

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

Washington, D.C. 20549

FORM 10-Q

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2014
OR**

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

Commission
File Number
1-9513

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

IRS Employer
Identification No.
38-2726431

1-5611

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

38-0442310

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

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

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

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

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

CMS Energy Corporation:

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

(Do not check if a smaller reporting company)

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Consumers Energy Company:

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

(Do not check if a smaller reporting company)

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of July 7, 2014:

CMS Energy Corporation:

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

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

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

June 30, 2014

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

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

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CMS ERM	CMS Energy Resource Management Company, formerly known as CMS MST, a wholly owned subsidiary of CMS Enterprises
CMS Field Services	CMS Field Services, Inc., a former wholly owned subsidiary of CMS Gas Transmission
CMS Gas Transmission	CMS Gas Transmission Company, a wholly owned subsidiary of CMS Enterprises
CMS Land	CMS Land Company, a wholly owned subsidiary of CMS Capital
CMS MST	CMS Marketing, Services and Trading Company, a wholly owned subsidiary of CMS Enterprises, whose name was changed to CMS ERM in 2004
Consumers	Consumers Energy Company, a wholly owned subsidiary of CMS Energy
Consumers 2014 Securitization Funding	Consumers 2014 Securitization Funding LLC, a wholly owned consolidated bankruptcy-remote subsidiary of Consumers and special-purpose entity organized for the sole purpose of purchasing and owning Securitization property, issuing Securitization bonds, and pledging its interest in Securitization property to a trustee to collateralize the Securitization bonds
CSAPR	The Cross-State Air Pollution Rule
DB SERP	Defined Benefit Supplemental Executive Retirement Plan
Dodd-Frank Act	Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010
DOE	U.S. Department of Energy
EBITDA	Earnings before interest, taxes, depreciation, and amortization
EnerBank	EnerBank USA, a wholly owned subsidiary of CMS Capital
Entergy	Entergy Corporation, a non-affiliated company
Environmental Mitigation Projects	Environmentally beneficial projects that a party agrees to undertake as part of the settlement of an enforcement action, but which the party is not otherwise legally required to perform
EPA	U.S. Environmental Protection Agency
EPS	Earnings per share

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Exchange Act	Securities Exchange Act of 1934, as amended
FDIC	Federal Deposit Insurance Corporation
FERC	The Federal Energy Regulatory Commission
fine particulate matter	Particulate matter that is 2.5 microns or less in diameter
FMB	First mortgage bond
FOV	Finding of Violation
FTR	Financial transmission right
GAAP	U.S. Generally Accepted Accounting Principles
GCR	Gas cost recovery
Health Care Acts	Comprehensive health care reform enacted in March 2010, comprising the Patient Protection and Affordable Care Act and the related Health Care and Education Reconciliation Act
kWh	Kilowatt-hour, a unit of energy equal to one thousand watt-hours
Ludington	Ludington pumped-storage plant, jointly owned by Consumers and DTE Electric Company, a non-affiliated company
MACT	Maximum Achievable Control Technology, which is the emission control that is achieved in practice by the best-controlled similar source
MATS	Mercury and Air Toxics Standards, which limit mercury, acid gases, and other toxic pollution from coal-fueled and oil-fueled power plants
MD&A	Management's Discussion and Analysis of Financial Condition and Results of Operations
MDEQ	Michigan Department of Environmental Quality
MDL	A pending multi-district litigation case in Nevada arising out of several consolidated cases
MGP	Manufactured gas plant
MISO	Midcontinent Independent System Operator, Inc.

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mothball	To place a generating unit into a state of extended reserve shutdown in which the unit is inactive and unavailable for service for a specified period, during which the unit can be brought back into service after receiving appropriate notification and completing any necessary maintenance or other work; generation owners in MISO must request approval to mothball a unit, and MISO then evaluates the request for reliability impacts
MPSC	Michigan Public Service Commission
MW	Megawatt, a unit of power equal to one million watts
NAV	Net asset value
NERC	The North American Electric Reliability Corporation, a non-affiliated company responsible for developing and enforcing reliability standards, monitoring the bulk power system, and educating and certifying industry personnel
NOV	Notice of Violation
NPDES	National Pollutant Discharge Elimination System, a permit system for regulating point sources of pollution under the Clean Water Act
NREPA	Part 201 of the Michigan Natural Resources and Environmental Protection Act, a statute that covers environmental activities including remediation
NSR	New Source Review, a construction-permitting program under the Clean Air Act
NYMEX	The New York Mercantile Exchange
OPEB	Other Post-Employment Benefits
OPEB Plan	Defined benefit postretirement health-care and life insurance plans of CMS Energy, Consumers, and Panhandle
Palisades	Palisades nuclear power plant, sold by Consumers to Entergy in 2007
Panhandle	Panhandle Eastern Pipe Line Company, a former wholly owned subsidiary of CMS Gas Transmission
PCB	Polychlorinated biphenyl
PSCR	Power supply cost recovery
PSD	Prevention of Significant Deterioration
REC	Renewable energy credit established under the 2008 Energy Law

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ReliabilityFirst Corporation	ReliabilityFirst Corporation, a non-affiliated company responsible for the preservation and enhancement of bulk power system reliability and security
Renewable Operating Permit	Michigan's Title V permitting program under the Clean Air Act
Resource Conservation and Recovery Act	Federal Resource Conservation and Recovery Act of 1976
RMRR	Routine maintenance, repair, and replacement
ROA	Retail Open Access, which allows electric generation customers to choose alternative electric suppliers pursuant to a Michigan statute enacted in 2000
SEC	U.S. Securities and Exchange Commission
Securitization	A financing method authorized by statute and approved by the MPSC which allows a utility to sell its right to receive a portion of the rate payments received from its customers for the repayment of securitization bonds issued by a special-purpose entity affiliated with such utility
Sherman Act	Sherman Antitrust Act of 1890
Smart Energy	Consumers' Smart Energy grid modernization project, which includes the installation of smart meters that transmit and receive data, a two-way communications network, and modifications to Consumers' existing information technology system to manage the data and enable changes to key business processes
Title V	A federal program under the Clean Air Act designed to standardize air quality permits and the permitting process for major sources of emissions across the U.S.
Trunkline	Trunkline Gas Company, LLC, a non-affiliated company and wholly owned subsidiary of Panhandle

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FILING FORMAT

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

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

FORWARD-LOOKING STATEMENTS AND INFORMATION

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

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

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

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- potentially adverse regulatory or legal interpretations or decisions regarding environmental matters, or delayed regulatory treatment or permitting decisions that are or could come before the MDEQ, EPA, and/or U.S. Army Corps of Engineers, and potential environmental remediation costs associated with these interpretations or decisions, including those that may affect Bay Harbor or Consumers' RMRR classification under NSR regulations;
- changes in energy markets, including availability and price of electric capacity and the timing and extent of changes in commodity prices and availability and deliverability of coal, natural gas, natural gas liquids, electricity, oil, and certain related products;
- the price of CMS Energy common stock, the credit ratings of CMS Energy and Consumers, capital and financial market conditions, and the effect of these market conditions on CMS Energy's and Consumers' interest costs and access to the capital markets, including availability of financing to CMS Energy, Consumers, or any of their affiliates;
- the investment performance of the assets of CMS Energy's and Consumers' pension and benefit plans and the discount rates used in calculating the plans' obligations, and the resulting impact on future funding requirements;
- the impact of the economy, particularly in Michigan, and potential future volatility in the financial and credit markets on CMS Energy's, Consumers', or any of their affiliates' revenues, ability to collect accounts receivable from customers, or cost and availability of capital;
- changes in the economic and financial viability of CMS Energy's and Consumers' suppliers, customers, and other counterparties and the continued ability of these third parties, including third parties in bankruptcy, to meet their obligations to CMS Energy and Consumers;
- population changes in the geographic areas where CMS Energy and Consumers conduct business;
- national, regional, and local economic, competitive, and regulatory policies, conditions, and developments, including municipal bankruptcy filings;
- loss of customer demand for electric generation supply to alternative energy suppliers or to increased use of distributed generation;
- federal regulation of electric sales and transmission of electricity, including periodic re-examination by federal regulators of CMS Energy's and Consumers' market-based sales authorizations in wholesale power markets without price restrictions;

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

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- factors affecting operations, such as costs and availability of personnel, equipment, and materials, unusual weather conditions, catastrophic weather-related damage, scheduled or unscheduled equipment outages, maintenance or repairs, environmental incidents, equipment failures, and electric transmission and distribution or gas pipeline system constraints;
- potential disruption to, interruption of, or other impacts on facilities, utility infrastructure, or operations due to accidents, explosions, physical disasters, war, or terrorism, and the ability to obtain or maintain insurance coverage for these events;
- changes or disruption in fuel supply, including but not limited to rail or vessel transport of coal and pipeline transport of natural gas;
- potential costs, lost revenues, or other consequences resulting from misappropriation of assets or sensitive information, corruption of data, or operational disruption in connection with a cyber attack or other cyber incident;
- technological developments in energy production, storage, delivery, usage, and metering, including Smart Energy and the success of its implementation;
- the impact of CMS Energy's and Consumers' integrated business software system and its operation on their activities, including utility customer billing and collections;
- adverse consequences resulting from any past or future assertion of indemnity or warranty claims associated with assets and businesses previously owned by CMS Energy or Consumers, including claims resulting from attempts by foreign or domestic governments to assess taxes on past operations or transactions;
- the outcome, cost, and other effects of any legal or administrative proceedings, settlements, investigations, or claims;
- the impact of operational incidents, violations of corporate compliance policies, regulatory violations, and other events on CMS Energy's and Consumers' reputations;
- restrictions imposed by various financing arrangements and regulatory requirements on the ability of Consumers and other subsidiaries of CMS Energy to transfer funds to CMS Energy in the form of cash dividends, loans, or advances;

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

All forward-looking statements should be considered in the context of the risk and other factors described above and as detailed from time to time in CMS Energy's and Consumers' SEC filings. For additional details regarding these and other uncertainties, see Part I Item 1. Consolidated Financial Statements (Unaudited) Notes to the Unaudited Consolidated Financial Statements Note 2, Regulatory Matters and Note 3, Contingencies and Commitments; Part I Item 2. MD&A Outlook; and Part II Item 1A. Risk Factors.

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

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

EXECUTIVE OVERVIEW

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

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

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

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

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

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

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

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

SAFE, EXCELLENT OPERATIONS

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

CUSTOMER VALUE

Consumers is undertaking a number of initiatives that reflect its intensified customer focus. Consumers' planned investments in reliability are aimed at improving safety, reducing customer outage frequency, reducing repetitive outages, and increasing customer satisfaction. Also, in order to minimize increases in customer base rates, Consumers has undertaken several additional initiatives to reduce costs through voluntary separation plans, accelerated pension funding, employee and retiree health-care cost sharing, negotiated labor agreements, information system efficiencies, and productivity improvements. Consumers has also received approval from the MPSC to issue Securitization bonds and to accelerate the recognition of certain tax benefits, both of which will result in cost savings for customers. These initiatives, together with Consumers' plans to accelerate further cost reductions, should allow Consumers to avoid increasing electric and gas base rates through 2014.

UTILITY INVESTMENT

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

Among the key components of Consumers' investment program are projects that will enhance customer value. Consumers' planned base capital investments of \$3.5 billion represent projects to maintain Consumers' system and comprise \$2.1 billion at the electric utility to preserve reliability and capacity and \$1.4 billion at the gas utility to sustain deliverability and enhance pipeline integrity. An additional \$1.9 billion of

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planned reliability investments at Consumers are aimed at reducing outages and improving customer satisfaction; these investments comprise \$1.0 billion at the electric utility to strengthen circuits and substations, replace poles, and upgrade the Ludington pumped-storage plant and \$0.9 billion at the gas utility to replace mains and enhance transmission and storage systems. Consumers also expects to spend \$0.9 billion on environmental investments needed to comply with state and federal laws and regulations.

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Consumers' Smart Energy program, with an estimated total project capital cost of \$0.8 billion, also represents a major capital investment. The full-scale deployment of advanced metering infrastructure began in 2012 and is planned to continue through 2017. Consumers has spent \$0.3 billion through 2013 on its Smart Energy program, and expects to spend an additional \$0.5 billion, following a phased approach, from 2014 through 2017.

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

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

REGULATION

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

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

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

- **Securitization Financing Order:** In July 2014, Consumers, through its subsidiary Consumers 2014 Securitization Funding, issued \$378 million of Securitization bonds with tenors of six, 11, and 15 years, maturing from 2020 to 2029. These bonds will finance the recovery of the remaining book value of seven smaller coal-fueled electric generating units and three smaller gas-fueled electric generating units that Consumers plans to retire by April 2016. The MPSC approved the issuance of these bonds in its December 2013 Securitization financing order, and authorized Consumers to collect from its retail electric customers, with some exceptions, Securitization charges to cover the principal and interest on the bonds as well as certain other qualified costs.

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The 2008 Energy Law limits alternative electric supply to ten percent of Consumers' weather-adjusted retail sales of the preceding calendar year. At June 30, 2014, Consumers' electric deliveries under the ROA program were at the ten-percent limit. Bills have been introduced to the Michigan House of Representatives and the Michigan Senate to raise or remove the ROA limit. The House bill also proposes to deregulate electric generation service in Michigan within two years. Consumers is unable to predict the outcome of these legislative proposals. In addition, the Michigan legislature has conducted hearings

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on the subject of energy competition. If the ROA limit were increased or if electric generation service in Michigan were deregulated, it could have a material adverse effect on Consumers' financial results and operations.

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

FINANCIAL PERFORMANCE

For the six months ended June 30, 2014, CMS Energy's net income available to common stockholders was \$287 million, and diluted EPS were \$1.05. This compares with net income available to common stockholders of \$224 million and diluted EPS of \$0.83 for the six months ended June 30, 2013. Among the factors contributing to CMS Energy's improved performance in 2014 were increased gas and electric deliveries due to colder weather and benefits from an electric rate increase.

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

CMS Energy and Consumers believe that economic conditions in Michigan are improving. Consumers expects its electric deliveries to increase annually by up to 0.5 percent on average through 2018, driven largely by the continued rise in industrial production. Excluding the impacts of energy efficiency programs, Consumers expects its electric deliveries to increase by about 1.0 to 1.5 percent annually through 2018. Consumers is projecting that its gas deliveries will remain relatively stable through 2018. This outlook reflects growth in gas demand offset by energy efficiency and conservation.

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

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

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

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

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

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

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

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

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

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

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

Other income, net of expenses: For the six months ended June 30, 2014, other income, net of expenses, decreased \$5 million compared with 2013. This decrease was due to a \$2 million contribution to oppose certain Michigan legislative proposals related to ROA and to the absence, in 2014, of a \$3 million gain related to a donation of CMS Energy stock by Consumers.

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

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

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

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

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

For the six months ended June 30, 2014, income taxes increased \$2 million compared with 2013. This change reflected a \$15 million increase attributed to higher electric utility earnings, offset partially by a \$13 million benefit associated with the accelerated flow-through of income tax benefits under an MPSC accounting order that Consumers implemented in January 2014.

CONSUMERS GAS UTILITY RESULTS OF OPERATIONS

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

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

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

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

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

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Net Income (Loss) Available to Common Stockholders	\$ (26)	\$ (19)	\$ (7)	\$ (45)	\$ (41)	\$ (4)
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For the three months ended June 30, 2014, corporate interest and other net expenses increased \$7 million compared with 2013, due primarily to an \$8 million loss on the early extinguishment of debt, offset partially by higher earnings at EnerBank.

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

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

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

OPERATING ACTIVITIES

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

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

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

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

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

Table of Contents**INVESTING ACTIVITIES**

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

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

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

FINANCING ACTIVITIES

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

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

Net cash used in financing activities	\$ (142)	\$ (191)	\$ 49
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For the six months ended June 30, 2014, net cash provided by financing activities at CMS Energy increased \$67 million compared with 2013 and net cash used in financing activities at Consumers decreased \$49 million compared with 2013. At CMS Energy, the change was due primarily to a decrease in debt retirements, offset partially by higher repayments under Consumers' accounts receivable sales program. At Consumers, the change was due primarily to an increase in cash contributions by the parent, offset partially by increases in common stock dividend payments and repayments under Consumers' accounts receivable sales program.

Table of Contents**CAPITAL RESOURCES AND LIQUIDITY**

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

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

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

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

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

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

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

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

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

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

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

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

OFF-BALANCE-SHEET ARRANGEMENTS

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

OUTLOOK

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

CONSUMERS ELECTRIC UTILITY AND GAS UTILITY BUSINESS OUTLOOK AND UNCERTAINTIES

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

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