CMS ENERGY CORP
Form 10-Q
October 25, 2018
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2018
OR
o 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	Registrant; State of Incorporation; Address; and Telephone Number	IRS Employer Identification No.
1-9513	CMS ENERGY CORPORATION (A Michigan Corporation) One Energy Plaza, Jackson, Michigan 49201 (517) 788-0550	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 x No o	Consumers Energy Company: Yes x No o

Indicate by check mark whether the registrant has submitted electronically every Interactive Data file required to be submitted 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 such files).

CMS Energy Corporation: Yes x No o	Consumers Energy Company: Yes x No o

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

CMS Energy Corporation:	Consumers Energy Company:
Large accelerated filer x	Large accelerated filer o
Non-accelerated filer o	Non-accelerated filer x
Accelerated filer o	Accelerated filer o
Smaller reporting company o	Smaller reporting company o
Emerging growth company o	Emerging growth company o

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

CMS Energy Corporation: o	Consumers Energy Company: o

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 o No x	Consumers Energy Company: Yes o No x

Indicate the number of shares outstanding of each of the issuer's classes of common stock at October 9, 2018:	
CMS Energy Corporation:	
CMS Energy Common Stock, $0.01 par value (including 20,316 shares owned by Consumers Energy)	283,331,416
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 September 30, 2018

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Glossary
Certain terms used in the text and financial statements are defined below.
2016 Energy Law
Michigan's Public Acts 341 and 342 of 2016
2017 Form 10-K
Each of CMS Energy's and Consumers' Annual Report on Form 10-K for the year ended December 31, 2017
ABATE
The Association of Businesses Advocating Tariff Equity
AOCI
Accumulated other comprehensive income (loss)
ARO
Asset retirement obligation
ASU
Financial Accounting Standards Board Accounting Standards Update
Bay Harbor
A residential/commercial real estate area located near Petoskey, Michigan, in which CMS Energy sold its interest in 2002
bcf
Billion cubic feet
Cantera Gas Company
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
The Comprehensive Environmental Response, Compensation, and Liability Act of 1980, as amended
CFO
Chief Financial Officer
Clean Air Act
Federal Clean Air Act of 1963, as amended
Clean Water Act
Federal Water Pollution Control Act of 1972, as amended

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CMS Capital
CMS Capital, L.L.C., a wholly owned subsidiary of CMS Energy
CMS Energy
CMS Energy Corporation and its consolidated subsidiaries, unless otherwise noted; the parent of Consumers and CMS Enterprises
CMS Enterprises
CMS Enterprises Company, a wholly owned subsidiary of CMS Energy
CMS 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 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 and its consolidated subsidiaries, unless otherwise noted; a wholly owned subsidiary of CMS Energy
CSAPR
The Cross-State Air Pollution Rule of 2011, as amended
DB Pension Plans
Defined benefit pension plans of CMS Energy and Consumers, including certain present and former affiliates and subsidiaries
DB SERP
Defined Benefit Supplemental Executive Retirement Plan
Dodd-Frank Act
Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010
EBITDA
Earnings before interest, taxes, depreciation, and amortization
EEI
Edison Electric Institute, an association representing all U.S. investor-owned electric companies
EnerBank
EnerBank USA, a wholly owned subsidiary of CMS Capital

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energy waste reduction
The reduction of energy consumption through energy efficiency and demand-side energy conservation, as established under the 2016 Energy Law
EPA
U.S. Environmental Protection Agency
EPS
Earnings per share
Exchange Act
Securities Exchange Act of 1934
FDIC
Federal Deposit Insurance Corporation
FERC
The Federal Energy Regulatory Commission
FTR
Financial transmission right
GAAP
U.S. Generally Accepted Accounting Principles
GCR
Gas cost recovery
Genesee
Genesee Power Station Limited Partnership, a variable interest entity in which HYDRA-CO Enterprises, Inc., a wholly owned subsidiary of CMS Enterprises, has a 50-percent interest
Internal Revenue Code
Internal Revenue Code of 1986, as amended
IRP
Integrated resource plan
kWh
Kilowatt-hour, a unit of energy equal to one thousand watt-hours
Ludington
Ludington pumped-storage plant, jointly owned by Consumers and DTE Electric Company, a non-affiliated company
MATS
Mercury and Air Toxics Standards, which limit mercury, acid gases, and other toxic pollution from coal-fueled and oil-fueled power plants
MCV Partnership
Midland Cogeneration Venture Limited Partnership

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MCV PPA
PPA between Consumers and the MCV Partnership
MD&A
Management's Discussion and Analysis of Financial Condition and Results of Operations
MDEQ
Michigan Department of Environmental Quality
METC
Michigan Electric Transmission Company, LLC, a non-affiliated company
MGP
Manufactured gas plant
Michigan Mercury Rule
Michigan Air Pollution Control Rules of 2009, as amended, Part 15: Emission Limitations and Prohibitions – Mercury
MISO
Midcontinent Independent System Operator, Inc.
mothball
To place a generating unit into a state of extended reserve shutdown in which the unit is inactive and unavailable for service for a specified period, during which the unit can be brought back into service after receiving appropriate notification and completing any necessary maintenance or other work; generation owners in MISO must request approval to mothball a unit, and MISO then evaluates the request for reliability impacts
MPSC
Michigan Public Service Commission
MW
Megawatt, a unit of power equal to one million watts
NAAQS
National Ambient Air Quality Standards
NPDES
National Pollutant Discharge Elimination System, a permit system for regulating point sources of pollution under the Clean Water Act
NREPA
Part 201 of Michigan's Natural Resources and Environmental Protection Act of 1994, as amended
NSR
New Source Review, a construction-permitting program under the Clean Air Act
OPEB
Other Post-Employment Benefits

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OPEB Plan
Postretirement health care and life insurance plans of CMS Energy and Consumers, including certain present and former affiliates and subsidiaries
OSHA
Occupational Safety and Health Administration
PCB
Polychlorinated biphenyl
PHMSA
The U.S. Department of Transportation’s Pipeline and Hazardous Materials Safety Administration
PPA
Power purchase agreement
PSCR
Power supply cost recovery
PURPA
The Public Utility Regulatory Policies Act of 1978
RCRA
The Federal Resource Conservation and Recovery Act of 1976
REC
Renewable energy credit
ROA
Retail Open Access, which allows electric generation customers to choose alternative electric suppliers pursuant to Michigan’s Public Acts 141 and 142 of 2000, as amended
SEC
U.S. Securities and Exchange Commission
securitization
A financing method authorized by statute and approved by the MPSC which allows a utility to sell its right to receive a portion of the rate payments received from its customers for the repayment of securitization bonds issued by a special-purpose entity affiliated with such utility
Smart Energy
Consumers’ Smart Energy grid modernization project, which includes the installation of smart meters that transmit and receive data, a two-way communications network, and modifications to Consumers’ existing information technology system to manage the data and enable changes to key business processes
TCJA
Tax Cuts and Jobs Act of 2017
T.E.S. Filer City
T.E.S. Filer City Station Limited Partnership, a variable interest entity in which HYDRA-CO Enterprises, Inc., a wholly owned subsidiary of CMS Enterprises, has a 50-percent interest

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Filing Format

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

This report should be read in its entirety. No one section of this report deals with all aspects of the subject matter of this report. This report should be read in conjunction with the consolidated financial statements and related notes and with MD&A included in the 2017 Form 10-K.

Available Information

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

Forward-Looking Statements and Information

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

- the impact of new regulation by the MPSC, FERC, and other applicable governmental proceedings and regulations, including any associated impact on electric or gas rates or rate structures
- potentially adverse regulatory treatment or failure to receive timely regulatory orders affecting Consumers that are or could come before the MPSC, FERC, or other governmental authorities
- changes in the performance of or regulations applicable to MISO, METC, pipelines, railroads, vessels, or other service providers that CMS Energy, Consumers, or any of their affiliates rely on to serve their customers

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- the adoption of federal or state laws or regulations or challenges to federal or state laws or regulations, or changes in applicable laws, rules, regulations, principles, or practices, or in their interpretation, such as those related to energy policy and ROA, infrastructure integrity or security, gas pipeline safety, gas pipeline capacity, energy waste reduction, the environment, regulation or deregulation, reliability, health care reforms (including comprehensive health care reform enacted in 2010), taxes, accounting matters, climate change, air emissions, renewable energy, potential effects of the Dodd-Frank Act, and other business issues that could have an impact on CMS Energy's, Consumers', or any of their affiliates' businesses or financial results
- factors affecting operations, such as costs and availability of personnel, equipment, and materials; weather conditions; natural disasters; catastrophic weather-related damage; scheduled or unscheduled equipment outages; maintenance or repairs; environmental incidents; failures of equipment or materials; electric transmission and distribution or gas pipeline system constraints; and changes in trade policies or regulations
- increases in demand for renewable energy by customers seeking to meet sustainability goals
- the ability of Consumers to execute its cost-reduction strategies
- potentially adverse regulatory or legal interpretations or decisions regarding environmental matters, or delayed regulatory treatment or permitting decisions that are or could come before the MDEQ, EPA, and/or U.S. Army Corps of Engineers, and potential environmental remediation costs associated with these interpretations or decisions, including those that may affect Bay Harbor or Consumers' routine maintenance, repair, and replacement classification under NSR regulations
- changes in energy markets, including availability and price of electric capacity and the timing and extent of changes in commodity prices and availability and deliverability of coal, natural gas, natural gas liquids, electricity, oil, and certain related products
- the price of CMS Energy common stock, the credit ratings of CMS Energy and Consumers, capital and financial market conditions, and the effect of these market conditions on CMS Energy's and Consumers' interest costs and access to the capital markets, including availability of financing to CMS Energy, Consumers, or any of their affiliates
- the investment performance of the assets of CMS Energy's and Consumers' pension and benefit plans, the discount rates used in calculating the plans' obligations, and the resulting impact on future funding requirements
- the impact of the economy, particularly in Michigan, and potential future volatility in the financial and credit markets on CMS Energy's, Consumers', or any of their affiliates' revenues, ability to collect accounts receivable from customers, or cost and availability of capital
- changes in the economic and financial viability of CMS Energy's and Consumers' suppliers, customers, and other counterparties and the continued ability of these third parties, including those in bankruptcy, to meet their obligations to CMS Energy and Consumers
- population changes in the geographic areas where CMS Energy and Consumers conduct business
- national, regional, and local economic, competitive, and regulatory policies, conditions, and developments

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- loss of customer demand for electric generation supply to alternative electric suppliers, increased use of distributed generation, or energy waste reduction
- adverse consequences of employee, director, or third-party fraud or non-compliance with codes of conduct or with laws or regulations
- federal regulation of electric sales and transmission of electricity, including periodic re examination by federal regulators of CMS Energy’s and Consumers’ market-based sales authorizations
- the impact of credit markets, economic conditions, increased competition, and any new banking and consumer protection regulations on EnerBank
- the availability, cost, coverage, and terms of insurance, the stability of insurance providers, and the ability of Consumers to recover the costs of any insurance from customers
- the effectiveness of CMS Energy’s and Consumers’ risk management policies, procedures, and strategies, including strategies to hedge risk related to interest rates and future prices of electricity, natural gas, and other energy-related commodities
- factors affecting development of electric generation projects and gas and electric transmission and distribution infrastructure replacement, conversion, and expansion projects, including factors related to project site identification, construction material pricing, schedule delays, availability of qualified construction personnel, permitting, acquisition of property rights, and government approvals
- potential disruption to, interruption of, or other impacts on facilities, utility infrastructure, operations, or backup systems due to accidents, explosions, physical disasters, cyber incidents, vandalism, war, or terrorism, and the ability to obtain or maintain insurance coverage for these events
- changes or disruption in fuel supply, including but not limited to supplier bankruptcy and delivery disruptions
- potential costs, lost revenues, or other consequences resulting from misappropriation of assets or sensitive information, corruption of data, or operational disruption in connection with a cyber attack or other cyber incident
- potential disruption to, interruption or failure of, or other impacts on information technology backup or disaster recovery systems
- technological developments in energy production, storage, delivery, usage, and metering
- the ability to implement technology successfully
- the impact of CMS Energy’s and Consumers’ integrated business software system and its effects on their operations, including utility customer billing and collections
- adverse consequences resulting from any past, present, or future assertion of indemnity or warranty claims associated with assets and businesses previously owned by CMS Energy or Consumers, including claims resulting from attempts by foreign or domestic governments to assess taxes on or to impose environmental liability associated with past operations or transactions

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- the outcome, cost, and other effects of any legal or administrative claims, proceedings, investigations, or settlements
- the reputational impact on CMS Energy and Consumers of operational incidents, violations of corporate policies, regulatory violations, inappropriate use of social media, and other events
- restrictions imposed by various financing arrangements and regulatory requirements on the ability of Consumers and other subsidiaries of CMS Energy to transfer funds to CMS Energy in the form of cash dividends, loans, or advances
- earnings volatility resulting from the application of fair value accounting to certain energy commodity contracts or interest rate contracts
- changes in financial or regulatory accounting principles or policies
- other matters that may be disclosed from time to time in CMS Energy's and Consumers' SEC filings, or in other public documents

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

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Part I—Financial Information

Item 1. Financial Statements

Index to Financial Statements

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CMS Energy Corporation
Consumers Energy Company
Management's Discussion and Analysis of Financial Condition and Results of Operations
This MD&A is a combined report of CMS Energy and Consumers.

Executive Overview

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

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's and Consumers' businesses are affected primarily by:

- regulation and regulatory matters
- state and federal legislation
- economic conditions
- weather
- energy commodity prices
- interest rates
- their securities' credit ratings

The Triple Bottom Line

CMS Energy's and Consumers' purpose is to achieve world class performance while delivering hometown service. In support of this purpose, the companies employ the "Consumers Energy Way," a lean operating model designed to improve safety, quality, cost, delivery, and employee morale.

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CMS Energy and Consumers measure their progress toward the purpose by considering their impact on the "triple bottom line" of people, planet, and profit, which is underpinned by performance; this consideration takes into account not only the economic value that the companies create for customers and investors, but also their responsibility to social and environmental goals. The triple bottom line balances the interests of the companies' employees, customers, suppliers, regulators, creditors, Michigan's residents, the investment community, and other stakeholders, and it reflects the broader societal impacts of the companies' activities.

Consumers' Sustainability Report, which is available to the public, describes the company's progress toward world class performance measured in the areas of people, planet, and profit.

People: The people element of the triple bottom line represents CMS Energy's and Consumers' commitment to their employees, their customers, the residents of local communities in which the companies do business, and other stakeholders.

The safety of employees, customers, and the general public is a priority of CMS Energy and Consumers. Accordingly, CMS Energy and Consumers have worked to integrate a set of safety principles into their business operations and culture. These principles include complying with applicable safety, health, and security regulations and implementing programs and processes aimed at continually improving safety and security conditions. The number of recordable safety incidents in 2017 was 65, compared with 73 in 2016 and 106 in 2015. The number of recordable safety incidents in 2017 was the lowest in Consumers' history. In 2017, Consumers' OSHA recordable incident rate was 0.77, compared with 0.88 in 2016 and 1.31 in 2015, and was the lowest among its EEI peer group.

CMS Energy and Consumers also place a high priority on customer value and on providing a hometown customer experience. Consumers' customer-driven investment program is aimed at improving safety and increasing electric and gas reliability, which has resulted in measurable improvements in customer satisfaction.

Central to Consumers' commitment to its customers are the initiatives it has undertaken to keep electricity and natural gas affordable, including:

- replacement of coal-fueled generation with cleaner and more efficient natural gas-fueled generation, renewable energy, and energy waste reduction and demand response programs
- targeted infrastructure investment, including the installation of smart meters
- information and control system efficiencies
- employee and retiree health care cost sharing
- workforce productivity enhancements

In addition, Consumers' gas commodity costs declined by 60 percent from 2007 through 2017, due not only to a decrease in market prices but also to Consumers' improvements to its gas infrastructure and optimization of its gas purchasing and storage strategy. These gas commodity savings are passed on to customers.

Planet: The planet element of the triple bottom line represents CMS Energy's and Consumers' commitment to protect the environment; this commitment extends beyond complying with the various

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state and federal environmental and health and safety laws and regulations to which CMS Energy and Consumers are subject. Management considers climate change risk and other environmental risks in the companies' strategy development, business planning, and enterprise risk management processes. By November 30, 2018, CMS Energy will publish a climate assessment report of the long-term impacts on the company's portfolio, of public policies and technological advances that are consistent with limiting global warming to no more than two degrees Celsius over pre-industrial levels.

CMS Energy and Consumers continue to focus on opportunities to protect the environment and to reduce their carbon footprint. As a result of actions already taken by CMS Energy and Consumers, including the retirement of seven of Consumers' coal-fueled electric generating units in 2016, the companies have:

- decreased their combined percentage of electric supply (self-generated and purchased) from coal by 16 percentage points since 2015
- reduced carbon dioxide emissions by over 35 percent since 2005
- reduced the amount of water used to generate electricity by over 35 percent since 2012
- reduced landfill waste disposal by over one million cubic yards since 1992

Additionally, over the last 20 years, Consumers has reduced its sulfur dioxide, nitrogen oxide, particulate matter, and mercury emissions by 90 percent.

The 2016 Energy Law, which became effective in April 2017:

- raised the renewable energy standard from the present ten-percent requirement to 12.5 percent by 2019 and 15 percent by 2021
- established a goal of 35 percent combined renewable energy and energy waste reduction by 2025
- authorized incentives for demand response programs and expanded existing incentives for energy efficiency programs, referring to the combined initiatives as energy waste reduction
- established an integrated planning process for new generation resources

Consumers filed an IRP with the MPSC in June 2018, detailing its long-term strategy for delivering reliable and affordable energy to its customers through the increased use of energy efficiency and customer demand management programs and additional renewable energy.

In its IRP, Consumers details how it will meet the requirements of the 2016 Energy Law using its clean and lean strategy, which focuses on increasing the generation of renewable energy, helping customers use less energy, and offering demand response programs to reduce demand during critical peak times. Further, Consumers details its plans to replace all of its coal-fueled generation with investment in renewable energy, proposing renewable energy levels of 25 percent by 2025, over 35 percent by 2030, and over 40 percent by 2040. The attainment of these renewable energy levels will enable Consumers to meet and exceed the 2016 Energy Law renewable energy requirements and fulfill increasing customer demand for renewable energy. The IRP supports the following clean energy goals, which Consumers announced during 2018:

- a breakthrough goal to reduce carbon emissions by 80 percent and to eliminate the use of coal to generate electricity by 2040
- a target of at least 50 percent combined renewable energy and energy waste reduction by 2030

Additionally, in an effort to advance its environmental stewardship in Michigan and to minimize the impact of future regulations, Consumers announced these five-year targets during 2018:

- to reduce its water use by one billion gallons
- to reduce the amount of waste taken to landfills by 35 percent
- to enhance, restore, or protect 5,000 acres of land

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CMS Energy, through its non-utility businesses, continues to pursue further opportunities for the development of renewable generation projects. CMS Enterprises recently completed the development and construction of two solar generation projects totaling 24 MW in Michigan; energy produced by these projects will be sold under 25-year PPAs to the Lansing Board of Water and Light, a non-affiliated utility. CMS Enterprises also purchased a 105-MW wind generation project in northwest Ohio, and the project became operational in September 2018. Renewable energy produced by the wind generation project has been committed to General Motors LLC, a non-affiliated company, under a 15-year PPA.

CMS Energy and Consumers are monitoring numerous legislative, policy, and regulatory initiatives, including those to regulate greenhouse gases, and related litigation. While CMS Energy and Consumers cannot predict the outcome of these matters, which could have a material effect on the companies, they intend to continue to move forward with their clean and lean strategy.

Profit: The profit element of the triple bottom line represents CMS Energy’s and Consumers’ commitment to meeting financial objectives and providing economic development opportunities and benefits in the communities in which they do business. CMS Energy’s and Consumers’ financial strength allows them to maintain solid investment-grade credit ratings and thereby reduce funding costs for the benefit of customers and investors, to preserve and create jobs, and to reinvest in the communities they serve.

For the nine months ended September 30, 2018, CMS Energy’s net income available to common stockholders was $549 million, and diluted EPS were $1.94. This compares with net income available to common stockholders of $463 million and diluted EPS of $1.65 for the nine months ended September 30, 2017. In 2018, rate increases and higher sales were offset partially by higher depreciation and maintenance and other operating expenses. 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.

Consumers projects that its electric and gas weather-normalized deliveries will remain stable through 2022. This outlook reflects growth in electric demand offset by the effects of energy waste reduction programs, and growth in gas demand offset by energy efficiency and conservation.

Performance: Impacting the Triple Bottom Line

CMS Energy’s and Consumers’ commitment to achieving world class performance while delivering hometown service has resulted in the companies’ best-ever performance in the areas of safety, service, and customer satisfaction. Leveraging the Consumers Energy Way, the companies met record-breaking 2017 goals in the areas of:

- lowering recordable safety incidents
- improving customer satisfaction scores
- decreasing the duration of customer outages
- responding faster to customer calls
- achieving on-time delivery commitments
- reading more meters monthly
- improving the accuracy of customer bills
- delivering energy efficiency solutions to customers

CMS Energy and Consumers will continue to utilize the Consumers Energy Way to enable them to achieve world class performance and positively impact the triple bottom line. Consumers’ investment plan and the regulatory environment in which it operates also drive its ability to impact the triple bottom line.

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Investment Plan: Consumers expects to make significant expenditures on infrastructure upgrades and replacements and electric supply projects from 2018 through 2027. While it has a large number of potential investment opportunities that would add customer value, Consumers has prioritized its spending based on the criteria of enhancing public safety, increasing reliability, maintaining affordability for its customers, and advancing its environmental stewardship. Consumers' investment program is expected to result in annual rate-base growth of six to eight percent. This rate-base growth, together with cost-control initiatives, should allow Consumers to maintain affordable customer prices.

Presented in the following illustration are planned capital expenditures of $10.1 billion that Consumers expects to make from 2018 through 2022:

Gas infrastructure
($4.9 billion)

Electric distribution
($3.5 billion)

Electric supply
($1.7 billion)

Consumers plans to spend $8.4 billion over the next five years to maintain and upgrade its gas infrastructure and electric distribution systems in order to enhance safety and reliability, improve customer satisfaction, and reduce energy waste on those systems. The gas infrastructure projects comprise $4.9 billion to sustain deliverability and enhance pipeline integrity and safety. These projects, which involve replacement of mains and services and enhancement of transmission and storage systems, should reduce the minor quantity of methane emissions released as gas is transported. The electric distribution projects comprise $3.5 billion to strengthen circuits and substations and replace poles. Consumers also expects to spend $1.7 billion on electric supply projects, representing new generation, including renewable generation, and environmental investments needed to comply with state and federal laws and regulations.

Regulation: Regulatory matters are a key aspect of Consumers' business, particularly rate cases and regulatory proceedings before the MPSC, which permit recovery of new investments while helping to ensure that customer rates are fair and affordable. Important regulatory events and developments not already discussed are summarized below.

- 2017 Electric Rate Case: In March 2017, Consumers filed an application with the MPSC seeking an annual rate increase of $173 million, based on a 10.5 percent authorized return on equity. The filing requested authority to recover new investment in system reliability, environmental compliance, and technology enhancements. In September 2017, Consumers reduced its requested annual rate increase to $148 million. The MPSC issued an order in March 2018, authorizing an annual rate increase of $66 million, based on a 10.0 percent authorized return on equity. In June 2018, as a result of a petition for rehearing filed by

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Consumers, the MPSC issued an order adjusting the authorized annual rate increase to $72 million by allowing recovery of additional retirement benefit plan costs.

- 2018 Electric Rate Case: In May 2018, Consumers filed an application with the MPSC seeking an annual rate increase of $58 million, based on a 10.75 percent authorized return on equity. In October 2018, Consumers reduced its requested annual rate increase to $44 million. The filing requests authority to recover new investment in system reliability, environmental compliance, and technology enhancements. The filing also seeks approval of an investment recovery mechanism that would provide for an additional annual rate increase of $49 million beginning in 2020 and another $48 million beginning in 2021 for incremental investments that Consumers plans to make for distribution infrastructure, subject to reconciliation. A final order is expected by the end of March 2019.
- Gas Rate Case: In October 2017, Consumers filed an application with the MPSC seeking an annual rate increase of $178 million, based on a 10.5 percent authorized return on equity. In August 2018, the MPSC approved a settlement agreement authorizing an annual rate increase of $11 million, based on a 10.0 percent authorized return on equity.

The MPSC also approved two rate adjustment mechanisms: a revenue decoupling mechanism and an investment recovery mechanism. The revenue decoupling mechanism will annually reconcile Consumers' actual weather-normalized non-fuel revenues with the revenues approved by the MPSC. The investment recovery mechanism will provide for an additional annual rate increase of $9 million beginning in July 2019 and another $10 million beginning in July 2020 for incremental investments that Consumers plans to make in those years, subject to reconciliation. The investment recovery surcharge will remain in effect until rates are reset in a subsequent general rate case.

- Tax Cuts and Jobs Act: The TCJA, which changed existing federal tax law and included numerous provisions that affect businesses, was signed into law in December 2017. In February 2018, the MPSC ordered Consumers to file various proceedings to determine the reduction in its electric and gas revenue requirements as a result of the TCJA. The MPSC also ordered Consumers to implement bill credits to reflect that reduction until customer rates are adjusted through Consumers' general rate cases. Consumers filed the first of these proceedings in March 2018, requesting a $49 million reduction in its annual gas revenue requirement. The MPSC approved this reduction in June 2018, with credits to customer bills beginning in July 2018; this credit ended with the settlement of the gas rate case in August 2018. Consumers filed the second proceeding in April 2018, requesting a $113 million reduction in its annual electric revenue requirement. The MPSC approved this reduction in July 2018, with credits to customer bills beginning in August 2018. These credits reduce rates prospectively for the impact of the TCJA but do not include potential refunds associated with Consumers' remeasurement of its deferred income taxes.

Consumers filed two more proceedings to address amounts collected from customers during 2018 through the implementation of the first two proceedings. Consumers filed the first of these proceedings in August 2018, requesting to refund $31 million to gas customers over six months beginning in December 2018. Consumers filed the second proceeding in September 2018, requesting to refund $70 million to electric customers over six months beginning in January 2019. Consumers has recorded a liability in an amount reflecting these proposed refunds.

In October 2018, Consumers filed an application to address the December 31, 2017 remeasurement of its deferred income taxes and other impacts of the TCJA on customers. The application requested approval to begin returning $0.4 billion of net regulatory tax liabilities

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through the rates determined in Consumers' next gas rate case and $1.2 billion through the rates determined in Consumers' next-filed electric rate case. Consumers' total $1.6 billion of net regulatory tax liabilities comprises:

- A regulatory tax liability of $1.7 billion associated with plant assets that are subject to normalization, which is governed by the Internal Revenue Code. This requires that the regulatory tax liability be returned over the remaining book life of the related plant assets, the average of which is 44 years for gas plant assets and 36 years for electric plant assets.
- A regulatory tax asset of $0.3 billion associated with plant assets that are not subject to normalization. Consumers proposed to collect this over 44 years from gas customers and over 27 years from electric customers.
- A regulatory tax liability of $0.2 billion, which does not relate to plant assets. Consumers proposed to refund this amount to customers over 15 years.

Looking Forward

CMS Energy and Consumers will continue to consider the impact on the triple bottom line of people, planet, and profit in their daily operations as well as in their long-term strategic decisions. Consumers will continue to seek fair and timely regulatory treatment that will support its customer-driven investment plan, while pursuing cost-control initiatives that will allow it to maintain sustainable customer base rates. The Consumers Energy Way is an important means of realizing CMS Energy's and Consumers' purpose of achieving world class performance while delivering hometown service.

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Results of Operations

CMS Energy Consolidated Results of Operations

In Millions, Except Per Share Amounts

	Three Months Ended			Nine Months Ended		
September 30	2018	2017	Change	2018	2017	Change
Net Income Available to Common Stockholders	$169	$172	$(3)	$549	$463	$86
Basic Earnings Per Average Common Share	$0.60	$0.61	$(0.01)	$1.95	$1.65	$0.30
Diluted Earnings Per Average Common Share	$0.59	$0.61	$(0.02)	$1.94	$1.65	$0.29

In Millions

	Three Months Ended			Nine Months Ended		
September 30	2018	2017	Change	2018	2017	Change
Electric utility	$199	$176	$23	$468	$394	$74
Gas utility	(19)	5	(24)	105	101	4
Enterprises	4	8	(4)	33	27	6
Corporate interest and other	(15)	(17)	2	(57)	(59)	2
Net Income Available to Common Stockholders	$169	$172	$(3)	$549	$463	$86

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Presented in the following table are specific after-tax changes to CMS Energy’s net income available to common stockholders for the three and nine months ended September 30, 2018 versus 2017:

In Millions

	Three Months Ended		Nine Months Ended	
September 30, 2017		$172		$463
Reasons for the change				
Consumers electric utility and gas utility				
Electric sales	$39		$50	
Gas sales	(5)		29	
Electric rate increase	16		41	
Gas rate increase	4		20	
OPEB Plan changes	14		41	
Depreciation and amortization	(9)		(26)	
Absence of state income tax benefit in 2017	(16)		(16)	
Service restoration costs following severe storms	(9)		(1)	
Other, including absence of a $9 million intercompany gain in first quarter of 2017	(35)	(1)	(60)	78
Enterprises				
Reduction of the corporate income tax rate due to the impacts of the TCJA		4		8
Expiration of indemnity obligation		—		3
Lower earnings from operations due in part to an unplanned plant outage		(5)		(2)
Write off of capital costs related to T.E.S. Filer City plant conversion		(3)		(3)
Corporate interest and other				
2017 elimination of an intercompany gain on the donation of CMS Energy stock		—		9
Higher earnings at EnerBank		3		4
Lower fixed charges and administrative and other expenses		3		5
Lower tax benefit due to the impacts of the TCJA		(4)		(12)
Loss on the early extinguishment of debt		—		(4)
September 30, 2018		$169		$549

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Consumers Electric Utility Results of Operations

For the three months ended September 30, 2018, Consumers electric utility's net income available to common stockholders was $199 million. This compares with net income available to common stockholders of $176 million for the three months ended September 30, 2017. In 2018, higher net income was due primarily to higher sales as a result of favorable weather and a rate increase. These increases were partially offset by higher service restoration expenses following storms and an increase in maintenance and other operating expenses. Lower tax expense in 2018 resulting from the TCJA was offset fully by a reduction in revenue to reflect the pass-through of TCJA-related benefits to customers. Presented in the following table are the detailed changes to the electric utility's net income available to common stockholders for the three months ended September 30, 2018 versus 2017:

In Millions		
Three Months Ended September 30, 2017		$176
Reasons for the change		
Electric deliveries[1] and rate increases		
Higher sales due primarily to favorable weather in 2018	$53	
Rate increase, including the impacts of the March 2018 order	22	
Higher energy waste reduction program revenues	11	
Decrease in other revenues	(1)	$85
Revenue reserve and lower rates related to the TCJA[2]		(40)
Maintenance and other operating expenses		
Service restoration costs following severe storms	(12)	
Higher energy waste reduction program costs	(11)	
Higher other maintenance and operating expenses	(13)	(36)
Depreciation and amortization		
Increased plant in service, reflecting higher capital spending		(10)
General taxes		
Higher property tax, reflecting higher capital spending	(3)	
Higher other general taxes	(1)	(4)
Other income, net of expenses		
Impact of OPEB Plan changes approved in November 2017	10	
Other income, net of expenses	(1)	9
Interest charges		(1)
Income taxes		
Reduction of the corporate income tax rate due to the impacts of the TCJA	41	
Absence of a 2017 state income tax benefit	(12)	
Absence of 2017 tax benefit associated with deductible lobbying expenses	(6)	
Higher electric utility earnings	(3)	20
Three Months Ended September 30, 2018		$199

[1] Deliveries to end-use customers were 10.6 billion kWh in 2018 and 10.0 billion kWh in 2017.

[2] See Note 2, Regulatory Matters.

For the nine months ended September 30, 2018, Consumers electric utility's net income available to common stockholders was $468 million. This compares with net income available to common stockholders of $394 million for the nine months ended September 30, 2017. In 2018, higher net income was due primarily to higher sales as a result of favorable weather and a rate increase, offset partially by higher depreciation on increased plant in service. Lower tax expense in 2018 resulting from the TCJA was

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offset fully by a reduction in revenue to reflect the pass-through of TCJA-related benefits to customers. Presented in the following table are the detailed changes to the electric utility's net income available to common stockholders for the nine months ended September 30, 2018 versus 2017:

In Millions		
Nine Months Ended September 30, 2017		$394
Reasons for the change		
Electric deliveries[1] and rate increases		
Higher sales due primarily to favorable weather in 2018	$70	
Rate increase, including the impacts of the March 2018 order	56	
Higher energy waste reduction program revenues	26	
Decrease in other revenues	(3)	$149
Revenue reserve and lower rates related to the TCJA[2]		(109)
Maintenance and other operating expenses		
Mutual insurance distribution in 2018	7	
Higher energy waste reduction program costs	(26)	
Higher other maintenance and operating expenses	(18)	(37)
Depreciation and amortization		
Increased plant in service, reflecting higher capital spending		(20)
General taxes		
Settlement of a property tax appeal related to the Campbell plant in 2018	9	
Settlement of a property tax appeal related to the Zeeland plant in 2017	(10)	
Higher other general taxes	(3)	
Higher property tax, reflecting higher capital spending	(2)	(6)
Other income, net of expenses		
Impact of OPEB Plan changes approved in November 2017	31	
2017 gain on the donation of CMS Energy stock[3]	(9)	
Lower other income, net of expenses	(4)	18
Interest charges		
Higher other interest charges		(4)
Income taxes		
Reduction of the corporate income tax rate due to the impacts of the TCJA	95	
Research and development tax credits[4]	6	
Absence of a 2017 state income tax benefit	(12)	
Absence of 2017 tax benefit associated with deductible lobbying expenses	(6)	83
Nine Months Ended September 30, 2018		$468

[1] Deliveries to end-use customers were 29.1 billion kWh in 2018 and 28.2 billion kWh in 2017.
[2] See Note 2, Regulatory Matters.
[3] Gain at segment is eliminated on CMS Energy's consolidated statements of income.
[4] See Note 9, Income Taxes.

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Consumers Gas Utility Results of Operations

For the three months ended September 30, 2018, Consumers gas utility's net loss available to common stockholders was $19 million. This compares with net income available to common stockholders of $5 million for the three months ended September 30, 2017. In 2018, lower net income was due primarily to higher maintenance and other operating expenses. Presented in the following table are the detailed changes to the gas utility's net income (loss) available to common stockholders for the three months ended September 30, 2018 versus 2017:

In Millions		
Three Months Ended September 30, 2017		$ 5
Reasons for the change		
Gas deliveries[1] and rate increases		
Rate increase, including the impacts of the September 2018 order	$ 6	
Higher energy waste reduction program costs	1	
Lower sales	(1)	
Decrease in other revenues	(6)	$ —
Revenue reserve and lower rates related to the TCJA[2]		(3)
Maintenance and other operating expenses		
Higher expenses related to pipeline integrity	(8)	
Increased distribution, transmission, and customer operations expenses	(6)	
Increased expense associated with the retirement of certain units at gas compressor stations	(3)	
Higher energy waste reduction program costs	(1)	
Higher other maintenance and operating expenses	(6)	(24)
Depreciation and amortization		
Increased plant in service, reflecting higher capital spending		(2)
General taxes		
Higher property tax, reflecting higher capital spending		(2)
Other income, net of expenses		
Impact of OPEB Plan changes approved in	8	

November 2017		
Lower other income, net of expenses	(1)	7
Interest charges		(1)
Income taxes		
Lower gas utility earnings	10	
Reduced tax benefit associated with the impacts of the TCJA	(4)	
Absence of a 2017 state income tax benefit	(4)	
Higher other income taxes	(1)	1
Three Months Ended September 30, 2018		$ (19)

[1] Deliveries to end-use customers were 27 bcf in 2018 and 27 bcf in 2017.

[2] See Note 2, Regulatory Matters.

For the nine months ended September 30, 2018, Consumers gas utility’s net income available to common stockholders was $105 million. This compares with net income available to common stockholders of $101 million for the nine months ended September 30, 2017. In 2018, higher net income was due primarily to higher sales and rate increases, offset partially by higher depreciation and maintenance and other operating expenses. Lower tax expense in 2018 resulting from the TCJA was offset fully by a reduction in revenue to reflect the pass-through of TCJA-related benefits to customers. Presented in the

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following table are the detailed changes to the gas utility's net income available to common stockholders for the nine months ended September 30, 2018 versus 2017:

In Millions		
Nine Months Ended September 30, 2017		$101
Reasons for the change		
Gas deliveries[1] and rate increases		
Higher sales due primarily to favorable weather in 2018	$40	
Rate increase, including the impacts of the September 2018 order	27	
Higher energy waste reduction program revenues	18	$85
Revenue reserve and lower rates related to the TCJA[2]		(40)
Maintenance and other operating expenses		
Higher energy waste reduction program costs	(18	