

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August 2001, the provisions of SFAS No. 143 require adoption as of January 1, 2003. The standard requires entities to record the fair value of a liability for an asset retirement obligation in the period in which it is incurred. When the liability is initially recorded, the entity would capitalize an offsetting amount by increasing the carrying amount of the related long-lived asset. Over time, the liability is accreted to its present value while the capitalized cost is depreciated over the useful life of the related asset. Consumers is currently studying the new standard but has yet to quantify the effects of adoption on its financial statements.

SFAS NO. 144, ACCOUNTING FOR THE IMPAIRMENT OR DISPOSAL OF LONG-LIVED ASSETS: This new standard was issued by the FASB in August 2001, and supersedes SFAS No. 121, and APB Opinion No. 30. SFAS No. 144 requires long-lived assets to be measured at the lower of either the carrying amount or of the fair value less the cost to sell, whether reported in continuing operations or in discontinued operations. Therefore, discontinued operations will no longer be measured at net realizable value or include amounts for operating losses that have not yet occurred. SFAS No. 144 also broadens the reporting of discontinued operations to include all components of an entity with operations that can be distinguished from the rest of the entity and that will be eliminated from the ongoing operations of the entity in a disposal transaction. The adoption of SFAS No. 144, effective January 1, 2002, will result in Consumers accounting for any future impairment or disposal of long-lived assets under the provisions of SFAS No. 144, but has not changed the accounting used for previous asset impairments or disposals.

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Consumers Energy Company

ACCOUNTING FOR HEADQUARTERS BUILDING LEASE: In April 2001, Consumers Campus Holdings entered into a lease agreement for the construction of an office building to be used as the main headquarters for Consumers in Jackson, Michigan. Consumers' current headquarters building lease expires in June 2003. The new office building lessor has committed to fund up to \$65 million for construction of the building, which is due to be completed during March 2003. Consumers is acting as the construction agent of the lessor for this project. During construction, the lessor has a maximum recourse of 89.9 percent against Consumers in the event of certain defaults, which Consumers believes are unlikely. For several events of default, primarily bankruptcy or intentional misapplication of funds, there could be full recourse for the amounts expended by the lessor at that time. The agreement also includes a common change in control provision, which could trigger full payment of construction costs by Consumers. As a result of this provision, Consumers elected to classify this lease as a capital lease during the second quarter of 2002. This classification represents the total obligation of Consumers under this agreement. As such, Consumers' balance sheet as of September 30, 2002, reflects a capital lease asset and an offsetting non-current liability equivalent to the cost of construction at that date of \$45 million.

## 2: UNCERTAINTIES

### UNCERTAINTIES RELATED TO RESTATEMENT

SEC AND OTHER INVESTIGATIONS: As a result of the round-trip trading transactions at CMS MST, CMS Energy's Board of Directors established a special committee of independent directors to investigate matters surrounding the transactions and retained outside counsel to assist in the investigation. The special committee completed its investigation and reported its findings to the Board of Directors

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in October 2002. The special committee concluded, based on an extensive investigation, that the round-trip trades were undertaken to raise CMS MST's profile as an energy marketer with the goal of enhancing its ability to promote its services to new customers. The special committee found no apparent effort to manipulate the price of CMS Energy Common Stock or affect energy prices. The special committee also made recommendations designed to prevent any reoccurrence of this practice, some of which have already been implemented, including the termination of the speculative trading business and revisions to CMS Energy's risk management policy. The Board of Directors adopted, and CMS Energy has begun implementing, the remaining recommendations of the special committee.

CMS Energy is cooperating with other investigations concerning round-trip trading, including an investigation by the SEC regarding round-trip trades and the CMS Energy's financial statements, accounting policies and controls, and investigations by the United States Department of Justice, the Commodity Futures Trading Commission and the FERC. CMS Energy has also received subpoenas from the United States Attorney's Office for the Southern District of New York and from the United States Attorney's Office in Houston regarding investigations of these trades and has received a number of shareholder class action lawsuits. CMS Energy is unable to predict the outcome of these matters, and Consumers is unable to predict what effect, if any, these investigations will have on its business.

**SECURITIES CLASS ACTION LAWSUITS:** Beginning on May 17, 2002, a number of securities class action complaints have been filed against CMS Energy, Consumers, and certain officers and directors of CMS Energy and its affiliates. The complaints have been filed in the United States District Court for the Eastern District of Michigan as purported class actions by individuals who allege that they purchased CMS Energy's securities during a purported class period. At least two of the complaints contain purported class periods beginning on August 3, 2000 and running through May 10, 2002 or May 14, 2002. These complaints generally seek unspecified damages based on allegations that the defendants violated United States securities laws and regulations by making allegedly false and misleading statements about the company's business and financial condition. CMS Energy believes that additional suits might be commenced against it and that all such suits

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Consumers Energy Company

against it will eventually be consolidated. Consumers intends to vigorously defend against these actions. Consumers cannot predict the outcome of this litigation.

**ERISA CASES:** Consumers is a named defendant, along with CMS Energy, CMS MST and certain named and unnamed officers and directors in two lawsuits brought as purported class actions on behalf of participants and beneficiaries of the 401(k) Plan. The two cases, filed in July 2002 in the United States District Court for the Eastern District of Michigan, were consolidated by the trial judge. Plaintiffs allege breaches of fiduciary duties under the ERISA and seek restitution on behalf of the Plan with respect to a decline in value of the shares of CMS Energy Common Stock held in the Plan. Plaintiffs also seek other equitable relief and legal fees. These cases will be vigorously defended. Consumers cannot predict the outcome of this litigation.

**ELECTRIC CONTINGENCIES**

**ELECTRIC ENVIRONMENTAL MATTERS:** Consumers is subject to costly and increasingly stringent environmental regulations. Consumers expects that the cost of future environmental compliance, especially compliance with clean air laws, will be

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significant.

Clean Air - In 1998, the EPA issued final regulations requiring the State of Michigan to further limit nitrogen oxide emissions. The Michigan Department of Environmental Quality is in the process of finalizing rules to comply with the EPA final regulations. Rules are expected to be promulgated and submitted to the EPA by the end of 2002. In addition, the EPA also issued additional final regulations regarding nitrogen oxide emissions that require certain generators, including some of Consumers' electric generating facilities, to achieve the same emissions rate as that required by the 1998 regulations. The EPA and the State final regulations will require Consumers to make significant capital expenditures estimated to be \$770 million. As of September 2002, Consumers has incurred \$372 million in capital expenditures to comply with the EPA final regulations and anticipates that the remaining capital expenditures will be incurred between 2002 and 2009. Additionally, Consumers will supplement its compliance plan with the purchase of nitrogen oxide emissions credits in the years 2005 through 2008. The cost of these credits based on the current market is estimated to be an average of \$6 million per year, however, the market for nitrogen oxide emissions credits is volatile and the price could change significantly. At some point, if new environmental standards become effective, Consumers may need additional capital expenditures to comply with the future standards. Based on the Customer Choice Act, beginning January 2004, an annual return of and on these types of capital expenditures, to the extent they are above depreciation levels, is expected to be recoverable from customers, subject to an MPSC prudency hearing.

These and other required environmental expenditures, if not recovered from customers in Consumers rates, may have a material adverse effect upon Consumers' financial condition and results of operations.

Cleanup and Solid Waste - Under the Michigan Natural Resources and Environmental Protection Act, Consumers expects that it will ultimately incur investigation and remedial action costs at a number of sites. Consumers believes that these costs will be recoverable in rates under current ratemaking policies.

Consumers is a potentially responsible party at several contaminated sites administered under Superfund. Superfund liability is joint and several. Along with Consumers, many other creditworthy, potentially responsible parties with substantial assets cooperate with respect to the individual sites. Based upon past negotiations, Consumers estimates that its share of the total liability for the known Superfund sites will be between \$1 million and \$9 million. As of September 30, 2002, Consumers had accrued the minimum amount of the range for its estimated Superfund liability.

In October 1998, during routine maintenance activities, Consumers identified PCB as a component in certain paint, grout and sealant materials at the Ludington Pumped Storage facility. Consumers removed and replaced

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Consumers Energy Company

part of the PCB material. In April 2000, Consumers proposed a plan to deal with the remaining materials and is awaiting a response from the EPA.

### ELECTRIC RATE MATTERS

ELECTRIC RESTRUCTURING: In June 2000, the Michigan Legislature passed electric utility restructuring legislation known as the Customer Choice Act. This act: 1) permits all customers to choose their electric generation supplier beginning January 1, 2002; 2) cut residential electric rates by five percent; 3) freezes

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all electric rates through December 31, 2003, and establishes a rate cap for residential customers through at least December 31, 2005, and a rate cap for small commercial and industrial customers through at least December 31, 2004; 4) allows for the use of low-cost Securitization bonds to refinance qualified costs, as defined by the act; 5) establishes a market power supply test that may require transferring control of generation resources in excess of that required to serve firm retail sales requirements (a requirement Consumers believes itself to be in compliance with at this time); 6) requires Michigan utilities to join a FERC-approved RTO or divest their interest in transmission facilities to an independent transmission owner; (Consumers has sold its interest in its transmission facilities to an independent transmission owner, see "Transmission" below) 7) requires Consumers, Detroit Edison and American Electric Power to jointly expand their available transmission capability by at least 2,000 MW; 8) allows deferred recovery of an annual return of and on capital expenditures in excess of depreciation levels incurred during and before the rate freeze/cap period; and 9) allows recovery of "net" Stranded Costs and implementation costs incurred as a result of the passage of the act. In July 2002, the MPSC issued an order approving the plan to achieve the increased transmission capacity. Once the increased transmission capacity projects identified in the plan are completed, verification of compliance is required to be sent to the MPSC. Upon submittal of verification of compliance, Consumers expects to be deemed in compliance with the MPSC statute. Consumers is highly confident that it will meet the conditions of items 5 and 7 above, prior to the earliest rate cap termination dates specified in the act. Failure to do so, however, could result in an extension of the rate caps to as late as December 31, 2013.

In 1998, Consumers submitted a plan for electric retail open access to the MPSC. In March 1999, the MPSC issued orders generally supporting the plan. The Customer Choice Act states that the MPSC orders issued before June 2000 are in compliance with this act and enforceable by the MPSC. Those MPSC orders: 1) allow electric customers to choose their supplier; 2) authorize recovery of "net" Stranded Costs and implementation costs; and 3) confirm any voluntary commitments of electric utilities. In September 2000, as required by the MPSC, Consumers once again filed tariffs governing its retail open access program and made revisions to comply with the Customer Choice Act. In December 2001, the MPSC approved revised retail open access tariffs. The revised tariffs establish the rates, terms, and conditions under which retail customers will be permitted to choose an alternative electric supplier. The tariffs, effective January 1, 2002, did not require significant modifications in the existing retail open access program. The tariff terms allow retail open access customers, upon as little as 30 days notice to Consumers, to return to Consumers' generation service at current tariff rates. If any class of customers' (residential, commercial, or industrial) retail open access load reaches 10 percent of Consumers' total load for that class of customers, then returning retail open access customers for that class must give 60 days notice to return to Consumers' generation service at current tariff rates. However, Consumers may not have sufficient, reasonably priced, capacity to meet the additional demand of returning retail open access customers, and may be forced to purchase electricity on the spot market at higher prices than it could recover from its customers.

**SECURITIZATION:** In October 2000 and January 2001, the MPSC issued orders authorizing Consumers to issue Securitization bonds. Securitization typically involves issuing asset-backed bonds with a higher credit rating than conventional utility corporate financing. The orders authorized Consumers to securitize approximately \$469 million in qualified costs, which were primarily regulatory assets plus recovery of the Securitization expenses. Securitization resulted in lower interest costs and a longer amortization period for the securitized assets, and offset the majority of the impact of the required residential rate reduction (approximately \$22

million in 2000 and \$49 million annually thereafter). The orders directed Consumers to apply any cost savings in excess of the five percent residential rate reduction to rate reductions for non-residential customers and reductions in Stranded Costs for retail open access customers after the bonds are sold. Excess savings are approximately \$12 million annually.

In November 2001, Consumers Funding LLC, a special purpose consolidated subsidiary of Consumers formed to issue the bonds, issued \$469 million of Securitization bonds, Series 2001-1. The Securitization bonds mature at different times over a period of up to 14 years, with an average interest rate of 5.3 percent. The last expected maturity date is October 20, 2015. Net proceeds from the sale of the Securitization bonds, after issuance expenses, were approximately \$460 million. Consumers used the net proceeds to retire \$164 million of its common equity from its parent, CMS Energy. From December 2001 through March 2002, the remainder of these proceeds were used to pay down Consumers long-term debt and Trust Preferred Securities. CMS Energy used the \$164 million from Consumers to pay down its own short-term debt.

Consumers and Consumers Funding LLC will recover the repayment of principal, interest and other expenses relating to the bond issuance through a securitization charge and a tax charge that began in December 2001. These charges are subject to an annual true-up until one year prior to the last expected bond maturity date, and no more than quarterly thereafter. The first true-up was issued in November 2002, and prospectively modified the total securitization and related tax charges from 1.677 mills per kWh to 1.746 mills per kWh. Current electric rate design covers these charges, and there will be no rate impact for most Consumers electric customers until the Customer Choice Act rate freeze expires. Securitization charge revenues are remitted to a trustee for the Securitization bonds and are not available to Consumers' creditors.

Regulatory assets are normally amortized over their period of regulated recovery. Beginning January 1, 2001, the amortization was deferred for the approved regulatory assets being securitized, which effectively offset the loss in revenue in 2001 resulting from the five percent residential rate reduction. In December 2001, after the Securitization bonds were sold, the amortization was re-established, based on a schedule that is the same as the recovery of the principal amounts of the securitized qualified costs. In 2002, the amortization amount is expected to be approximately \$31 million and the securitized assets will be fully amortized by the end of 2015.

**TRANSMISSION:** In 1999, the FERC issued Order No. 2000, strongly encouraging electric utilities to transfer operating control of their electric transmission system to an RTO, or sell the facilities to an independent company. In addition, in June 2000, the Michigan legislature passed Michigan's Customer Choice Act, which also requires utilities to divest or transfer the operating authority of transmission facilities to an independent company. Consumers chose to offer its electric transmission system for sale rather than own and invest in an asset that it could not control. In May 2002, Consumers sold its electric transmission system for approximately \$290 million in cash to MTH, a non-affiliated limited partnership whose general partner is a subsidiary of Trans-Elect Inc.

Trans-Elect, Inc. submitted the winning bid through a competitive bidding process, and various federal agencies approved the transaction. Consumers did not provide any financial or credit support to Trans-Elect, Inc. Certain of Trans-Elect's officers and directors are former officers and directors of CMS Energy, Consumers and their subsidiaries. None of them were employed by CMS Energy, Consumers, or their affiliates when the transaction was discussed



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internally and negotiated with purchasers. As a result of the sale, Consumers anticipates that its after-tax earnings will increase by approximately \$17 million in 2002, due to the recognition of a \$26 million one time gain on the sale of the electric transmission system. This one time gain is offset by a loss of revenue from wholesale and retail open access customers who will buy services directly from MTH, including the loss of a return on the sold electric transmission system. Consumers anticipates that the future impact of the loss of revenue from wholesale and retail open access customers who will buy services directly from MTH and the loss of a return on the sold electric transmission system on its after-tax earnings will be a decrease of \$15 million in 2003, and a decrease of approximately \$14 million

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annually for the next three years.

Under the agreement with MTH, and subject to certain additional RTO surcharges, contract transmission rates charged to Consumers will be fixed at current levels through December 31, 2005, and be subject to FERC ratemaking thereafter. MTH will complete the capital program to expand the transmission system's capability to import electricity into Michigan, as required by the Customer Choice Act, and Consumers will continue to maintain the system under a five-year contract with MTH. Effective April 30, 2002, Consumers and METC withdrew from the Alliance RTO.

When IPPs connect to transmission systems, they pay transmission companies the capital costs incurred to connect the IPP to the transmission system and make system upgrades needed for the interconnection. It is the FERC's policy that the system upgrade portion of these IPP payments be credited against transmission service charges over time as transmission service is taken. METC recorded a \$35 million liability for IPP credits. Subsequently, MTH assumed this liability as part of its purchase of the electric transmission system. Several months after METC started operation, the FERC changed its policy to provide for interest on IPP payments that are to be credited. The \$35 million liability for IPP credits does not include interest since the associated interconnection agreements do not at this time provide for interest. METC has asserted that Consumers may be liable for interest on the IPP payments to be credited if interest provisions are added to these agreements.

**POWER SUPPLY COSTS:** During periods when electric demand is high, the cost of purchasing electricity on the spot market can be substantial. To reduce Consumers' exposure to the fluctuating cost of electricity, and to ensure adequate supply to meet demand, Consumers intends to maintain sufficient generation and to purchase electricity from others to create a power supply reserve, also called a reserve margin. The reserve margin provides additional power supply capability above Consumers' anticipated peak power supply demands. It also allows Consumers to provide reliable service to its electric service customers and to protect itself against unscheduled plant outages and unanticipated demand. Traditionally, Consumers has planned for a reserve margin of approximately 15 percent. However, in light of the addition of new in-state generating capacity, additional transmission import capability, and FERC's standard market design notice of proposed rulemaking, which calls for a minimum reserve margin of 12 percent, Consumers is currently evaluating the appropriate reserve margin for 2003 and beyond. The ultimate use of the reserve margin needed will depend primarily on summer weather conditions, the level of retail open access requirements being served by others during the summer, and any unscheduled plant outages. As of November 2002, alternative electric suppliers are providing 446 MW of generation supply to customers.

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To reduce the risk of high electric prices during peak demand periods and to achieve its reserve margin target, Consumers employs a strategy of purchasing electric call option and capacity contracts for the physical delivery of electricity primarily in the summer months and to a lesser degree in the winter months. As of September 30, 2002, Consumers had purchased or had commitments to purchase electric call option and capacity contracts partially covering the estimated reserve margin requirements for 2002 through 2007. As a result Consumers has a recognized asset of \$30 million for unexpired call options and capacity contracts. The total cost of electricity call option and capacity contracts for 2002 is approximately \$13 million, which is subject to change based upon potential changes in fair value for certain unexpired call options.

Prior to 1998, the PSCR process provided for the reconciliation of actual power supply costs with power supply revenues. This process assured recovery of all reasonable and prudent power supply costs actually incurred by Consumers, including the actual cost for fuel, and purchased and interchange power. In 1998, as part of the electric restructuring efforts, the MPSC suspended the PSCR process, and would not grant adjustment of customer rates through 2001. As a result of the rate freeze imposed by the Customer Choice Act, the current rates will remain in effect until at least December 31, 2003 and, therefore, the PSCR process

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remains suspended. Therefore, changes in power supply costs as a result of fluctuating electricity prices will not be reflected in rates charged to Consumers' customers during the rate freeze period.

**ELECTRIC PROCEEDINGS:** The Customer Choice Act allows electric utilities to recover the act's implementation costs and "net" Stranded Costs (without defining the term). The act directs the MPSC to establish a method of calculating "net" Stranded Costs and of conducting related true-up adjustments. In December 2001, the MPSC adopted a methodology which calculated "net" Stranded Costs as the shortfall between: (a) the revenue required to cover the costs associated with fixed generation assets, generation-related regulatory assets, and capacity payments associated with purchase power agreements, and (b) the revenues received from customers under existing rates available to cover the revenue requirement. Consumers has initiated an appeal at the Michigan Court of Appeals related to the MPSC's December 2001 "net" Stranded Cost order, as a result of the uncertainty associated with the outcome of the proceeding described in the following paragraph.

According to the MPSC, "net" Stranded Costs are to be recovered from retail open access customers through a Stranded Cost transition charge. Even though the MPSC set Consumers' Stranded Cost transition charge at zero for calendar year 2000, those costs for 2000 will be subject to further review in the context of the MPSC's subsequent determinations of "net" Stranded Costs for 2001 and later years. The MPSC authorized Consumers to use deferred accounting to recognize the future recovery of costs determined to be stranded. In April 2002, Consumers made "net" Stranded Cost filings with the MPSC for \$22 million and \$43 million for 2000 and 2001, respectively. In the same filing, Consumers estimated that it would experience "net" Stranded Costs of \$126 million for 2002. After a series of appeals and hearings, Consumers in its hearing brief, filed in August 2002, revised its request for Stranded Costs to \$7 million and \$4 million for 2000 and 2001, respectively, and an estimated \$73 million for 2002. The single largest reason for the difference in the filing was the exclusion of all costs associated with expenditures required by the Clean Air Act. Consumers, in a separate filing, requested regulatory asset accounting treatment for its Clean Air Act expenditures through 2003. The outcome of these proceedings before the

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MPSC is uncertain at this time.

Since 1997, Consumers has incurred significant electric utility restructuring implementation costs. The following table outlines the applications filed by Consumers with the MPSC and the status of recovery for these costs.

Year Filed	Year Incurred	Requested	Pending	Allowed
1999	1997 & 1998	\$ 20	\$ -	\$ 15
2000	1999	30	-	25
2001	2000	25	-	20
2002	2001	8	8	-

The MPSC disallowed certain costs based upon a conclusion that these amounts did not represent costs incremental to costs already reflected in electric rates. In the orders received for the years 1997 through 2000, the MPSC also reserved the right to review again the total implementation costs depending upon the progress and success of the retail open access program, and ruled that due to the rate freeze imposed by the Customer Choice Act, it was premature to establish a cost recovery method for the allowable implementation costs. In addition to the amounts shown, as of September 2002, Consumers incurred and deferred as a regulatory asset, \$3 million of additional implementation costs and has also recorded as a regulatory asset \$13 million for the cost of money associated with total implementation costs. Consumers believes the implementation costs and the associated cost of money are fully recoverable in accordance with the Customer Choice Act. Cash recovery from customers will probably begin after the rate freeze or rate cap period has expired. Consumers cannot predict the amounts the MPSC will approve as allowable costs.

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Consumers is also pursuing recovery, through the MISO, of approximately \$7 million in certain electric utility restructuring implementation costs related to its former participation in the development of the Alliance RTO. However, Consumers cannot predict the amounts it will be reimbursed by the MISO.

In 1996, Consumers filed new OATT transmission rates with the FERC for approval. Interveners contested these rates, and hearings were held before an ALJ in 1998. In 1999, the ALJ made an initial decision that was largely upheld by the FERC in March 2002, which requires Consumers to refund, with interest, over-collections for past services as measured by the FERC's finally approved OATT rates. Since the initial decision, Consumers has been reserving a portion of revenues billed to customers under the filed 1996 OATT rates. Consumers submitted revised rates to comply with the FERC final order in June 2002. Those revised rates were accepted by the FERC in August 2002 and Consumers is in the process of computing refund amounts for individual customers. Consumers believes its reserve is sufficient to satisfy its estimated refund obligation.

In November 2002, the MPSC upon its own motion commenced a contested proceeding requiring each utility to give reason as to why its rates should not be reduced to reflect new personal property multiplier tables, and why it should not refund any amounts that it receives as refunds from local governments as they implement the new multiplier tables. Consumers believes that such action may be

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inconsistent with the electric rate freeze that is currently in effect, and may otherwise be unlawful. Consumers is unable to predict the outcome of this matter.

### OTHER ELECTRIC UNCERTAINTIES

THE MIDLAND COGENERATION VENTURE: The MCV Partnership, which leases and operates the MCV Facility, contracted to sell electricity to Consumers for a 35-year period beginning in 1990 and to supply electricity and steam to Dow. Consumers, through two wholly owned subsidiaries, holds the following assets related to the MCV Partnership and MCV Facility: 1) CMS Midland owns a 49 percent general partnership interest in the MCV Partnership; and 2) CMS Holdings holds, through FMLP, a 35 percent lessor interest in the MCV Facility.

### Summarized Statements of Income for CMS Midland and CMS Holdings

September 30	2002
<hr style="border-top: 1px dashed black;"/>	
Pretax operating income	\$63
Income taxes and other	21
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Net income	\$42
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### Summarized Statements of Income for the MCV Partnership

September 30	2002
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Operating revenue	\$451
Operating expenses	318
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Operating income	133
Other expense, net	86
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Income before cumulative effect of accounting change	47
Cumulative effect of change in method of accounting for derivative option contracts	58
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Net income	\$105
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Power Supply Purchases from the MCV Partnership - Consumers' annual obligation to purchase capacity from the MCV Partnership is 1,240 MW through the termination of the PPA in 2025. The PPA requires Consumers to pay, based on the MCV Facility's availability, a levelized average capacity charge of 3.77 cents per kWh, a fixed energy charge, and a variable energy charge based primarily on Consumers' average cost of coal consumed for all kWh delivered. Since January 1, 1993, the MPSC has permitted Consumers to recover capacity charges averaging 3.62 cents per kWh for 915 MW, plus a substantial portion of the fixed and variable energy charges. Since January 1, 1996, the MPSC has also permitted Consumers to recover capacity charges for the remaining 325 MW of contract capacity with an initial average charge of 2.86 cents per kWh increasing periodically to an eventual 3.62 cents per kWh by 2004 and thereafter. However, due to the current freeze of Consumers' retail rates that the Customer Choice Act requires, the capacity charge for the 325 MW is now frozen at 3.17 cents per kWh. After September 2007, the PPA's terms obligate Consumers to pay the MCV Partnership only those capacity and energy charges that the MPSC has authorized for recovery from electric customers.

In 1992, Consumers recognized a loss and established a PPA liability for the present value of the estimated future underrecoveries of power supply costs under the PPA based on MPSC cost recovery orders. Primarily as a result of the MCV Facility's actual availability being greater than management's original estimates, the PPA liability has been reduced at a faster rate than originally anticipated. At September 30, 2002 and 2001, the remaining after-tax present value of the estimated future PPA liability associated with the loss totaled \$38 million and \$54 million, respectively. The PPA liability is expected to be depleted in late 2004. For further discussion on the impact of the frozen PSCR, see "Electric Rate Matters" in this Note.

In March 1999, Consumers and the MCV Partnership reached an agreement effective January 1, 1999, that capped availability payments to the MCV Partnership at 98.5 percent. If the MCV Facility generates electricity at the maximum 98.5 percent level during the next six years, Consumers' after-tax cash underrecoveries associated with the PPA could be as follows:

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	2002	2003	2004	2005
Estimated cash underrecoveries at 98.5%, net of tax	\$38	\$37	\$36	\$36

It is currently estimated that 51 percent of the actual cash underrecoveries for the years 2002 through 2004 will be charged to the PPA liability, with the remaining portion charged to operating expense as a result of Consumers' 49 percent ownership in the MCV Partnership. All cash underrecoveries will be expensed directly to income once the PPA liability is depleted.

In 1992, Consumers originally accounted for losses associated with the PPA by establishing a reserve for the difference between the amount that Consumers was paying for power in accordance with the terms of the PPA, and the amount that Consumers was ultimately allowed by the MPSC to recover from electric customers.

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At that time, the reserve did not take into account earnings Consumers would receive from its 49 percent interest in the MCV Partnership due to uncertainties with the level of performance of the facility.

In 2000, Consumers reviewed its estimate of the economic losses it would experience with respect to the PPA and re-evaluated all of the current facts and circumstances used to calculate the disallowance reserve, including earnings from its 49 percent interest in the MCV Partnership. Consumers concluded that no adjustment to the reserve was required in 2000. However, as conditions surrounding MCV Partnership operations evolved in 2001, Consumers concluded that it needed to increase the reserve by \$126 million (pre-tax) in the third quarter of 2001, and did so.

In connection with the re-audit of CMS Energy's consolidated financial statements for the fiscal years 2000 and 2001, Consumers reviewed its 2000 and 2001 PPA accounting and related assumptions, and determined that the reserve balance as of January 1, 2000 did appropriately reflect Consumers' probable losses as of that date. However, as a result of reconsideration of all subsidiary accounting effects, the re-evaluation of the PPA accounting did result in a net reduction of operating expenses associated with the PPA of \$12 million in 2001, an increase to operating expenses associated with the PPA of \$29 million in 2000, the reversal of the \$126 million increase to the reserve originally recorded in 2001, and immaterial adjustments to accretion expense for both years.

The following table reflects the audit adjustments associated with the MCV PPA accounting and the related net income effects for the periods ended December 31, 2001 and December 31, 2000:

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In Millions  
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	Inc
Reverse the original operating charge associated with continuing losses on the MCV PPA	
Charge 49 percent annual capacity losses associated with the MCV PPA to operating expense instead of to the reserve	
Net operating expense decrease/(increase)	
Reverse the 2001 increase to the MCV PPA reserve	
Accretion Expense	
Pre-tax effect of adjustments	
Income tax effect	
Net income impact of MCV PPA adjustments	

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In February 1998, the MCV Partnership appealed the January 1998 and February 1998 MPSC orders related to electric utility restructuring. At the same time, MCV Partnership filed suit in the United States District Court in Grand Rapids seeking a declaration that the MPSC's failure to provide Consumers and MCV

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Partnership a certain source of recovery of capacity payments after 2007 deprived MCV Partnership of its rights under the Public Utilities Regulatory Policies Act of 1978. In July 1999, the District Court granted MCV Partnership's motion for summary judgment. The Court permanently prohibited enforcement of the restructuring orders in any manner that denies any utility the ability to recover amounts paid to qualifying facilities such as the MCV Facility or that precludes the MCV Partnership from recovering the avoided cost rate. The MPSC appealed the Court's order to the 6th Circuit Court of Appeals in Cincinnati. In June 2001, the 6th Circuit overturned the lower court's order and dismissed the case against the MPSC. The appellate court determined that the case was premature and concluded that the qualifying facilities needed to wait until 2008 for an actual factual record to develop before bringing claims against the MPSC in federal court. The MCV Partnership has requested rehearing of the appellate court's order.

**NUCLEAR FUEL COST:** Consumers amortizes nuclear fuel cost to fuel expense based on the quantity of heat produced for electric generation. Through November 2001, Consumers expensed the interest on leased nuclear fuel as it was incurred. Effective December 2001, Consumers no longer leases its nuclear fuel.

For nuclear fuel used after April 6, 1983, Consumers charges disposal costs to nuclear fuel expense, recovers these costs through electric rates, and then remits them to the DOE quarterly. Consumers elected to defer payment for disposal of spent nuclear fuel burned before April 7, 1983. As of September 30, 2002, Consumers has a recorded liability to the DOE of \$137 million, including interest, which is payable upon the first delivery of spent nuclear fuel to the DOE. Consumers recovered through electric rates the amount of this liability, excluding a portion of interest. In 1997, a federal court decision has confirmed that the DOE was to begin accepting deliveries of spent nuclear fuel for disposal by January 31, 1998. Subsequent litigation in which Consumers and certain other utilities participated has not been successful in producing more specific relief for the DOE's failure to comply.

In July 2000, the DOE reached a settlement agreement with one utility to address the DOE's delay in accepting spent fuel. The DOE may use that settlement agreement as a framework that it could apply to other nuclear power plants. However, certain other utilities challenged the validity of the mechanism for funding the settlement in an appeal, and recently the reviewing court sustained their challenge. Additionally, there are two court decisions that support the right of utilities to pursue damage claims in the United States Court of Claims against the DOE for failure to take delivery of spent fuel. A number of utilities have commenced litigation in the Court of Claims. Consumers is evaluating its options with respect to its contract with the DOE and plans to pursue recovery of the nuclear fuel removal costs at its Big Rock and Palisades plants.

In July 2002, Congress approved and the President signed a bill designating the site at Yucca Mountain, Nevada, for the development of a repository for the disposal of high-level radioactive waste and spent nuclear fuel. The next step will be for the DOE to submit an application to the NRC for a license to begin construction of the repository. The application and review process is estimated to take several years.

**NUCLEAR MATTERS:** In April 2002, Palisades received its annual performance review in which the NRC stated that Palisades operated in a manner that preserved public health and safety. With the exception of a single finding related to a fire protection smoke detector location with low safety significance, the NRC classified all inspection findings as having very low safety significance. Other than the follow-up fire protection inspection associated with this one finding, the NRC plans to conduct only baseline inspections at the facility through May 31, 2003.

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The amount of spent nuclear fuel discharged from the reactor to date exceeds Palisades' temporary on-site storage pool capacity. Consequently, Consumers is using NRC-approved steel and concrete vaults, commonly

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known as "dry casks", for temporary on-site storage. As of September 30, 2002, Consumers had loaded 18 dry casks with spent nuclear fuel at Palisades. Palisades will need to load additional dry casks by the fall of 2004 in order to continue operation. Palisades currently has three empty storage-only dry casks on-site, with storage pad capacity for up to seven additional loaded dry casks. Consumers anticipates that licensed transportable dry casks for additional storage, along with more storage pad capacity, will be available prior to 2004.

In December 2000, the NRC issued an amendment revising the operating license for Palisades to extend its expiration date to March 2011, with no restrictions related to reactor vessel embrittlement.

In 2000, Consumers made an equity investment and entered into an operating agreement with NMC. NMC was formed in 1999 by four utilities to operate and manage the nuclear generating plants owned by these utilities. Consumers benefits by consolidating expertise, cost control and resources among all of the nuclear plants being operated on behalf of the NMC member companies.

In November 2000, Consumers requested approval from the NRC to transfer operating authority for Palisades to NMC and the request was granted in April 2001. The formal transfer of authority from Consumers to NMC took place in May 2001. Consumers retains ownership of Palisades, its 789 MW output, the current and future spent fuel on-site, and ultimate responsibility for the safe operation, maintenance and decommissioning of the plant. Under the agreement that transferred operating authority of the plant to NMC, salaried Palisades' employees became NMC employees on July 1, 2001. Union employees work under the supervision of NMC pursuant to their existing labor contract as Consumers' employees. NMC currently has responsibility for operating eight units with 4,500 MW of generating capacity in Wisconsin, Minnesota, Iowa and Michigan.

Following a refueling outage in April 2001, the Palisades reactor was shut down on June 20, 2001 so technicians could inspect a small steam leak on a control rod drive assembly. There was no risk to the public or workers. In August 2001, Consumers completed an expanded inspection that included all similar control rod drive assemblies and elected to completely replace all the components. Installation of the new components was completed in December 2001 and the plant returned to service and has been operating since January 21, 2002. Consumers' capital expenditures for the components and their installation was approximately \$31 million.

From the start of the June 20th outage through the end of 2001, the impact on net income of replacement power supply costs associated with the outage was approximately \$59 million. Subsequently, in January 2002, the impact on 2002 net income was \$5 million.

Consumers maintains insurance against property damage, debris removal, personal injury liability and other risks that are present at its nuclear facilities. Consumers also maintains coverage for replacement power supply costs during certain prolonged accidental outages at Palisades. Insurance would not cover such costs during the first 12 weeks of any outage, but would cover most of such costs during the next 52 weeks of the outage, followed by reduced coverage to 80 percent for 110 additional weeks. The June 2001 through January 2002 Palisades outage, however, was not an insured event. If certain covered losses occur at



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its own or other nuclear plants similarly insured, Consumers could be required to pay maximum assessments of \$25.8 million in any one year to NEIL; \$88 million per occurrence under the nuclear liability secondary financial protection program, limited to \$10 million per occurrence in any year; and \$6 million if nuclear workers claim bodily injury from radiation exposure. Consumers considers the possibility of these assessments to be remote. NEIL limits its coverage from multiple acts of terrorism during a twelve-month period to a maximum aggregate of \$3.24 billion, allocated among the claimants, plus recoverable reinsurance, indemnity and other sources, which could affect the amount of loss coverage for Consumers should multiple acts of terrorism occur. The Price Anderson Act is currently in the process of reauthorization by the U. S. Congress. It is possible that the Price

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Anderson Act will not be reauthorized or changes may be made that significantly affect the insurance provisions for nuclear plants.

**CAPITAL EXPENDITURES:** In 2002, 2003, and 2004, Consumers estimates electric capital expenditures, including new lease commitments and environmental costs under the Clean Air Act, of \$474 million, \$352 million, and \$410 million.

**DERIVATIVE ACTIVITIES:** Consumers' electric business uses purchased electric call option contracts to meet, in part, its regulatory obligation to serve. This obligation requires Consumers to provide a physical supply of electricity to customers, to manage electric costs and to ensure a reliable source of capacity during peak demand periods. These contracts are subject to SFAS No. 133 derivative accounting, and are required to be recorded on the balance sheet at fair value, with changes in fair value recorded directly in earnings or other comprehensive income, if the contract meets qualifying hedge criteria. On July 1, 2001, upon initial adoption of the standard for these contracts, Consumers recorded a \$3 million, net of tax, cumulative effect adjustment as an unrealized loss, decreasing accumulated other comprehensive income. This adjustment relates to the difference between the fair value and the recorded book value of these electric call option contracts. The adjustment to accumulated other comprehensive income relates to electric call option contracts that qualified for cash flow hedge accounting prior to the initial adoption of SFAS No. 133. After July 1, 2001, these contracts did not qualify for hedge accounting under SFAS No. 133 and, therefore, Consumers records any change in fair value subsequent to July 1, 2001 directly in earnings, which can cause earnings volatility. The initial amount recorded in other comprehensive income was reclassified to earnings as the forecasted future transactions occurred or the call options expired. The majority of these contracts expired in the third quarter 2001 and the remaining contracts expired in the third quarter of 2002. As of December 31, 2001, Consumers reclassified from other comprehensive income to earnings, \$2 million, net of tax, as part of the cost of power supply, and the remainder, \$1 million, net of tax, was reclassified from other comprehensive income to earnings in the third quarter of 2002.

In December 2001, the FASB issued revised guidance regarding derivative accounting for electric call option contracts and option-like contracts. The revised guidance amended the criteria used to determine if derivative accounting is required. In light of the amended criteria, Consumers re-evaluated its electric call option and option-like contracts, and determined that additional contracts require derivative accounting. Therefore, as of December 31, 2001, upon initial adoption of the revised guidance for these contracts, Consumers recorded an \$11 million, net of tax, cumulative effect adjustment as a decrease to earnings. This adjustment relates to the difference between the fair value and the recorded book value of these electric call option contracts. Consumers

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will record any change in fair value subsequent to December 31, 2001, directly in earnings, which could cause earnings volatility. As of September 30, 2002, Consumers recorded on the balance sheet all of its unexpired purchased electric call option contracts subject to derivative accounting at a fair value of \$1 million.

Consumers believes that certain of its electric capacity and energy contracts are not derivatives due to the lack of an active energy market, as defined by SFAS No. 133, in the state of Michigan and the transportation cost to deliver the power under the contracts to the closest active energy market at the Cinergy hub in Ohio. If a market develops in the future, Consumers may be required to account for these contracts as derivatives. The mark-to-market impact in earnings related to these contracts, particularly related to the PPA could be material to the financial statements.

Consumers' electric business also uses gas swap contracts to protect against price risk due to the fluctuations in the market price of gas used as fuel for generation of electricity. These gas swaps are financial contracts that will be used to offset increases in the price of probable forecasted gas purchases. These contracts do not qualify for hedge accounting. Therefore, Consumers records any change in the fair value of these contracts directly in earnings as part of power supply costs, which could cause earnings volatility. As of September 30,

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2002, a mark to market gain of \$1 million has been recorded for 2002, which represents the fair value of these contracts at September 30, 2002. These contracts expire in December 2002.

As of September 30, 2001, Consumers' electric business also used purchased gas call option and gas swap contracts to hedge against price risk due to the fluctuations in the market price of gas used as fuel for generation of electricity. These contracts were financial contracts that were used to offset increases in the price of probable forecasted gas purchases. These contracts were designated as cash flow hedges and, therefore, Consumers recorded any change in the fair value of these contracts in other comprehensive income until the forecasted transaction occurs. Once the forecasted gas purchases occurred, the net gain or loss on these contracts were reclassified to earnings and recorded as part of the cost of power. These contracts were highly effective in achieving offsetting cash flows of future gas purchases, and no component of the gain or loss was excluded from the assessment of the hedge's effectiveness. As a result, no net gain or loss was recognized in earnings as a result of hedge ineffectiveness as of September 30, 2001. At September 30, 2001, Consumers had a derivative liability with a fair value of \$0.4 million. These contracts expired in 2001.

### GAS CONTINGENCIES

**GAS ENVIRONMENTAL MATTERS:** Under the Michigan Natural Resources and Environmental Protection Act, Consumers expects that it will ultimately incur investigation and remedial action costs at a number of sites. These include 23 former manufactured gas plant facilities, which were operated by Consumers for some part of their operating lives, including sites in which it has a partial or no current ownership interest. Consumers has completed initial investigations at the 23 sites. For sites where Consumers has received site-wide study plan approvals, it will continue to implement these plans. It will also work toward closure of environmental issues at sites as studies are completed. Consumers has estimated its costs related to further investigation and remedial action for all

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23 sites using the Gas Research Institute-Manufactured Gas Plant Probabilistic Cost Model. The estimated total costs are between \$82 million and \$113 million; these estimates are based on discounted 2001 costs and follow EPA recommended use of discount rates between 3 and 7 percent for this type of activity. Consumers expects to recover a significant portion of these costs through insurance proceeds and through MPSC approved rates charged to its customers. As of September 30, 2002, Consumers has an accrued liability of \$51 million, net of \$31 million of expenditures incurred to date, and a regulatory asset of \$70 million. Any significant change in assumptions, such as an increase in the number of sites, different remediation techniques, nature and extent of contamination, and legal and regulatory requirements, could affect Consumers' estimate of remedial action costs.

The MPSC, in its November 7, 2002, gas distribution rate order, authorized Consumers to continue to recover approximately \$1 million of manufactured gas plant facilities environmental clean-up costs annually. Consumers defers and amortizes, over a period of 10 years, manufactured gas plant facilities environmental clean-up costs above the amount currently being recovered in rates. Additional rate recognition of amortization expense cannot begin until after a prudence review in a gas rate case. The annual amount that the MPSC authorized Consumers to recover in rates will continue to be offset by \$2 million to reflect amounts recovered from all other sources.

### GAS RATE MATTERS

**GAS RESTRUCTURING:** From April 1, 1998 to March 31, 2001, Consumers conducted an experimental gas customer choice pilot program that froze gas distribution and GCR rates through the period. On April 1, 2001, a permanent gas customer choice program commenced under which Consumers returned to a GCR mechanism that allows it to recover from its bundled sales customers all prudently incurred costs to purchase the natural gas commodity and transport it to Consumers for ultimate distribution to customers.

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**GAS COST RECOVERY:** As part of a settlement agreement approved by the MPSC in July 2001, Consumers agreed not to bill a price in excess of \$4.69 per mcf of natural gas under the GCR factor mechanism through March 2002. This agreement is not expected to affect Consumers' earnings outlook because Consumers recovers from customers the amount that it actually pays for natural gas in the reconciliation process. The settlement does not affect Consumers' June 2001 request to the MPSC for a distribution service rate increase. The MPSC also approved a methodology to adjust bills for market price increases quarterly without returning to the MPSC for approval. In December 2001, Consumers filed its GCR Plan for the period April 2002 through March 2003. Consumers is requesting authority to bill a GCR factor up to \$3.50 per mcf for this period. The Company also requested the MPSC approve the same methodology which adjusts bills for market price increases that the MPSC approved, through settlement, in the previous plan year. A settlement with all parties in the proceeding was signed and submitted to the Commission in March 2002. The settlement stipulated to all requests of Consumers and the MPSC approved the settlement, as filed, in July 2002. Consistent with the terms of the settlement, Consumers filed in June of 2002 to raise the GCR factor cap to \$3.66 for the period July through September and Consumers proceeded to bill its customers at this new rate. In September, Consumers filed to raise the GCR factor cap to \$3.79 for October through December, but expects to be able to continue billing at the \$3.66 rate.

**GAS RATE CASE:** In June 2001, Consumers filed an application with the MPSC seeking a \$140 million distribution service rate increase. Consumers requested a

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12.25 percent authorized return on equity. Contemporaneously with this filing, Consumers requested partial and immediate relief in the annual amount of \$33 million. The relief was primarily for higher carrying costs on more expensive natural gas inventory than is currently included in rates. In October 2001, Consumers revised its filing to reflect lower operating costs and requested a \$133 million annual distribution service rate increase. In December 2001, the MPSC authorized a \$15 million annual interim increase in distribution service rate revenues. The order authorized Consumers to apply the interim increase on its gas sales customers' bills for service effective December 21, 2001. In February 2002, Consumers revised its filing to reflect lower estimated gas inventory prices and revised depreciation expense and requested an annual \$105 million distribution service rate increase. On November 7, 2002, the MPSC issued a final order approving a \$56 million annual distribution service rate increase, which includes the \$15 million interim increase, with an 11.4 percent authorized return on equity, effective for service November 8, 2002.

In September 2002, the FERC issued an order rejecting a filing by Consumers to assess certain rates for non-physical gas title tracking services offered by Consumers. Despite Consumer arguments to the contrary, the Commission asserted jurisdiction over such activities and allowed Consumers to refile and justify a title transfer fee not based on volumes as Consumers proposed. Because the order was issued 6 years after Consumers made its original filing initiating the proceeding, over \$3 million in non-title transfer tracking fees had been collected. No refunds have been ordered, and Consumers sought rehearing of the September order. Consumers has made no reservations for refunds in this matter. If refunds were ordered they may include interest which would increase the refund liability to more than the \$3 million collected. Consumers is unable to say with certainty what the final outcome of this proceeding might be.

In November 2002, the MPSC upon its own motion commenced a contested proceeding requiring each utility to give reason as to why its rates should not be reduced to reflect new personal property multiplier tables, and why it should not refund any amounts that it receives as refunds from local governments as they implement the new multiplier tables. Consumers believes that such action may be inconsistent with the November 7, 2002 gas rate order in case U-13000, with the Customer Choice Act, and may otherwise be unlawful. Consumers is unable to predict the outcome of this matter.

### OTHER GAS UNCERTAINTIES

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**CAPITAL EXPENDITURES:** In 2002, 2003, and 2004, Consumers estimates gas capital expenditures, including new lease commitments, of \$207 million, \$151 million, and \$165 million.

**DERIVATIVE ACTIVITIES:** Consumers' gas business uses fixed price gas supply contracts, and fixed price weather-based gas supply call options and fixed price gas supply put options, and other types of contracts, to meet its regulatory obligation to provide gas to its customers at a reasonable and prudent cost. Some of the fixed price gas supply contracts require derivative accounting because they contain embedded put options that disqualify the contracts from the normal purchase exception of SFAS No. 133. As of September 30, 2002, Consumers' gas supply contracts requiring derivative accounting had a fair value of \$1 million, representing a fair value gain on the contracts since the date of inception. This gain was recorded directly in earnings as part of other income, and then directly offset and recorded on the balance sheet as a regulatory liability. Any subsequent changes in fair value will be recorded in a similar manner. These contracts expire in October 2002.

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As of September 30, 2002, weather-based gas call options and gas put options requiring derivative accounting had a net fair value of \$1 million. The change in value since inception in August 2002 is immaterial. Any change in fair value will be recorded in a similar manner as stated above for the change in fair value for fixed price gas supply contracts requiring derivative accounting.

### OTHER UNCERTAINTIES

**PENSION:** The recent significant downturn in the equities markets has affected the value of the Pension Plan assets. If the plan's Accumulated Benefit Obligation exceeds the value of these assets at December 31, 2002, Consumers Energy will be required to recognize an additional minimum liability for this excess in accordance with SFAS No. 87. Consumers cannot predict the future fair value of the plan's assets but it is possible, without significant appreciation in the plan's assets, that Consumers will need to book an additional minimum liability through a charge to other comprehensive income. The value of the Plan assets and the Accumulated Benefits Obligation are determined by the Plan's actuary in the fourth quarter of each year.

In addition to the matters disclosed in this note, Consumers and certain of its subsidiaries are parties to certain lawsuits and administrative proceedings before various courts and governmental agencies arising from the ordinary course of business. These lawsuits and proceedings may involve personal injury, property damage, contractual matters, environmental issues, federal and state taxes, rates, licensing and other matters.

Consumers has accrued estimated losses for certain contingencies discussed in this note. Resolution of these contingencies is not expected to have a material adverse impact on Consumers' financial position, liquidity, or results of operations.

**TAX LOSS ALLOCATIONS:** The Job Creation and Worker Assistance Act of 2002 provided to corporate taxpayers a 5-year carryback of tax losses incurred in 2001 and 2002. As a result of this legislation, CMS Energy was able to carry back a consolidated 2001 tax loss to tax years 1996 through 1999 and obtain refunds of prior years tax payments totaling \$217 million. The tax loss carryback, however, resulted in a reduction in AMT credit carryforwards that previously had been recorded by CMS Energy as deferred tax assets in the amount of \$41 million. This one-time non-cash reduction in AMT credit carryforwards was originally reflected in the tax provisions of CMS Energy and each of its consolidated subsidiaries, as of September 2002, according to their contributions to the consolidated CMS Energy tax loss, of which \$29 million was allocated to Consumers under the CMS Energy tax sharing agreement. As of September 30, 2002, the \$29 million tax sharing allocation has been restated for financial reporting purposes and reflected as a dividend to be paid by Consumers to CMS Energy. In December 2002, Consumers' estimated \$29 million dividend was adjusted to \$25 million upon calculation of the final tax allocation.

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### 3: SHORT-TERM FINANCINGS AND CAPITALIZATION

**AUTHORIZATION:** At September 30, 2002, Consumers had FERC authorization to issue or guarantee through June 2004, up to \$1.1 billion of short-term securities outstanding at any one time. Consumers also had remaining FERC authorization to issue through June 2004 up to \$500 million of long-term securities for refinancing or refunding purposes, \$690 million for general corporate purposes,

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and \$900 million of First Mortgage Bonds to be issued solely as security for the long-term securities.

SHORT-TERM FINANCINGS: At September 30, 2002, Consumers had a \$250 million credit facility secured by First Mortgage Bonds. This facility is available to finance seasonal working capital requirements and to pay for capital expenditures between long-term financings. At September 30, 2002, a total of \$235 million was outstanding at a weighted average interest rate of 3.7 percent, compared with \$153 million outstanding on a revolving credit facility at September 30, 2001, at a weighted average interest rate of 3.5 percent.

In July 2002, the credit rating of the publicly traded securities of Consumers was downgraded by the major rating agencies. The rating downgrade is purported to be largely a function of the uncertainties associated with CMS Energy's financial condition and liquidity pending resolution of the round-trip trading investigations and lawsuits, the special board committee investigation, restatement and re-audit of 2000 and 2001 financial statements and uncertain future access to the capital markets.

As a result of certain of these downgrades, a few commodity suppliers to Consumers have requested advance payments or other forms of assurances in connection with maintenance of ongoing deliveries of gas and electricity. Consumers is addressing these issues as required.

On July 12, 2002, Consumers reached agreement with its lenders on two credit facilities as follows: a \$250 million revolving credit facility maturing July 11, 2003 and a \$300 million term loan maturing July 11, 2003. In September 2002, the term loan maturity was extended by one year at Consumers' option and now has a maturity date of July 11, 2004. These two facilities aggregating \$550 million replace a \$300 million revolving credit facility that matured July 14, 2002 as well as various credit lines aggregating \$200 million. At September 30, 2002, a total of \$535 million was outstanding under these facilities. The prior credit facilities and lines were unsecured. The two new credit facilities are secured with Consumers First Mortgage Bonds.

Consumers \$250 million revolving credit facility has an interest rate of LIBOR plus 200 basis points, although the rate may fluctuate depending on the rating of Consumers' first mortgage bonds, and the interest rate on the \$300 million term loan is LIBOR plus 450 basis points which may also fluctuate depending on the rating of Consumers' first mortgage bonds. The effective interest rate at September 30, 2002 was 4.76 percent and 8.89 percent on the revolving credit facility and the \$300 million term loan, respectively. Consumers bank and legal fees associated with arranging the facilities were \$6 million.

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The credit facilities have contractual restrictions that require Consumers to maintain, as of the last day of each fiscal quarter, the following:

Required Ratio	Limitation	Ratio at S
Debt to Capital Ratio (a)	Not more than 0.65 to 1.00	
Interest Coverage Ratio (a)	Not less than 2.0 to 1.0	

(a) Violation of this ratio would constitute an event of default under the facilities which provides the lender, among other remedies, the right to declare the principal and interest immediately due and payable.

Also pursuant to restrictive covenants in its facilities, Consumers is limited to dividend payments that will not exceed \$300 million in any calendar year. In 2001, Consumers paid \$190 million in common stock dividends to CMS Energy. Consumers declared \$183 million and paid \$154 million in common dividends through September 2002.

In October 2002, Consumers simultaneously entered into a new Term Loan Agreement collateralized by First Mortgage Bonds and a new Gas Inventory Term Loan Agreement collateralized by Consumers' natural gas in storage. These agreements contain complementary collateral packages that provide Consumers, as additional first mortgage bonds become available, borrowing capacity of up to \$225 million. Consumers drew \$220 million of the capacity upon execution of the Agreements and is expected to be in a position to draw the full \$225 million by mid-November of 2002. The interest rate under the Agreements is currently LIBOR plus 300 basis points, but will increase by 100 basis points for any period after December 1, 2002 during which the banks thereunder have not yet received, among other deliveries, certified restated financial statements for CMS Energy's 2000 and 2001 fiscal years. The bank and legal fees associated with the Agreement were \$2 million. The first net amortization payment under these agreements is scheduled to occur at the end of 2002 with monthly amortization scheduled until full repayment is completed in mid-April of 2003. This financing should eliminate the need for Consumers to access the capital markets for the remainder of 2002.

**LONG-TERM FINANCINGS:** In March 2002, Consumers sold \$300 million principal amount of six percent senior notes, maturing in March 2005. Net proceeds from the sale were \$299 million. Consumers used the net proceeds to replace a first mortgage bond that was to mature in 2003.

**FIRST MORTGAGE BONDS:** Consumers secures its First Mortgage Bonds by a mortgage and lien on substantially all of its property. Consumers' ability to issue and sell securities is restricted by certain provisions in its First Mortgage Bond Indenture, its Articles of Incorporation and the need for regulatory approvals to meet appropriate federal law.

**MANDATORILY REDEEMABLE PREFERRED SECURITIES:** Consumers has wholly owned statutory business trusts that are consolidated within its financial statements. Consumers created these trusts for the sole purpose of issuing Trust Preferred Securities. The primary asset of the trusts is a note or debenture of Consumers. The terms of the Trust Preferred Security parallel the terms of the related Consumers' note or debenture. The term, rights and obligations of the Trust Preferred Security and related note or debenture are also defined in the related indenture through which the note or debenture was issued, Consumers' guarantee of the related Trust Preferred Security and the declaration of trust for the particular trust. All of these documents together with their related note or debenture and Trust Preferred Security constitute a full and unconditional guarantee by Consumers of the trust's obligations under the Trust Preferred Security. In addition to the similar provisions previously discussed, specific terms of the securities follow:

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Trust and Securities	Rate	Amount Outstanding			Maturity
September 30		2002	2001	2000	
Consumers Power Company Financing I, Trust Originated Preferred Securities	8.36%	\$ 70	\$100	\$100	201
Consumers Energy Company Financing II, Trust Originated Preferred Securities	8.20%	120	120	120	202
Consumers Energy Company Financing III, Trust Originated Preferred Securities	9.25%	175	175	175	202
Consumers Energy Company Financing IV, Trust Preferred Securities	9.00%	125	125	-	203
Total		\$490	\$520	\$395	

In March 2002, Consumers reduced its' outstanding debt to Consumers Power Company Financing I, Trust Originated Preferred Securities by \$30 million.

OTHER: Under the provisions of its Articles of Incorporation, Consumers had \$345 million of unrestricted retained earnings available to pay common dividends at September 30, 2002.

On April 1, 2002, Consumers established a new subsidiary, Consumers Receivable Funding. This consolidated subsidiary was established to sell accounts receivable purchased from Consumers to an unrelated third party under a trade receivables sale program. Prior to the establishment of Consumers Receivable Funding, Consumers sold its accounts receivable directly to an unrelated third party. Consumers, through Consumers Receivable Funding, currently has in place a \$325 million trade receivables sale program. At September 30, 2002 and 2001, the receivables sold totaled \$325 million for each year. During 2002, \$248 million cash proceeds were received under the trade receivables sale program. Accounts receivable and accrued revenue in the Consolidated Balance Sheets have been reduced to reflect receivables sold.

DERIVATIVE ACTIVITIES: Consumers uses interest rate swaps to hedge the risk associated with forecasted interest payments on variable rate debt. These interest rate swaps are designated as cash flow hedges. As such, Consumers will record any change in the fair value of these contracts in other comprehensive income unless the swap is sold. As of September 30, 2002, Consumers had entered into a swap to fix the interest rate on \$75 million of variable rate debt. This swap will expire in June 2003. As of September 30, 2002, this interest rate swap had a negative fair value of \$2 million. This amount, if sustained, will be reclassified to earnings, increasing interest expense when the swaps are settled on a monthly basis. As of September 30, 2001, Consumers had entered into swaps to fix the interest rate on \$150 million of variable rate debt. The swaps expired at varying times from June through December 2001. As of September 30, 2001, these interest rate swaps had a negative fair value of \$4 million.

Consumers also uses interest rate swaps to hedge the risk associated with the fair value of its debt. These interest rate swaps are designated as fair value hedges. In March 2002, Consumers entered into a fair value hedge to hedge the risk associated with the fair value of \$300 million of fixed rate debt, issued in March 2002. In June 2002, this swap was terminated and resulted in a \$7 million gain that is deferred and recorded as part of the debt. It is anticipated that this gain will be recognized over the remaining life of the



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debt.

As of September 2001, Consumers had entered into interest rate swaps to hedge the risk associated with the fair value of \$400 million of fixed rate debt, which expire in May 2003 and December 2006. As of September 30, 2001, these interest rate swaps had a fair value of \$1 million. Subsequently in November 2001, these

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swaps were terminated and resulted in a \$4 million gain that will be deferred and recorded as part of the debt. It is anticipated that this gain will be recognized over the remaining life of the debt.

During the third quarter 2001, Consumers entered into fair value hedges to hedge the risk associated with the fair value of \$250 million of debt. These swaps terminated in the third quarter 2001, and resulted in a \$4 million gain that has been deferred and recorded as part of the debt. It is anticipated that this gain will be recognized over the remaining life of the debt.

In September 2001, Consumers entered into a cash flow hedge to fix the interest rate on \$100 million of debt to be issued. In September 2001, the swap terminated and resulted in a \$2 million loss that was recorded in other comprehensive income and will be amortized to interest expense over the life of the debt using the effective interest method.

#### 4: RESTATEMENT

In April 2002, Consumers' Board of Directors, upon the recommendation of the Audit Committee of the Board, voted to discontinue using Arthur Andersen to audit Consumers' financial statements for the year ending December 31, 2002. Consumers previously retained Arthur Andersen to review its financial statements for the quarter ended March 31, 2002. In May 2002, Consumers' Board of Directors engaged Ernst & Young to audit its financial statements for the year ending December 31, 2002.

In May 2002, as a result of certain financial reporting issues surrounding round-trip trading transactions at CMS MST, Arthur Andersen notified CMS Energy that Arthur Andersen's historical opinions on CMS Energy's financial statements for the fiscal years ended December 31, 2001 and December 31, 2000 could not be relied upon. As a result, Ernst & Young began the process of re-auditing CMS Energy's consolidated financial statements for each of the fiscal years ended December 31, 2001 and December 31, 2000. Although Arthur Andersen's notification did not apply to separate, audited financial statements of Consumers for the applicable years, the re-audit did include audit work at Consumers for these years.

In connection with Ernst & Young's re-audit of the fiscal years ended December 31, 2001 and December 31, 2000, Consumers has made, in consultation with Ernst & Young, certain adjustments to its consolidated financial statements for the fiscal years ended December 31, 2001 and December 31, 2000, which affect the results of the quarterly periods within 2001 and 2002. Therefore, the consolidated financial statements for the four quarters of 2001, the years ended December 31, 2001 and 2000, and the subsequent three quarters of 2002 have been restated from amounts previously reported. At the time it adopted the accounting treatment for these items, Consumers believed that such accounting was appropriate under generally accepted accounting principles and Arthur Andersen concurred.

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The audit adjustments: 1) change the accounting associated with the PPA reserve, which results in: the reversal of the 2001 increase to the PPA reserve of \$126 million; the reversal of a net \$12 million charged to operating expenses associated with the PPA in 2001; and the reversal of \$29 million of the amount charged to the PPA reserve in 2000; and 2) recognize Consumers' new headquarters lease as a capital lease, instead of an operating lease, and record the lease obligation and capitalize costs incurred. Each of these transactions involved estimates, assumptions, and judgment based on the best information available at the time the transactions occurred. The audit adjustments reflect current judgment on these matters. In addition, the audit adjustments recognize immaterial reconciling adjustments to advertising costs, Consumers' OPEB liability and related party receivables and payables. Consumers has also made an additional adjustment associated with its financial statements as of September 30, 2002. This additional adjustment by Consumers recognizes the \$29 million federal income tax sharing allocation from CMS Energy as a dividend to be paid by Consumers to CMS Energy instead of income tax expense as originally recorded in September 2002.

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In 1992, Consumers originally accounted for losses associated with the PPA by establishing a reserve for the difference between the amount that Consumers was paying for power in accordance with the terms of the PPA, and the amount that Consumers was ultimately allowed by the MPSC to recover from electric customers. At that time, the reserve did not take into account earnings Consumers would receive from its 49 percent interest in the MCV Partnership due to uncertainties with the level of performance of the facility.

In 2000, Consumers reviewed its estimate of the economic losses it would experience with respect to the PPA and re-evaluated all of the current facts and circumstances used to calculate the disallowance reserve, including earnings from its 49 percent interest in the MCV Partnership. Consumers concluded that no adjustment to the reserve was required in 2000. However, as conditions surrounding MCV Partnership operations evolved in 2001, Consumers concluded that it needed to increase the reserve by \$126 million (pre-tax) in the third quarter of 2001, and did so.

In connection with the re-audit of CMS Energy's consolidated financial statements for the fiscal years 2000 and 2001, Consumers reviewed its 2000 and 2001 PPA accounting and related assumptions, and determined that the reserve balance as of January 1, 2000 did appropriately reflect Consumers' probable losses as of that date. However, as a result of reconsideration of all subsidiary accounting effects, the re-evaluation of the PPA accounting did result in a net reduction of operating expenses associated with the PPA of \$12 million in 2001, an increase to operating expenses associated with the PPA of \$29 million in 2000, the reversal of the \$126 million increase to the reserve originally recorded in 2001, and immaterial adjustments to accretion expense for both years.

The following table reflects the audit adjustments associated with the MCV PPA accounting and the related net income statement effects for the periods ended December 31, 2001 and December 31, 2000:

In Millions	2001
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Income Increase

Reverse the original operating charge associated with continuing losses on the MCV PPA	\$39
Charge 49 percent of annual capacity losses associated with the MCV PPA to operating expense instead of to the reserve	(27)
Net operating expense decrease/(increase)	12
Reverse the 2001 increase to the MCV PPA reserve	126
Accretion Expense	-
Pre-tax effect of adjustments	138
Income tax effect	(48)
Net income impact of MCV PPA adjustments	\$90

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The following table reflects all audit and other adjustments by quarter for the income statement including a non-re-audit adjustment by Consumers reclassifying SERP unrealized losses to realized losses and an income tax adjustment during the period ended September 30, 2002:

In Millions (Unaudited)

Quarters Ended	2002			2001		
	March 31	June 30	Sept. 30	March 31	June 30	S
Operating expenses	\$1,049	\$748	\$752	\$1,006	\$765	
MCV PPA Adjustment	(.5)	-	-	(4)	(4)	
Advertising Expense	-	-	-	-	-	
Intercompany items	(.5)	-	(1)	1	-	
Other	-	1	-	-	-	
Restated operating expenses	\$1,048	\$749	\$751	\$1,003	\$761	
Pretax operating income	\$187	\$179	\$169	\$213	\$108	
MCV PPA Adjustment	.5	-	-	4	4	
Advertising Expense	-	-	-	-	-	
Intercompany items	.5	(1)	-	(1)	-	
Other	-	-	1	-	-	
Restated Pretax operating Income	\$188	\$178	\$170	\$216	\$112	

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Other income	\$ (1)	\$36	\$-	\$2	\$-
MCV PPA Adjustment	1	2	3	(1)	-
Intercompany items	(2)	(1)	-	-	1
SERP	-	(1)	(3)	-	-
Restated other income	\$ (2)	\$36	\$-	\$1	\$1
-----					
Income before taxes	\$146	\$179	\$126	\$168	\$63
MCV PPA Adjustment	-	2	3	4	4
Advertising Expense	-	-	-	-	-
Intercompany items	-	(2)	1	(2)	(1)
SERP	-	(1)	(3)	-	-
Restated income before taxes	\$146	\$178	\$127	\$170	\$66
-----					
Income (loss) before cumulative effect of change in accounting principle	\$92	\$124	\$55	\$107	\$43
MCV PPA Adjustment	-	2	2	2	2
Intercompany items	-	(1)	1	(1)	-
SERP	-	(1)	(2)	-	-
Income Tax	-	-	29	-	-
Restated income (loss) before cumulative effect of change in accounting principle	\$92	\$124	\$85	\$108	\$45
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In Millions (Unaudited)

Quarters Ended	2002			2001		
	March 31	June 30	Sept. 30	March 31	June 30	Sept. 30
Net income (loss)	\$92	\$124	\$55	\$107	\$43	\$43
MCV PPA Adjustment	-	2	2	2	2	2
Intercompany items	-	(1)	1	(1)	-	-
SERP	-	(1)	(2)	-	-	-
Income Tax	-	-	29	-	-	-
Restated net income (loss)	\$92	\$124	\$85	\$108	\$45	\$45

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Net income (loss) available to common stockholder	\$81	\$113	\$44	\$98	\$33
MCV PPA Adjustment	-	2	2	2	2
Intercompany items	-	(1)	1	(1)	-
SERP	-	(1)	(2)	-	-
Income Tax	-	-	29	-	-
Restated net income (loss) available to common stockholder	\$81	\$113	\$74	\$99	\$35

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The following tables reflect the effects the audit adjustments have on Consumers consolidated financial statements for the quarterly periods ended September 30, 2002 and 2001:

CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

September 30	Three Months Ended		As
	As Reported	As Restated	
-----			
	2002		
	----		
OPERATING REVENUES			
Electric	\$776	\$775	
Gas	134	135	
Total Operating Revenue	921	921	
OPERATING EXPENSES			
Loss on MCV power purchases	-	-	
Other	183	182	
Total Operating Expenses	752	751	
PRETAX OPERATING INCOME (LOSS)			
Electric	175	175	
Gas	(15)	(14)	
Other	9	9	
Total Pretax Operating Income (Loss)	169	170	
OTHER INCOME (DEDUCTIONS)			
Accretion expense	(2)	(1)	
Other, net	2	1	
INCOME (LOSS) BEFORE INCOME TAXES	126	127	
INCOME TAXES (BENEFITS)	71	42	

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NET INCOME (LOSS)	55	85
NET INCOME (LOSS) AVAILABLE TO COMMON STOCKHOLDER	\$44	\$74

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Consumers Energy Company

CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

September 30	Nine Months Ended		As Reported	As Restated	As Reported
	2002				
OPERATING REVENUE					
Electric			\$2,016	\$2,015	
Total Operating Revenue			3,084	3,083	
OPERATING EXPENSES					
Loss on MCV power purchases			-	-	
Other			488	487	
Total Operating Expenses			2,549	2,548	
PRETAX OPERATING INCOME					
Electric			406	406	
Gas			68	68	
Other			61	61	
Total Pretax Operating Income			535	535	
OTHER INCOME (DEDUCTIONS)					
Accretion expense			(7)	(4)	
Other, net			39	37	
Total Other Income			34	35	
INCOME BEFORE INCOME TAXES			450	451	
INCOME TAXES			179	150	
NET INCOME			271	301	
NET INCOME AVAILABLE TO COMMON STOCKHOLDER			\$237	\$267	

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Consumers Energy Company

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CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

September 30	Nine Months Ended	
	As Reported	As Restated
	2002	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	\$271	\$301
Loss on power purchase agreement - MCV Partnership	-	-
Deferred income taxes and investment tax credit	(20)	(18)
Undistributed earnings of related parties	(48)	(48)
Decrease in accounts receivable and accrued revenue	97	98
Increase (decrease) in accounts payable	(72)	(79)
Changes in other assets and liabilities	-	(26)
CASH AND TEMPORARY CASH INVESTMENTS - BEGINNING OF PERIOD	16	17
CASH AND TEMPORARY CASH INVESTMENTS - END OF PERIOD	\$124	\$125
OTHER CASH FLOW ACTIVITIES AND NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Cash transactions		
Income taxes paid (net of refunds)	87	83
NON-CASH TRANSACTIONS		
Other assets placed under capital lease	\$65	\$50

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Consumers Energy Company

CONSOLIDATED BALANCE SHEETS

In Millions	September 30, 2002		December 31, 2001	
	As Reported	As Restated	As Reported	As Restated
	(Unaudited)			
ASSETS				
PLANT				
Other	\$66	\$22	\$23	\$23

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Gross Plant	10,262	10,218	10,277	10,277
Less accumulated depreciation, depletion and amortization	5,855	5,856	5,934	5,934
Plant, net	4,407	4,362	4,343	4,343
Construction work-in-progress	419	463	464	480
Total Plant	4,826	4,825	4,807	4,823
CURRENT ASSETS				
Cash and temporary cash investments	124	125	16	17
Accounts receivable and accrued revenue	36	36	125	125
Accounts receivable - related parties	18	18	17	18
Inventories at average cost				
Materials and supplies	71	71	69	69
Generating plant fuel stock	49	49	52	52
Deferred property taxes	82	82	144	144
Other	27	27	14	14
Total Current Assets	1,027	1,028	1,025	1,027
NON-CURRENT ASSETS				
Regulatory Assets - Other	173	173	167	167
Other	116	108	176	173
Total Non-current Assets	1,720	1,712	1,862	1,859
TOTAL ASSETS	\$8,214	\$8,206	\$8,306	\$8,321

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Consumers Energy Company

CONSOLIDATED BALANCE SHEETS

In Millions	September 30, 2002		December 31, 2001		As
	As Reported	As Restated	As Reported	As Restated	
STOCKHOLDER'S INVESTMENT AND LIABILITIES					
CAPITALIZATION					
Common stockholder's equity					
Retained earnings since December 31, 1992	\$456	\$525	\$373	\$441	



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Total common stockholder's equity	1,971	2,040	1,850	1,918
Non-current portion of capital leases	110	110	56	72
Total Capitalization	5,316	5,385	4,942	5,026
CURRENT LIABILITIES				
Note payable	235	235	416	416
Accounts payable	213	212	291	282
Accrued taxes	192	162	219	214
Accounts payable - related parties	83	85	80	96
Notes payable - related parties	-	-	-	-
Current portion of purchase power contracts	-	22	-	24
Deferred income taxes	17	18	12	12
Other	239	253	260	247
Total Current Liabilities	1,203	1,211	1,535	1,548
NON-CURRENT LIABILITIES				
Deferred income taxes	714	752	747	784
Postretirement benefits	227	224	279	276
Power purchase agreement - MCV Partnership	150	30	169	52
Other	230	230	256	257
Total Non-current Liabilities	1,695	1,610	1,829	1,747
TOTAL STOCKHOLDER'S INVESTMENT AND LIABILITIES	\$8,214	\$8,206	\$8,306	\$8,321

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Consumers Energy Company

CONSOLIDATED STATEMENTS OF COMMON STOCKHOLDER'S EQUITY (UNAUDITED)

September 30	Three Months Ended 2002		Thru
	As Reported	As Restated	
OTHER COMPREHENSIVE INCOME			
Investments			
At beginning of period		\$ (2)	\$ (5)
Unrealized loss on investments		(7)	(4)
RETAINED EARNINGS			
At beginning of period		412	480
Net income (loss)		55	85
Cash dividends declared- Common Stock		-	(29)
At end of period		456	525

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Total Common Stockholder's Equity	\$1,971	\$2,040
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CONSOLIDATED STATEMENTS OF COMMON STOCKHOLDER'S EQUITY (UNAUDITED)

September 30	Nine Months Ended 2002		Nin As
	As Reported	As Restated	
<b>RETAINED EARNINGS</b>			
At beginning of period	\$373	\$441	
Net income	271	301	
Cash dividends declared- Common Stock	(154)	(183)	
At end of period	456	525	
Total Common Stockholder's Equity	\$1,971	\$2,040	

In addition, as a result of Consumers reclassifying its headquarters' lease from an operating lease to a capital lease the following table illustrates the amount of capital leases included in Consumers' restated balance sheet plant accounts:

	September 30 2002 (Unaudited) As Restated	December 31 2001 As Restated
Capital leases		
Electric	\$ 101	\$ 93
Gas	42	39
Other	75	46
	----	----
	218	178
Less accumulated amortization	96	93
	----	----
Net capital lease	\$ 122	\$ 85

5: SUBSEQUENT EVENTS

Subsequent to November 14, 2002, the date of filing Consumers' Form 10-Q for the third quarter 2002, a number of material events have occurred. Below is a summary of these events:

CHANGE IN EXECUTIVE OFFICERS: Subsequent to March 1, 2002, certain changes have occurred in Consumers' executive officers. On May 24, 2002, the Board of Directors of Consumers elected Kenneth Whipple as Chairman of the Board and Chief Executive Officer; on June 27, 2002, S. Kinnie Smith, Jr. was elected Vice Chairman of the Board; on July 22, 2002, Thomas J. Webb was elected Executive Vice President and Chief

Consumers Energy Company

Financial Officer; on August 2, 2002, John F. Drake was elected Senior Vice President and on December 6, 2002, Michael T. Monahan and Joseph F. Paquette, Jr. joined the Board of Directors of Consumers.

#### NEW ACCOUNTING STANDARDS

SFAS NO. 143, ACCOUNTING FOR ASSET RETIREMENT OBLIGATIONS: Beginning January 1, 2003, companies must comply with SFAS No. 143. The standard requires companies to record the fair value of the legal obligations related to an asset retirement in the period in which it is incurred. When the liability is initially recorded, the company would capitalize an offsetting amount by increasing the carrying amount of the related long-lived asset. Over time, the initial liability is accreted to its present value each period and the capitalized cost is depreciated over the related asset's useful life. Consumers has determined that it has some legal asset retirement obligations, particularly in regard to its nuclear plants, but has not as yet finalized its assessment of the obligation. Once Consumers' assessment is finalized, its removal cost estimate will be determined based on fair value cost estimates as required by the new standard. The fair value of the legal retirement obligations will be present valued and used to quantify the effects of adoption of this standard.

SFAS NO. 145, RESCISSION OF FASB STATEMENTS NO. 4, 44 AND 64, AMENDMENT OF FASB STATEMENT NO. 13, AND TECHNICAL CORRECTIONS: Issued by the FASB in April 2002, this standard rescinds SFAS No. 4, Reporting Gains and Losses from Extinguishment of Debt, and SFAS No. 64, Extinguishment of Debt Made to Satisfy Sinking-Fund Requirements. As a result, any gain or loss on extinguishment of debt should be classified as an extraordinary item only if it meets the criteria set forth in APB Opinion No. 30. The provisions of this section are applicable to fiscal years beginning 2003. SFAS No. 145 amends SFAS No. 13, Accounting for Leases, to require sale-leaseback accounting for certain lease modifications that have similar economic impacts to sale-leaseback transactions. This provision is effective for transactions occurring after May 15, 2002. Finally, SFAS No. 145 amends other existing authoritative pronouncements to make various technical corrections and rescinds SFAS No. 44, Accounting for Intangible Assets of Motor Carriers. These provisions are effective for financial statements issued on or after May 15, 2002. Upon adoption of the standard, there was no impact on Consumers' financial statements.

SFAS NO. 146, ACCOUNTING FOR COSTS ASSOCIATED WITH EXIT OR DISPOSAL ACTIVITIES: Issued by the FASB in July 2002, this standard requires companies to recognize costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan. This standard is effective for exit or disposal activities initiated after December 31, 2002. There will be no impact on Consumers' financial statements upon adoption of the standard.

SFAS NO, 148, ACCOUNTING FOR STOCK-BASED COMPENSATION - TRANSITION AND DISCLOSURE: Issued by the FASB in December 2002, this standard provides for alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, the statement amends the disclosure requirements of SFAS No. 123 to require more prominent and more frequent disclosures in financial statements about the effects of stock-based compensation. The transition guidance and annual disclosure provisions of the statement are effective as of December 31, 2002 and interim disclosure provisions are effective for interim financial reports

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starting in 2003. Consumers has decided to voluntarily adopt the fair value based method of accounting for stock-based employee compensation effective December 31, 2002, applying the prospective method of adoption which requires recognition of all employee awards granted, modified, or settled after the beginning of the year in which the recognition provisions are first applied. Therefore, Consumers recorded expense for the fair value of stock options issued in 2002. The implementation had an immaterial effect on Consumers' financial statements upon adoption of the method.

FASB INTERPRETATION NO. 45, GUARANTOR'S ACCOUNTING AND DISCLOSURE REQUIREMENT FOR GUARANTEES, INCLUDING INDIRECT GUARANTEES OF INDEBTEDNESS OF OTHERS: Issued by the FASB in November 2002, the interpretation elaborates on existing disclosures requirements for most guarantees, and clarifies that at the time

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Consumers Energy Company

a company issues a guarantee, the company must recognize an initial liability for the fair value, or market value, of the obligations it assumes under that guarantee and must disclose that information in its interim and annual financial statements. The interpretation is effective for guarantees issued or modified after December 31, 2002. Consumers would be required to recognize a liability for any guarantees it may issue on or after January 1, 2003, but will not change the accounting for guarantees it may have issued before that date.

FASB INTERPRETATION NO. 46, CONSOLIDATION OF VARIABLE INTEREST ENTITIES: Issued by the FASB in January 2003, the interpretation expands upon and strengthens existing accounting guidance that addresses when a company should include in its financial statements the assets, liabilities and activities of another entity. The consolidation requirements of the interpretation apply immediately to variable interest entities created after January 31, 2003. For Consumers, the consolidation requirements apply to older entities beginning July 1, 2003. Certain of the disclosure requirements apply to all financial statements initially issued after January 31, 2003. Consumers will be required to consolidate any entities that meet the requirements of the interpretation. Consumers is in the process of studying the interpretation, and has yet to determine the effects, if any, on its consolidated financial statements.

### ELECTRIC CONTINGENCIES

These and other required environmental expenditures, if not recovered from customers in Consumers rates, may have a material adverse effect upon Consumers' financial condition and results of operations.

### ELECTRIC RATE MATTERS

**ELECTRIC RESTRUCTURING:** The Customer Choice Act requires Consumers, Detroit Edison and American Electric Power to jointly expand their available transmission capability by at least 2,000 MW. In July 2002, the MPSC issued an order approving the plan to achieve the increased transmission capacity. In November 2002, Consumers completed the transmission capacity projects identified in the plan and in December 2002, submitted verification of this fact to the MPSC. Consumers believes it is in full compliance with the requirement to expand available transmission capability.

**ELECTRIC PROCEEDINGS:** In December 2002, the MPSC issued an order finding that Consumers experienced zero stranded costs in 2000 and 2001, but declined to establish a defined methodology that would allow a reliable prediction of the level of stranded costs for 2002 and future years. In January 2003, Consumers

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filed a petition for rehearing of the December 2002 stranded cost order in which it asked the MPSC to grant a rehearing and revise certain features of the order. Several other parties also filed rehearing petitions with the MPSC. The request for regulatory asset accounting treatment for Clean Air Act expenditures remains pending before the MPSC.

On March 4, 2003, Consumers filed an application with the MPSC seeking approval of net stranded costs incurred in 2002, and for approval of a net stranded cost recovery charge. In the application, Consumers indicated that if Consumers' proposal to securitize Clean Air Act expenditures and post-2000 Palisades expenditures were approved as proposed in its securitization case as discussed below, then Consumers' net stranded costs incurred in 2002 are approximately \$35 million. If the proposal to securitize those costs is not approved, then Consumers indicated that the costs would be properly included in the 2002 net stranded cost calculation, which would increase Consumers' 2002 net stranded costs to approximately \$103 million.

SECURITIZATION: On March 4, 2003, Consumers filed an application with the MPSC seeking approval to issue additional securitization bonds in the amount of approximately \$1.084 billion. If approved, this would allow the recovery of costs associated with Clean Air Act expenditures, post-2000 Palisades expenditures, retail open access implementation costs, electric pension fund costs, and expenses associated with the issuance of the bonds and retirement of existing Consumers' debt. Consumers will use the proceeds from securitization for refinancing or retirement of debt.

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Consumers Energy Company

NUCLEAR MATTERS: As of February 2003, Big Rock completed five of the seven dry fuel storage canister loadings. The Price-Anderson Act expired in August 2002 but remained in effect for existing nuclear facilities. In February 2003, Congress approved the extension of the Price-Anderson Act to expire on December 31, 2003.

### OTHER ELECTRIC UNCERTAINTIES

CAPITAL EXPENDITURES: In 2002, 2003, and 2004, Consumers estimates electric capital expenditures, including new lease commitments and environmental costs under the Clean Air Act, of \$436 million, \$341 million, and \$408 million.

### GAS RATE MATTERS

GAS RATE CASE: On November 7, 2002, the MPSC issued a final order approving a \$56 million annual gas distribution service rate increase, which includes the \$15 million interim increase, with an 11.4 percent authorized return on equity, effective for service November 8, 2002. As part of this order, the MPSC approved Consumers' proposal to absorb the assets and liabilities of Michigan Gas Storage Company into Consumers' rate base and rates. This has occurred through a statutory merger of Michigan Gas Storage Company into Consumers and this is not expected to have an impact on Consumers' consolidated financial statements.

On March 14, 2003, Consumers filed an application with the MPSC seeking an increase in its gas delivery and transportation rates based on a 2004 test year. If approved, the request would add about \$6.40 per month, or about 9 percent, to the typical residential customers' average monthly distribution bill. Consumers is seeking a 13.5 percent authorized return on equity along with a \$156 million revenue deficiency. Contemporaneously with this filing, Consumers has requested interim rate relief in the same amount.

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### OTHER GAS UNCERTAINTIES

CAPITAL EXPENDITURES: In 2002, 2003, and 2004, Consumers estimates gas capital expenditures, including new lease commitments, of \$181 million, \$144 million, and \$167 million.

### OTHER UNCERTAINTIES

PENSION: The recent significant downturn in the equities markets has affected the value of the Pension Plan's assets. The estimated fair value of the Pension Plan's assets at December 31, 2002 was \$607 million. The Accumulated Benefit Obligation was estimated at \$1.055 billion. The Pension Plan's Accumulated Benefit Obligation exceeded the value of these assets at December 31, 2002, and as a result, Consumers and the other participants of the plan were required to recognize an additional minimum liability for this excess in accordance with SFAS No. 87. As of December 31, 2002, the additional minimum liability allocated to Consumers was \$325 million, of which \$40 million was recorded as an intangible asset, and \$285 million was charged to other comprehensive income (\$185 million after-tax).

PENSION AND OPEB PLAN ASSETS: As of December 31, 2001, the balance of Pension Plan and OPEB plan assets was \$845 million and \$475 million, respectively. These amounts consisted primarily of stocks and bonds, including CMS Energy Common Stock of \$126 million in the Pension Plan's assets and \$3 million in the OPEB plan's assets at December 31, 2001. As of January 31, 2003, the market value of CMS Energy Common Stock in these plans was \$30 million in the Pension Plan and \$1 million in the OPEB plan.

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Consumers Energy Company

### SHORT-TERM FINANCINGS AND CAPITALIZATION

RESTATEMENT: As a result of the restatement, ratings downgrades and related changes in its financial situation, Consumers' access to bank financing and the capital markets and its ability to incur additional indebtedness may be restricted. In the event Consumers is unable to access bank financing or the capital markets to incur or refinance indebtedness, there could be a material adverse effect on Consumers' liquidity and operations. In such event, it would be required to consider the full range of strategic measures available to companies in similar circumstances.

FINANCING: In October 2002, Consumers simultaneously entered into a new term loan agreement collateralized by first mortgage bonds and a new gas inventory term loan agreement collateralized by Consumers' natural gas in storage. These agreements contain complementary collateral packages that provide Consumers, as additional first mortgage bonds become available, borrowing capacity of up to \$225 million. Consumers drew \$220 million of the capacity upon execution of the agreements. In November 2002, Consumers paid \$80 million on the gas inventory loan and drew \$85 million under the term loan agreement. The bank and legal fees associated with the agreements was \$2 million. The first amortization payment under these agreements occurred in December 2002 with monthly amortization payments scheduled until full repayment is completed in mid-April of 2003. This financing eliminated the need for Consumers to access the capital markets for the remainder of 2002.

OTHER: Under the provisions of its Articles of Incorporation, Consumers had \$345

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million of unrestricted retained earnings available to pay common dividends at September 30, 2002. However, due to dividend restrictions included as part of an agreement with its lenders, Consumers' dividends are not to exceed \$300 million in any calendar year. Consumers declared and paid \$233 million in common stock dividends in 2002, including the \$25 million tax sharing allocation from CMS Energy.

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Consumers Energy Company

### 6: RESTATED FINANCIAL STATEMENTS FOR FIRST AND SECOND QUARTERS

CONSUMERS ENERGY COMPANY  
CONSOLIDATED STATEMENTS OF INCOME  
(UNAUDITED)  
(AS RESTATED, SEE NOTE 4)

	THR 20
MARCH 31	20
-----	
In Millions	
OPERATING REVENUE	
Electric	\$ 6
Gas	6
Other	
	1,2
-----	
OPERATING EXPENSES	
Operation	
Fuel for electric generation	1
Purchased power - related parties	3
Purchased and interchange power	1
Cost of gas sold	1
Cost of gas sold - related parties	1
Other	1
	8
Maintenance	
Depreciation, depletion and amortization	1
General taxes	
	1,0
-----	
PRETAX OPERATING INCOME	
Electric	1
Gas	
Other	
	1
-----	
OTHER INCOME (DEDUCTIONS)	
Dividends and interest from affiliates	
Accretion expense	
Other, net	

-----	
INTEREST CHARGES	
Interest on long-term debt	
Other interest	
Capitalized interest	
-----	
INCOME BEFORE INCOME TAXES	1
INCOME TAXES	
-----	
NET INCOME	
PREFERRED STOCK DIVIDENDS	
PREFERRED SECURITIES DISTRIBUTIONS	
-----	
NET INCOME AVAILABLE TO COMMON STOCKHOLDER	\$
=====	

THE ACCOMPANYING CONDENSED NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS.

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Consumers Energy Company

CONSUMERS ENERGY COMPANY  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(UNAUDITED)  
(AS RESTATED, SEE NOTE 4)

MARCH 31	THRE 2002
-----	
In Millions	
CASH FLOWS FROM OPERATING ACTIVITIES	
Net income	\$ 92
Adjustments to reconcile net income to net cash provided by operating activities	
Depreciation, depletion and amortization (includes nuclear decommissioning of \$2 and \$2, respectively)	107
Deferred income taxes and investment tax credit	31
Capital lease and other amortization	3
Undistributed earnings of related parties	(10)
Changes in assets and liabilities	
Decrease (increase) in accounts receivable and accrued revenue	(54)
Increase (decrease) in accounts payable	(32)
Decrease (increase) in inventories	193



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Regulatory obligation - gas customer choice	(7)
Changes in other assets and liabilities	(53)
<hr/>	
Net cash provided by operating activities	270
<hr/>	
CASH FLOWS FROM INVESTING ACTIVITIES	
Capital expenditures (excludes assets placed under capital lease)	(142)
Cost to retire property, net	(15)
Investment in Electric Restructuring Implementation Plan	(3)
Investments in nuclear decommissioning trust funds	(2)
Proceeds from nuclear decommissioning trust funds	8
<hr/>	
Net cash used in investing activities	(154)
<hr/>	
CASH FLOWS FROM FINANCING ACTIVITIES	
Retirement of bonds and other long-term debt	(344)
Increase (decrease) in notes payable, net	(109)
Payment of common stock dividends	(55)
Redemption of preferred securities	(30)
Preferred securities distributions	(11)
Payment of capital lease obligations	(3)
Payment of preferred stock dividends	(1)
Stockholder's contribution	150
Proceeds from senior notes and bank loans	298
<hr/>	
Net cash used in financing activities	(105)
<hr/>	
NET INCREASE (DECREASE) IN CASH AND TEMPORARY CASH INVESTMENTS	11
CASH AND TEMPORARY CASH INVESTMENTS, BEGINNING OF PERIOD	17
<hr/>	
CASH AND TEMPORARY CASH INVESTMENTS, END OF PERIOD	\$ 28
<hr/>	
OTHER CASH FLOW ACTIVITIES AND NON-CASH INVESTING AND FINANCING ACTIVITIES WERE:	
CASH TRANSACTIONS	
Interest paid (net of amounts capitalized)	\$ 31
Income taxes paid (net of refunds)	--
NON-CASH TRANSACTIONS	
Nuclear fuel placed under capital lease	\$ --
Other assets placed under capital leases	17
<hr/>	

All highly liquid investments with an original maturity of three months or less are considered cash equivalents.

THE ACCOMPANYING CONDENSED NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS.

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CONSUMERS ENERGY COMPANY  
CONSOLIDATED BALANCE SHEETS  
(AS RESTATED, SEE NOTE 4)

ASSETS	MARCH 31 2002 (UNAUDITED)	DECEMBER 31 2001
<hr/>		
PLANT (AT ORIGINAL COST)		
Electric	\$ 7,733	\$ 7,661
Gas	2,625	2,593
Other	21	23
	<hr/>	<hr/>
	10,379	10,277
Less accumulated depreciation, depletion and amortization	6,022	5,934
	<hr/>	<hr/>
Construction work-in-progress	4,357	4,343
	532	480
	<hr/>	<hr/>
	4,889	4,823
<hr/>		
INVESTMENTS		
Stock of affiliates	56	59
First Midland Limited Partnership	257	253
Midland Cogeneration Venture Limited Partnership	316	300
	<hr/>	<hr/>
	629	612
<hr/>		
CURRENT ASSETS		
Cash and temporary cash investments at cost, which approximates market	28	17
Accounts receivable and accrued revenue, less allowances of \$4, \$4 and \$3, respectively	183	125
Accounts receivable - related parties	15	18
Inventories at average cost		
Gas in underground storage	378	569
Materials and supplies	69	69
Generating plant fuel stock	50	52
Deferred property taxes	120	144
Regulatory assets	19	19
Other	18	14
	<hr/>	<hr/>
	880	1,027
<hr/>		
NON-CURRENT ASSETS		
Regulatory assets		
Securitization costs	714	717
Postretirement benefits	203	209
Abandoned Midland Project	11	12
Other	171	167
Nuclear decommissioning trust funds	576	581
Other	154	173
	<hr/>	<hr/>
	1,829	1,859
<hr/>		

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TOTAL ASSETS \$ 8,227 \$ 8,321

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Consumers Energy Company

(AS RESTATED, SEE  
MARCH 31  
2002 DECEMBER 31  
(UNAUDITED) 2001

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STOCKHOLDERS' INVESTMENT AND LIABILITIES

CAPITALIZATION

Common stockholder's equity		
Common stock	\$ 841	\$ 841
Paid-in capital	782	632
Other comprehensive income	9	4
Retained earnings since December 31, 1992	467	441
	2,099	1,918
Preferred stock	44	44
Company-obligated mandatorily redeemable preferred securities of subsidiaries (a)	490	520
Long-term debt	2,433	2,472
Non-current portion of capital leases	85	72
	5,151	5,026

CURRENT LIABILITIES

Current portion of long-term debt and capital leases	253	257
Notes payable	150	416
Notes payable- CMS Energy	157	-
Accounts payable	249	282
Accrued taxes	161	214
Accounts payable - related parties	97	96
Deferred income taxes	23	12
Current portion of purchased power contracts	24	24
Other	234	247
	1,348	1,548

NON-CURRENT LIABILITIES

Deferred income taxes	808	784
Postretirement benefits	239	276
Regulatory liabilities for income taxes, net	276	276
Power purchase agreement - MCV Partnership	47	52
Deferred investment tax credit	100	102
Other	258	257

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1,728

1,747

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 COMMITMENTS AND CONTINGENCIES (Notes 1 and 2)

TOTAL STOCKHOLDERS' INVESTMENT AND LIABILITIES

\$8,227

\$8,321  
 =====

(a) See Note 3, Short-Term Financings and Capitalization

THE ACCOMPANYING CONDENSED NOTES ARE AN INTEGRAL PART OF THESE BALANCE SHEETS.

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Consumers Energy Company

CONSUMERS ENERGY COMPANY  
 CONSOLIDATED STATEMENTS OF COMMON STOCKHOLDER'S EQUITY  
 (UNAUDITED)  
 (AS RESTATED, SEE NOTE 4)

MARCH 31  
 -----

COMMON STOCK

At beginning and end of period (a)  
 -----

OTHER PAID-IN CAPITAL

At beginning of period  
 Stockholder's contribution

At end of period  
 -----

OTHER COMPREHENSIVE INCOME

Investments  
 At beginning of period  
 Unrealized loss on investments (b)

At end of period

Derivative Instruments

At beginning of period (c)  
 Unrealized gain (loss) on derivative instruments (b)  
 Reclassification adjustments included in net income (b)

At end of period  
 -----

RETAINED EARNINGS

At beginning of period  
 Net income (b)  
 Cash dividends declared- Common Stock

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Cash dividends declared- Preferred Stock  
Preferred securities distributions

At end of period

-----  
TOTAL COMMON STOCKHOLDER'S EQUITY  
=====

(a) Number of shares of common stock outstanding was 84,108,789 for all periods presented.

(b) Disclosure of Comprehensive Income:

Other comprehensive income

Investments

Unrealized loss on investments, net of tax of  
\$2 and \$3, respectively

Derivative Instruments

Unrealized gain (loss) on derivative instruments,  
net of tax of \$(3) and \$7, respectively

Reclassification adjustments included in net income,  
net of tax of \$(1) and \$4, respectively

Net income

Total Comprehensive Income

(c) Three Months Ended 2001 is the cumulative effect of change in accounting principle, net of \$(11) tax (Note 1)

THE ACCOMPANYING CONDENSED NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS.

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Consumers Energy Company

CONSUMERS ENERGY COMPANY  
CONSOLIDATED STATEMENTS OF INCOME  
(UNAUDITED)  
(AS RESTATED, SEE NOTE 4)

JUNE 30	THREE MONTHS ENDED		SI
	2002	2001	20
-----			
In Millions			
OPERATING REVENUE			
Electric	\$ 631	\$ 624	\$1,2
Gas	252	239	8
Other	44	10	
	-----	-----	
	927	873	2,1
-----			
OPERATING EXPENSES			
Operation			
Fuel for electric generation	71	77	1
Purchased power - related parties	133	126	2

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Purchased and interchange power	72	102	1
Cost of gas sold	113	112	5
Cost of gas sold - related parties	31	29	
Other	166	155	3
	586	601	1,4
Maintenance	48	50	
Depreciation, depletion and amortization	71	67	1
General taxes	44	43	1
	749	761	1,7
-----			
PRETAX OPERATING INCOME (LOSS)			
Electric	116	87	2
Gas	19	17	
Other	43	8	
	178	112	3
-----			
OTHER INCOME (DEDUCTIONS)			
Dividends and interest from affiliates	1	2	
Accretion expense	(1)	(2)	
Other, net	36	1	
	36	1	
-----			
INTEREST CHARGES			
Interest on long-term debt	37	37	
Other interest	2	12	
Capitalized interest	(3)	(2)	
	36	47	
-----			
INCOME BEFORE INCOME TAXES	178	66	3
INCOME TAXES	54	21	1
-----			
NET INCOME	124	45	2
PREFERRED STOCK DIVIDENDS	-	1	
PREFERRED SECURITIES DISTRIBUTIONS	11	9	
-----			
NET INCOME AVAILABLE TO COMMON STOCKHOLDER	\$ 113	\$ 35	\$ 1
=====			

THE ACCOMPANYING CONDENSED NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS.

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Consumers Energy Company

CONSUMERS ENERGY COMPANY  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(UNAUDITED)  
(AS RESTATED, SEE NOTE 4)

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JUNE 30	SIX 2002
-----	
In Millions	
CASH FLOWS FROM OPERATING ACTIVITIES	
Net income	\$ 216
Adjustments to reconcile net income to net cash provided by operating activities	
Depreciation, depletion and amortization (includes nuclear decommissioning of \$3 and \$3, respectively)	179
Gain on sale of METC and other assets	(38)
Deferred income taxes and investment tax credit	(19)
Capital lease and other amortization	8
Undistributed earnings of related parties	(53)
Changes in assets and liabilities	
Decrease (increase) in inventories	128
Decrease (increase) in accounts receivable and accrued revenue	61
Increase (decrease) in accounts payable	(69)
Regulatory obligation - gas customer choice	(6)
Changes in other assets and liabilities	28
	-----
Net cash provided by operating activities	435
-----	
CASH FLOWS FROM INVESTING ACTIVITIES	
Capital expenditures (excludes assets placed under capital lease)	(273)
Cost to retire property, net	(31)
Investment in Electric Restructuring Implementation Plan	(5)
Investments in nuclear decommissioning trust funds	(3)
Proceeds from nuclear decommissioning trust funds	12
Proceeds from sale of METC and other assets	293
	-----
Net cash used in investing activities	(7)
-----	
CASH FLOWS FROM FINANCING ACTIVITIES	
Retirement of bonds and other long-term debt	(372)
Increase (decrease) in notes payable, net	(161)
Payment of common stock dividends	(154)
Redemption of preferred securities	(30)
Preferred securities distributions	(22)
Payment of capital lease obligations	(7)
Payment of preferred stock dividends	(1)
Proceeds from preferred securities	--
Stockholder's contribution, net	50
Proceeds from senior notes and bank loans	304
	-----
Net cash (used in)/provided by financing activities	(393)
-----	
NET INCREASE (DECREASE) IN CASH AND TEMPORARY CASH INVESTMENTS	35
CASH AND TEMPORARY CASH INVESTMENTS, BEGINNING OF PERIOD	17
	-----

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CASH AND TEMPORARY CASH INVESTMENTS, END OF PERIOD \$ 52

OTHER CASH FLOW ACTIVITIES AND NON-CASH INVESTING AND FINANCING ACTIVITIES WERE:

CASH TRANSACTIONS

Interest paid (net of amounts capitalized)	\$	47
Income taxes paid (net of refunds)		52
Pension and OPEB cash contribution		83

NON-CASH TRANSACTIONS

Nuclear fuel placed under capital lease	\$	--
Other assets placed under capital leases		35

All highly liquid investments with an original maturity of three months or less are considered cash equivalents.

THE ACCOMPANYING CONDENSED NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS.

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Consumers Energy Company

CONSUMERS ENERGY COMPANY  
CONSOLIDATED BALANCE SHEETS  
(AS RESTATED, SEE NOTE 4)

ASSETS	JUNE 30 2002 (UNAUDITED)	DECEMBER 31 2001 (UNAUDITED)
<hr/>		
PLANT (AT ORIGINAL COST)		
Electric	\$ 7,396	\$ 7,396
Gas	2,651	2,651
Other	21	21
	<hr/>	<hr/>
	10,068	10,068
Less accumulated depreciation, depletion and amortization	5,822	5,822
	<hr/>	<hr/>
Construction work-in-progress	4,246	4,246
	477	477
	<hr/>	<hr/>
	4,723	4,723
<hr/>		
INVESTMENTS		
Stock of affiliates	28	28
First Midland Limited Partnership	261	261
Midland Cogeneration Venture Limited Partnership	359	359
	<hr/>	<hr/>
	648	648
	<hr/>	<hr/>



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CURRENT ASSETS

Cash and temporary cash investments at cost, which approximates market	52
Accounts receivable and accrued revenue, less allowances of \$4, \$4 and \$3, respectively	76
Accounts receivable - related parties	15
Inventories at average cost	
Gas in underground storage	431
Materials and supplies	67
Generating plant fuel stock	57
Deferred property taxes	99
Regulatory assets	19
Other	9
	825

NON-CURRENT ASSETS

Regulatory assets	
Securitization costs	709
Postretirement benefits	197
Abandoned Midland Project	11
Other	173
Nuclear decommissioning trust funds	555
Other	137
	1,782

TOTAL ASSETS	\$ 7,978	\$
--------------	----------	----

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Consumers Energy Company

STOCKHOLDERS' INVESTMENT AND LIABILITIES	(AS RESTATED, SEE	
	JUNE 30	DECEMBER 31
	2002	2001
	(UNAUDITED)	

CAPITALIZATION

Common stockholder's equity		
Common stock	\$ 841	\$ 841
Paid-in capital	682	632
Other comprehensive income	(8)	4
Retained earnings since December 31, 1992	480	441
	1,995	1,918
Preferred stock	44	44
Company-obligated mandatorily redeemable preferred securities		

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of subsidiaries (a)	490	520
Long-term debt	2,441	2,472
Non-current portion of capital leases	97	72
	5,067	5,026
<hr/>		
CURRENT LIABILITIES		
Current portion of long-term debt and capital leases	225	257
Notes payable	255	416
Notes payable- CMS Energy	-	-
Accounts payable	219	282
Accrued taxes	213	214
Accounts payable - related parties	87	96
Deferred income taxes	19	12
Current portion of purchase power contract	24	24
Other	247	247
	1,289	1,548
<hr/>		
NON-CURRENT LIABILITIES		
Deferred income taxes	755	784
Postretirement benefits	230	276
Regulatory liabilities for income taxes, net	276	276
Power purchase agreement - MCV Partnership	41	52
Deferred investment tax credit	94	102
Other	226	257
	1,622	1,747
<hr/>		
COMMITMENTS AND CONTINGENCIES (Notes 1 and 2)		
TOTAL STOCKHOLDERS' INVESTMENT AND LIABILITIES	\$ 7,978	\$ 8,321
<hr/>		

(a) See Note 3, Short-Term Financings and Capitalization

THE ACCOMPANYING CONDENSED NOTES ARE AN INTEGRAL PART OF THESE BALANCE SHEETS.

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Consumers Energy Company

CONSUMERS ENERGY COMPANY  
CONSOLIDATED STATEMENTS OF COMMON STOCKHOLDER'S EQUITY  
(UNAUDITED)  
(AS RESTATED, SEE NOTE 4)

JUNE 30	THREE MONTHS ENDED
	2002                      2001

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COMMON STOCK		
At beginning and end of period (a)	\$ 841	\$ 841
-----		
OTHER PAID-IN CAPITAL		
At beginning and end of period	782	646
Stockholder's contribution	--	--
Return of Stockholder's contribution	(100)	--
	-----	
At end of Period	682	646
-----		
OTHER COMPREHENSIVE INCOME		
Investments		
At beginning of period	13	28
Unrealized loss on investments (b)	(18)	(2)
	-----	
At end of period	(5)	26
Derivative Instruments		
At beginning of period (c)	(4)	1
Unrealized gain (loss) on derivative instruments (b)	--	(11)
Reclassification adjustments included in net income (b)	1	--
	-----	
At end of period	(3)	(10)
-----		
RETAINED EARNINGS		
At beginning of period	467	519
Net income	124	45
Cash dividends declared- Common Stock	(100)	(30)
Cash dividends declared- Preferred Stock	--	(1)
Preferred securities distributions	(11)	(9)
	-----	
At end of period	480	524
-----		
TOTAL COMMON STOCKHOLDER'S EQUITY	\$ 1,995	\$ 2,027
=====		

(a) Number of shares of common stock outstanding was 84,108,789 for all periods presented.

(b) Disclosure of Comprehensive Income:

Other comprehensive income

Investments

Unrealized loss on investments, net of tax of  
\$10, \$1, \$12 and \$4, respectively

\$ (18)                      \$ (2)

Derivative Instruments

Unrealized gain (loss) on derivative instruments,  
net of tax of \$-, \$6, \$3 and \$13, respectively

--                              (11)

Reclassification adjustments included in net income,  
net of tax of \$1, \$-, \$2 and \$4, respectively

1                                --

Net income

124                              45

Total Comprehensive Income

\$ 107                              \$ 32

(c) Six Months Ended 2001 is the cumulative effect of change in accounting

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principle, net of \$(11) tax (Note 1)

THE ACCOMPANYING CONDENSED NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS.

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### QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

#### CONSUMERS

Quantitative and Qualitative Disclosures about Market Risk is contained in PART I: CONSUMERS' ENERGY COMPANY'S MANAGEMENT'S DISCUSSION AND ANALYSIS, which is incorporated by reference herein.

#### CONTROLS AND PROCEDURES

DISCLOSURE AND INTERNAL CONTROLS: Consumers' CEO and CFO is responsible for establishing and maintaining disclosure controls and procedures. Management, under the direction of its principal executive and financial officers, have evaluated the effectiveness of Consumers' disclosure controls and procedures as of February 17, 2003. Based on these evaluations, Consumers' CEO and CFO has concluded that disclosure controls and procedures are effective to ensure that material information was presented to them and properly disclosed. There have been no significant changes in Consumers internal controls or in factors that could significantly affect internal controls subsequent to February 17, 2003.

#### PART II. OTHER INFORMATION

##### ITEM 1. LEGAL PROCEEDINGS

The discussion below is limited to an update of developments that have occurred in various judicial and administrative proceedings, many of which are more fully described in Consumers' Form 10-K/A for the year ended December 31, 2001. Reference is also made to the Condensed Notes to the Consolidated Financial Statements, in particular Note 2, Uncertainties for Consumers, included herein for additional information regarding various pending administrative and judicial proceedings involving rate, operating, regulatory and environmental matters.

EMPLOYMENT RETIREMENT INCOME SECURITY ACT CLASS ACTION LAWSUITS: CMS Energy is a named defendant, along with Consumers, CMS MST and certain named and unnamed officers and directors, in two lawsuits brought as purported class actions on behalf of participants and beneficiaries of the CMS Employee's Savings and Incentive Plan (the "Plan"). The two cases, filed in July 2002 in the U.S. District Court, were consolidated by the trial judge. Plaintiffs allege breaches of fiduciary duties under ERISA and seek restitution on behalf of the Plan with respect to a decline in value of the shares of Common Stock held in the Plan. Plaintiffs also seek other equitable relief and legal fees. These cases will be vigorously defended. CMS Energy and Consumers cannot predict the outcome of this litigation.

SECURITIES CLASS ACTION LAWSUITS: Between May and July 2002, eighteen separate civil lawsuits were filed in the U.S. District Court in connection with round-trip trading, alleging (i) violation of Section 10(b) and Rule 10b-5 of the Securities Exchange Act of 1934 ("Exchange Act") and (ii) violation of Section 20(a) of the Exchange Act. All suits name Messrs. McCormick and Wright and CMS Energy as defendants. Consumers, Mr. Joos and Ms. Pallas are named as

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defendants on certain of the suits. The cases will be consolidated into a single lawsuit. These complaints generally seek unspecified damages based on allegations that the defendants violated United States securities laws and regulations by making allegedly false and misleading statements about the business and financial condition of CMS Energy and Consumers. These cases will be vigorously defended. CMS Energy and Consumers cannot predict the outcome of this litigation.

ENVIRONMENTAL MATTERS: Consumers, and its subsidiaries and affiliates are subject to various federal, state and local laws and regulations relating to the environment. Several of these companies have been named parties to various actions involving environmental issues. Based on their present knowledge and subject to future legal and factual developments, Consumers believes that it is unlikely that these actions, individually or in total, will

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have a material adverse effect on its financial condition. See Consumers' MANAGEMENT'S DISCUSSION AND ANALYSIS; and Consumers' CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

### ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

#### (A) LIST OF EXHIBITS

- (99) Certifications pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

#### (B) REPORTS ON FORM 8-K

During 3rd Quarter 2002, Consumers filed reports of Form 8-K on July 30, 2002 and August 8, 2002 covering matters pursuant to ITEM 5. OTHER EVENTS.

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### SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, Consumers Energy Company has duly caused this Quarterly Report on Form 10-Q/A to be signed on its behalf by the undersigned, thereunto duly authorized, on the 14th day of March, 2003.

CONSUMERS ENERGY COMPANY

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By: /s/ Thomas J. Webb

-----  
Thomas J. Webb  
Executive Vice President and  
Chief Financial Officer

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CERTIFICATION OF KENNETH WHIPPLE

I, Kenneth Whipple, certify that:

1. I have reviewed this quarterly report on Form 10-Q/A of Consumers Energy Company;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operation and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
  - a) Designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
  - b) Evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
  - c) Presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our

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evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) All significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

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6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 14, 2003

By: /s/ Kenneth Whipple

-----  
Kenneth Whipple  
Chairman of the Board and  
Chief Executive Officer

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CERTIFICATION OF THOMAS J. WEBB

I, Thomas J. Webb, certify that:

1. I have reviewed this quarterly report on Form 10-Q/A of Consumers Energy Company;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact

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necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operation and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

- a) Designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

- b) Evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

- c) Presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

- a) All significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

- b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

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6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 14, 2003

By: /s/ Thomas J. Webb

-----  
Thomas J. Webb



Executive Vice President and  
Chief Financial Officer

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EXHIBIT INDEX

Exhibit -----	Description -----
99	Certification of CEO and CFO