

CMS ENERGY CORP
Form 10-Q
July 28, 2016
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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, 2016

OR

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

For the transition period from _____ to _____

Commission
File Number
1-9513

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

IRS Employer
Identification No.
38-2726431

1-5611

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

38-0442310

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

CMS Energy Corporation: Yes ☒ No ☐

Consumers Energy Company: Yes ☐ No ☒

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

CMS Energy Corporation: Yes ☒ No ☐

Consumers Energy Company: Yes ☐ No ☒

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Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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 ☐ (Do not check if a smaller reporting company)

Smaller reporting company ☐

Consumers Energy Company:

Large accelerated filer ☐

Accelerated filer ☐

Non-Accelerated filer ☒ (Do not check if a smaller reporting company)

Smaller reporting company ☐

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

CMS Energy Corporation: Yes ☐ No ☒

Consumers Energy Company: Yes ☐ No ☒

Indicate the number of shares outstanding of each of the issuer's classes of common stock at July 11, 2016:

CMS Energy Corporation:

CMS Energy Common Stock, \$0.01 par value

(including 803,551 shares owned by Consumers Energy Company)

279,829,081

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, 2016**

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GLOSSARY

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

2008 Energy Law

Comprehensive energy reform package enacted in Michigan in 2008

2015 Form 10-K

Each of CMS Energy's and Consumers' Annual Report on Form 10-K for the year ended December 31, 2015

ABATE

Association of Businesses Advocating Tariff Equity

AOI

Accumulated other comprehensive income (loss)

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

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

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CMS Energy

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

CMS Enterprises

CMS Enterprises Company, a wholly owned subsidiary of CMS Energy

CMS Field Services

CMS Field Services, Inc., a former wholly owned subsidiary of CMS Gas Transmission Company, a wholly owned subsidiary of CMS Enterprises

CMS Land

CMS Land Company, a wholly owned subsidiary of CMS Capital

CMS MST

CMS Marketing, Services and Trading Company, a wholly owned subsidiary of CMS Enterprises, whose name was changed to CMS Energy Resource Management Company in 2004

Consumers

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

CSAPR

The Cross-State Air Pollution Rule

DB Pension Plan

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

DB SERP

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Defined Benefit Supplemental Executive Retirement Plan

DIG

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

Dodd-Frank Act

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

DOE

U.S. Department of Energy

DTIA

Distribution-Transmission Interconnection Agreement dated April 1, 2001 between METC and Consumers, as amended

EBITDA

Earnings before interest, taxes, depreciation, and amortization

EnerBank

EnerBank USA, a wholly owned subsidiary of CMS Capital

EPA

U.S. Environmental Protection Agency

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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

Gas AMR

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

GCR

Gas cost recovery

Genesee

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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

Health Care Acts

Comprehensive health care reform enacted in 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

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

METC

Michigan Electric Transmission Company, LLC, a non-affiliated company

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MGP

Manufactured gas plant

Michigan Mercury Rule

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

MISO

Midcontinent Independent System Operator, Inc.

mothball

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

MPSC

Michigan Public Service Commission

MW

Megawatt, a unit of power equal to one million watts

NAAQS

National Ambient Air Quality Standards

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

NPDES

National Pollutant Discharge Elimination System, a permit system for regulating point sources of pollution under the Clean Water Act

NREPA

Part 201 of the Michigan Natural Resources and Environmental Protection Act, a statute that covers environmental activities including remediation

NSR

New Source Review, a construction-permitting program under the Clean Air Act

OPEB

Other Post-Employment Benefits

OPEB Plan

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

PCB

Polychlorinated biphenyl

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PSCR

Power supply cost recovery

REC

Renewable energy credit established under the 2008 Energy Law

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

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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

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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 2015 Form 10-K.

AVAILABLE INFORMATION

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

FORWARD-LOOKING STATEMENTS AND INFORMATION

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

- the impact of new regulation by the MPSC, FERC, and other applicable governmental proceedings and regulations, including any associated impact on electric or gas rates or rate structures
- potentially adverse regulatory treatment or failure to receive timely regulatory orders affecting Consumers that are or could come before the MPSC, FERC, or other governmental authorities

- changes in the performance of or regulations applicable to MISO, METC, 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, such as those related to energy

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policy and ROA, infrastructure security, gas pipeline safety, gas pipeline capacity, energy efficiency, the environment, regulation or deregulation, reliability, health care reforms (including the Health Care Acts), 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; equipment failures; and electric transmission and distribution or gas pipeline system constraints
- increases in demand for renewables 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' 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, the discount rates used in calculating the plans' obligations, and the resulting impact on future funding requirements
- the impact of the economy, particularly in Michigan, and potential future volatility in the financial and credit markets on CMS Energy's, Consumers', or any of their affiliates' revenues, ability to collect accounts receivable from customers, or cost and availability of capital

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- changes in the economic and financial viability of CMS Energy's and Consumers' suppliers, customers, and other counterparties and the continued ability of these third parties, including those in bankruptcy, to meet their obligations to CMS Energy and Consumers
- population changes in the geographic areas where CMS Energy and Consumers conduct business
- national, regional, and local economic, competitive, and regulatory policies, conditions, and developments
- loss of customer demand for electric generation supply to alternative energy suppliers, increased use of distributed generation, or energy efficiency
- 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

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- the impact of credit markets, economic conditions, and any new banking regulations on EnerBank
- the availability, cost, coverage, and terms of insurance, the stability of insurance providers, and the ability of Consumers to recover the costs of any insurance from customers
- the effectiveness of CMS Energy's and Consumers' risk management policies, procedures, and strategies, including strategies to hedge risk related to future prices of electricity, natural gas, and other energy-related commodities
- factors affecting development of electric generation projects and gas and electric 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, and government approvals
- potential disruption to, interruption of, or other impacts on facilities, utility infrastructure, or operations due to accidents, explosions, physical disasters, cyber incidents, vandalism, war, or terrorism, and the ability to obtain or maintain insurance coverage for these events
- changes or disruption in fuel supply, including but not limited to supplier bankruptcy and delivery disruptions
- potential costs, lost revenues, or other consequences resulting from misappropriation of assets or sensitive information, corruption of data, or operational disruption in connection with a cyber attack or other cyber incident
- technological developments in energy production, storage, delivery, usage, and metering
- the ability to implement technology, including Smart Energy, successfully
- the impact of CMS Energy's and Consumers' integrated business software system and its effects on their operations, including utility customer billing and collections
- adverse consequences resulting from any past, present, or future assertion of indemnity or warranty claims associated with assets and businesses previously owned by CMS Energy or Consumers, including claims resulting from attempts by foreign or domestic governments to assess taxes on or to impose environmental liability associated with past operations or transactions

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

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- other matters that may be disclosed from time to time in CMS Energy's and Consumers' SEC filings, or in other public documents

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

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Part I Financial Information

Item 1. Financial Statements

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CMS Energy Corporation

Consumers Energy Company

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

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

EXECUTIVE OVERVIEW

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

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

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

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

- their securities' credit ratings

The key elements of CMS Energy's and Consumers' business strategy are depicted below:

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CMS Energy and Consumers are committed to sustainable business practices and to pursuing the goals of safe and excellent operations, a strong ethical culture, environmental quality, and social responsibility. The 2016 Sustainability Report, which is available to the public, provides an overview of CMS Energy's and Consumers' efforts to continue meeting Michigan's energy needs safely, efficiently, affordably, and reliably. The report also highlights CMS Energy's and Consumers' commitment to Michigan businesses, their corporate citizenship, and their 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. In 2015, Consumers reduced recordable safety incidents by 29 percent compared with 2014. The number of recordable safety incidents in 2015 was the lowest in Consumers' history.

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, and reducing repetitive outages. These actions have led to measureable improvements in customer satisfaction.

In order to minimize increases in customer base rates, Consumers has undertaken several additional initiatives to reduce costs. These include accelerated pension funding, employee and retiree health care cost sharing, replacement of coal-fueled generation with more efficient gas-fueled generation, targeted infrastructure investment, including the installation of smart meters, negotiated labor agreements, information and control system efficiencies, and productivity improvements. In addition, Consumers' gas commodity costs declined by 64 percent from 2005 through 2015, due in part to Consumers' improvements to its gas infrastructure and optimization of its gas purchasing and storage strategy. These savings are all passed on to customers.

Utility Investment

Consumers expects to make capital investments of about \$17 billion from 2016 through 2025. While Consumers has substantially more investment opportunities that would add customer value, Consumers has limited its capital investment program to those investments it believes are needed to provide safe, reliable, and 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 PSQR and GCR charges) at or below the rate of inflation.

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Over the next five years, Consumers expects to make capital investments of about \$8.5 billion. Presented in the following illustration are Consumers' planned capital investments for 2016 through 2020:

Electric base (\$2.6 billion)
Gas base (\$1.8 billion)
Gas reliability enhancements (\$1.6 billion)
Electric reliability enhancements (\$0.7 billion)
Environmental (\$0.6 billion)
Smart Energy and Gas AMR (\$0.5 billion)
Other (\$0.7 billion)

Consumers' planned base capital investments of \$4.4 billion represent projects to maintain Consumers' system and comprise \$2.6 billion at the electric utility to preserve reliability and capacity and \$1.8 billion at the gas utility to sustain deliverability and enhance pipeline integrity. An additional \$2.3 billion of planned reliability investments at Consumers are aimed at reducing outages and improving customer satisfaction; these investments comprise \$1.6 billion at the gas utility to replace mains and enhance transmission and storage systems and \$0.7 billion at the electric utility to strengthen circuits and substations and replace poles. Consumers also expects to spend \$0.6 billion on environmental investments needed to comply with state and federal laws and regulations.

Consumers' Smart Energy program 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 \$0.5 billion through 2015 on its Smart Energy program, and expects to spend an additional \$0.3 billion, following a phased approach, through 2017. In addition, Consumers expects to spend \$0.2 billion through 2019 in deploying Gas AMR technology beginning in 2017.

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Regulation

Regulatory matters are a key aspect of CMS Energy's and Consumers' businesses, particularly Consumers' rate cases and regulatory proceedings before the MPSC. In July 2016, Michigan Governor Rick Snyder appointed Rachael Eubanks to serve on the three-member MPSC for the remainder of a six-year term expiring July 2017, filling the vacancy created by John Quackenbush's resignation. Other regulatory events and developments are summarized below.

- **Electric Rate Case:** In March 2016, Consumers filed an application with the MPSC seeking an annual rate increase of \$225 million, based on a 10.7 percent authorized return on equity. The filing also seeks approval of an investment recovery mechanism that would allow recovery of \$38 million in 2017, \$92 million in 2018, and \$92 million in 2019 for incremental investments that Consumers plans to make in those years, subject to reconciliation. In July 2016, Consumers submitted to the MPSC its plan to self-implement an annual rate increase of \$170 million in September 2016.
- **Gas Rate Case:** In July 2015, Consumers filed an application with the MPSC seeking an annual rate increase of \$85 million, based on a 10.7 percent authorized return on equity. In January 2016, Consumers self-implemented an annual rate increase of \$60 million, subject to refund with interest. In April 2016, the MPSC approved a settlement agreement authorizing a \$40 million annual rate increase. In July 2016, Consumers filed a reconciliation of total revenues collected during self-implementation to those that would have been collected under final rates. The reconciliation indicated that a \$10 million refund would be required, which Consumers had recorded as a reserve for customer refunds at June 30, 2016.

In 2015, Michigan's governor outlined several key goals for the state's energy policy, with a focus on increasing the use of clean energy sources, reducing Michigan's reliance on coal, deploying smart meters, investing in the power grid and pipeline system, eliminating energy waste, and ensuring affordable, reliable, and adaptable energy while protecting the environment. The Michigan Senate and House of Representatives are considering two separate but similar pieces of legislation to address energy policy. Consumers is unable to predict the form and timing of any final legislation. While most of the proposed changes represent potential benefits to Consumers' customers, Consumers' business plan assumes no changes to the existing law.

Environmental regulation is another area of importance for CMS Energy and Consumers, and they are monitoring numerous legislative and regulatory initiatives, including those 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 substantial capital expenditures for emissions control equipment, CCR disposal and storage, 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, including the Clean Power Plan, as well as the Clean Water Act, the Resource Conservation and Recovery Act, and CERCLA, will continue to have a material effect on CMS Energy and Consumers.

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Financial Performance

For the six months ended June 30, 2016, CMS Energy's net income available to common stockholders was \$288 million and diluted EPS were \$1.04. This compares with net income available to common stockholders of \$269 million and diluted EPS of \$0.98 for the six months ended June 30, 2015. Among the primary factors contributing to CMS Energy's increased earnings in 2016 were benefits from electric and gas rate increases, offset partially by lower gas deliveries, reflecting the second-warmest winter in Consumers' history.

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.

Consumers expects that a continued rise in industrial production in its service territory will drive its electric deliveries to increase annually by about 0.5 percent on average through 2020. Excluding the impacts of energy efficiency programs, Consumers expects its electric deliveries to increase by about 1.0 percent annually through 2020. Consumers is projecting that its gas deliveries will remain stable through 2020. 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 borrowing capacity to fund its investment-based growth plans. CMS Energy also expects its sources of liquidity to remain sufficient to meet its cash requirements. To identify potential implications for CMS Energy's and Consumers' businesses and future financial needs, the companies will continue to monitor developments in the financial and credit markets, as well as government policy responses to those developments.

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June 30	Three Months Ended			<i>In Millions, Except Per Share Amounts</i> Six Months Ended		
	2016	2015	Change	2016	2015	Change
Net Income Available to Common Stockholders	\$ 124	\$ 67	\$ 57	\$ 288	\$ 269	\$ 19
Basic Earnings Per Share	\$ 0.45	\$ 0.25	\$ 0.20	\$ 1.04	\$ 0.98	\$ 0.06
Diluted Earnings Per Share	\$ 0.45	\$ 0.25	\$ 0.20	\$ 1.04	\$ 0.98	\$ 0.06

June 30	Three Months Ended			<i>In Millions</i> Six Months Ended		
	2016	2015	Change	2016	2015	Change
Electric utility	\$ 113	\$ 82	\$ 31	\$ 204	\$ 176	\$ 28
Gas utility	18	1	17	99	122	(23)
Enterprises	3	-	3	9	7	2
Corporate interest and other	(10)	(16)	6	(24)	(36)	12
Net Income Available to Common Stockholders	\$ 124	\$ 67	\$ 57	\$ 288	\$ 269	\$ 19

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

	June 30, 2016 better/(worse) than 2015				<i>In Millions</i>
Reasons for the change	Three Months Ended		Six Months Ended		
<i>Consumers electric utility and gas utility</i>					
<i>Electric sales</i>					
Weather	\$	7		\$	(10)
Non-weather		6	\$	13	9
					\$ (1)
<i>Gas sales</i>					
Weather		8			(47)
Non-weather		(2)		6	11
					(36)
Electric rate increase				7	37
Gas rate increase				4	12
Employee benefit costs				7	12
Operating and maintenance costs				16	9
Depreciation and property taxes				(11)	(31)
Other			6	\$	48
					3
					\$ 5
<i>Enterprises</i>					
Subsidiary earnings				3	2
<i>Corporate interest and other</i>					
Michigan tax settlement				5	5
EnerBank earnings				-	2
Other				1	5
Total change			\$	57	\$ 19

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Consumers Electric Utility Results of Operations

		Three Months Ended			Six Months Ended			In Millions
June 30		2016	2015	Change	2016	2015	Change	
Net Income Available to Common Stockholders	\$	113	\$ 82	\$ 31	\$ 204	\$ 176	\$ 28	
<i>Reasons for the change</i>								
Electric deliveries and rate increases				\$ 25			\$ 43	
Maintenance and other operating expenses				28			21	
Depreciation and amortization				(4)			(10)	
General taxes				(2)			(6)	
Other income, net of expenses				-			(6)	
Interest charges				-			(2)	
Income taxes				(16)			(12)	
Total change				\$ 31			\$ 28	

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, 2016, electric delivery revenues increased \$25 million compared with 2015. This change reflected a \$21 million increase in sales due primarily to favorable weather, \$12 million from a December 2015 rate increase, and a \$2 million increase in other revenue. These changes were offset partially by a \$10 million decrease in revenue associated primarily with securitization bonds that Consumers issued in 2001 and retired in October 2015. Deliveries to end-use customers were 9.1 billion kWh in 2016 and 8.8 billion kWh in 2015.

For the six months ended June 30, 2016, electric delivery revenues increased \$43 million compared with 2015. This change reflected \$60 million from a December 2015 rate increase and an \$8 million increase associated with energy efficiency programs. These changes were offset partially by a \$20 million decrease in revenue associated primarily with securitization bonds that Consumers issued in 2001 and retired in October 2015. Additionally, sales decreased \$5 million due primarily to unfavorable weather earlier in the year. Deliveries to end-use customers were 18.2 billion kWh in 2016 and 18.3 billion kWh in 2015.

Maintenance and Other Operating Expenses: For the three months ended June 30, 2016, maintenance and other operating expenses decreased \$28 million compared with 2015. This change was due to a \$9 million decrease in expenses at the seven coal-fueled electric generating units that were retired in April 2016 and a \$7 million decrease in postretirement benefit costs attributable primarily to the change to a full-yield-curve approach to calculate the service cost and interest expense components of net periodic benefit costs for the DB Pension and OPEB Plans. Also contributing to the change were a \$5 million reduction in uncollectible accounts expense, a \$4 million decrease associated with a State of Michigan use tax settlement reached in June 2016, and a \$3 million decrease in other operating and maintenance expenses.

For the six months ended June 30, 2016, maintenance and other operating expenses decreased \$21 million compared with 2015. This change was due to a \$14 million decrease in postretirement benefit costs attributable primarily to the change to a full-yield-curve approach to calculate the service cost and interest expense components of net periodic benefit costs for the DB Pension and OPEB Plans. This change also reflects an \$11 million decrease in expenses at the seven coal-fueled electric generating units that were retired in April 2016 and an \$8 million decrease in uncollectible accounts expense. Also contributing to the change was a \$4 million decrease associated with a State of Michigan use tax settlement

reached in

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June 2016. These changes were offset partially by an \$8 million increase associated with energy efficiency programs, and an \$8 million increase in storm restoration costs.

Depreciation and Amortization: For the three months ended June 30, 2016, depreciation and amortization expense increased \$4 million compared with 2015, and for the six months ended June 30, 2016, depreciation and amortization expense increased \$10 million compared with 2015. These changes were due primarily to increased plant in service and an increase in depreciation rates authorized in a June 2015 rate order that became effective in December 2015, offset partially by lower amortization of securitized assets, reflecting the conclusion in October 2015 of Consumers' 2001 securitization program.

General Taxes: For the three months ended June 30, 2016, general taxes increased \$2 million, and for the six months ended June 30, 2016, general taxes increased \$6 million compared with 2015. These changes were due to increased property taxes, reflecting higher capital spending.

Other Income, Net of Expenses: For the six months ended June 30, 2016, other income, net of expenses, decreased \$6 million compared with 2015. This decrease reflected the absence, in 2016, of a \$6 million gain related to a donation of CMS Energy stock by Consumers. The gain was eliminated on CMS Energy's consolidated statements of income.

Income Taxes: For the three months ended June 30, 2016, income taxes increased \$16 million compared with 2015. This change was attributable primarily to higher electric utility earnings.

For the six months ended June 30, 2016, income taxes increased \$12 million compared with 2015. This increase reflected \$16 million related to higher electric utility earnings, offset partially by a \$4 million decrease due to a change in the treatment of excess tax benefits on restricted stock awards as a result of the early adoption of a new accounting standard. For additional details on the implementation of this standard, see Note 1, New Accounting Standards.

Consumers Gas Utility Results of Operations

June 30	Three Months Ended			Six Months Ended			<i>In Millions</i>
	2016	2015	Change	2016	2015	Change	
Net Income Available to Common Stockholders	\$ 18	\$ 1	\$ 17	\$ 99	\$ 122	\$ (23)	
<i>Reasons for the change</i>							
Gas deliveries and rate increases			\$ 18			\$ (35)	
Maintenance and other operating expenses			10			13	
Depreciation and amortization			(2)			(12)	
General taxes			-			(3)	
Other income, net of expenses			1			(1)	
Income taxes			(10)			15	
Total change			\$ 17			\$ (23)	

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, 2016, gas delivery revenues increased \$18 million compared with 2015. This change reflected a \$12 million increase in sales due primarily to favorable weather and \$6 million from a January 2016 rate increase. Deliveries to end-use customers were 49 bcf in 2016 and 44 bcf in 2015.

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For the six months ended June 30, 2016, gas delivery revenues decreased \$35 million compared with 2015. This change reflected a \$54 million decrease in sales due primarily to unfavorable weather earlier in the year, offset partially by \$19 million related to a January 2016 rate increase. Deliveries to end-use customers were 170 bcf in 2016 and 196 bcf in 2015.

Maintenance and Other Operating Expenses: For the three months ended June 30, 2016, maintenance and other operating expenses decreased \$10 million compared with 2015. This change was due to a \$4 million decrease in postretirement benefit costs attributable primarily to the change to a full-yield-curve approach to calculate the service cost and interest expense components of net periodic benefit costs for the DB Pension and OPEB Plans, a \$3 million decrease in uncollectible accounts expense, and a \$3 million decrease in other operating and maintenance expenses.

For the six months ended June 30, 2016, maintenance and other operating expenses decreased \$13 million compared with 2015. This change was due to an \$8 million decrease in postretirement benefit costs attributable primarily to the change to a full-yield-curve approach to calculate the service cost and interest expense components of net periodic benefit costs for the DB Pension and OPEB Plans, a \$4 million decrease in uncollectible accounts expense, and a \$1 million decrease in other operating and maintenance expenses.

Depreciation and Amortization: For the six months ended June 30, 2016, depreciation and amortization expense increased \$12 million compared with 2015, due primarily to increased plant in service.

General Taxes: For the six months ended June 30, 2016, general taxes increased \$3 million compared with 2015, due primarily to increased property taxes, reflecting higher capital spending.

Income Taxes: For the three months ended June 30, 2016, income taxes increased \$10 million compared with 2015. This change was attributable to higher gas utility earnings.

For the six months ended June 30, 2016, income taxes decreased \$15 million compared with 2015. This change reflected a \$15 million reduction related to lower gas utility earnings, offset partially by \$2 million in other income tax changes. Also contributing to the change was a \$2 million decrease due to a change in the treatment of excess tax benefits on restricted stock awards as a result of the early adoption of a new accounting standard. For additional details on the implementation of this standard, see Note 1, New Accounting Standards.

Enterprises Results of Operations

		Three Months Ended			Six Months Ended			In Millions
June 30		2016	2015	Change	2016	2015	Change	
Net Income Available to Common Stockholders	\$	3	\$ -	\$ 3	\$ 9	\$ 7	\$ 2	

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For the three months ended June 30, 2016, net income of the enterprises segment increased \$3 million compared with 2015, due primarily to higher electricity sales at DIG and lower maintenance expenses at equity method investees.

For the six months ended June 30, 2016, net income of the enterprises segment increased \$2 million compared with 2015, due primarily to lower cost of fuel gas at DIG and lower maintenance expenses at equity method investees.

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Corporate Interest and Other Results of Operations

June 30	Three Months Ended			Six Months Ended			<i>In Millions</i>	
	2016	2015	Change	2016	2015	Change		
Net Income (Loss) Available to Common Stockholders	\$ (10)	\$ (16)	\$ 6	\$ (24)	\$ (36)	\$ 12		

For the three months ended June 30, 2016, corporate interest and other net expenses decreased \$6 million compared with 2015, due primarily to a settlement reached with the Michigan Department of Treasury that resulted in a \$2 million after-tax reduction in general taxes and a \$3 million reduction in income tax expense.

For the six months ended June 30, 2016, corporate interest and other net expenses decreased \$12 million compared with 2015, due primarily to a settlement reached with the Michigan Department of Treasury that resulted in a \$2 million after-tax reduction in general taxes and a \$3 million reduction in income tax expense. Also contributing to the change were a \$5 million after-tax reduction in miscellaneous corporate costs and \$2 million of higher net earnings at EnerBank.

For additional details on the settlement with the Michigan Department of Treasury, see Note 3, Contingencies and Commitments Other Contingencies.

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

At June 30, 2016, CMS Energy had \$403 million of consolidated cash and cash equivalents, which included \$18 million of restricted cash and cash equivalents. At June 30, 2016, Consumers had \$135 million of consolidated cash and cash equivalents, which included \$18 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, 2016 and 2015:

Six Months Ended June 30	2016	2015	<i>In Millions</i> Change
CMS Energy, including Consumers			
Net income	\$ 289	\$ 270	\$ 19
Non-cash transactions ¹	574	610	(36)
	863	880	(17)
Changes in core working capital ²	274	394	(120)
Postretirement benefits contributions	(4)	(33)	29
Changes in other assets and liabilities, net	(32)	21	(53)
Net cash provided by operating activities	\$ 1,101	\$ 1,262	\$ (161)
Consumers			
Net income	\$ 304	\$ 299	\$ 5
Non-cash transactions ¹	567	490	77
	871	789	82
Changes in core working capital ²	301	394	(93)
Postretirement benefits contributions	(2)	(31)	29
Changes in other assets and liabilities, net	(38)	99	(137)
Net cash provided by operating activities	\$ 1,132	\$ 1,251	\$ (119)

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

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

For the six months ended June 30, 2016, net cash provided by operating activities at CMS Energy decreased \$161 million compared with 2015 and net cash provided by operating activities at Consumers decreased \$119 million compared with 2015. These decreases were due primarily to

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lower collections from customers, including collections of GCR underrecoveries and energy optimization surcharges, gas sold at lower prices in 2016, and higher energy optimization plan spending. These changes were offset partially by a decrease in postretirement benefits contributions and by gas purchased at lower prices in 2016. At Consumers, these changes were also offset partially by higher net income, net of non-cash transactions.

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Investing Activities

Presented in the following table are specific components of net cash used in investing activities for the six months ended June 30, 2016 and 2015:

Six Months Ended June 30	2016	2015	<i>In Millions</i> Change
CMS Energy, including Consumers			
Capital expenditures	\$ (817)	\$ (675)	\$ (142)
Increase in EnerBank notes receivable	(43)	(99)	56
Proceeds from the sale of EnerBank notes receivable	-	48	(48)
DB SERP fund contributions	-	(25)	25
Costs to retire property and other investing activities	(50)	(31)	(19)
Net cash used in investing activities	\$ (910)	\$ (782)	\$ (128)
Consumers			
Capital expenditures	\$ (813)	\$ (667)	\$ (146)
DB SERP fund contributions	-	(17)	17
Costs to retire property and other investing activities	(51)	(30)	(21)
Net cash used in investing activities	\$ (864)	\$ (714)	\$ (150)

For the six months ended June 30, 2016, net cash used in investing activities at CMS Energy increased \$128 million compared with 2015 and net cash used in investing activities at Consumers increased \$150 million compared with 2015. These changes were due primarily to higher capital expenditures and costs to retire property at Consumers, offset partially by the absence, in 2016, of DB SERP fund contributions. The change at CMS Energy was also due to the absence, in 2016, of proceeds from the sale of EnerBank notes receivable, offset partially by slower growth in EnerBank consumer lending.

Financing Activities

Presented in the following table are specific components of net cash used in financing activities for the six months ended June 30, 2016 and 2015:

Six Months Ended June 30	2016	2015	<i>In Millions</i> Change
CMS Energy, including Consumers			
Issuance of debt	\$ 329	\$ 100	\$ 229
Issuance of common stock	66	27	39
Proceeds from EnerBank certificates of deposit, net	12	39	(27)
Decrease in notes payable	(249)	(60)	(189)
Payment of dividends on common and preferred stock	(173)	(161)	(12)
Retirement of debt	(42)	(137)	95
Payment of capital leases and other financing activities	(15)	(18)	3

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Net cash used in financing activities	\$	(72)	\$	(210)	\$	138
Consumers						
Stockholder contribution from CMS Energy	\$	275	\$	150	\$	125
Decrease in notes payable		(249)		(60)		(189)
Payment of dividends on common and preferred stock		(214)		(255)		41
Retirement of debt		(12)		(37)		25
Payment of capital leases and other financing activities		(1)		(9)		8
Net cash used in financing activities	\$	(201)	\$	(211)	\$	10

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For the six months ended June 30, 2016, net cash used in financing activities at CMS Energy decreased \$138 million compared with 2015 and net cash used in financing activities at Consumers decreased \$10 million compared with 2015. At CMS Energy, the change was due to a decrease in debt retirements and an increase in debt and common stock issuances. These changes were offset partially by higher repayments under Consumers' commercial paper program.

At Consumers, the change was due primarily to an increase in contributions from CMS Energy and a decrease in debt retirements, offset partially by higher debt repayments under the commercial paper program.

CAPITAL RESOURCES AND LIQUIDITY

CMS Energy uses dividends and tax-sharing payments from its subsidiaries and external financing and capital transactions to invest in its utility and non-utility businesses, retire debt, pay dividends, and fund its other obligations. The ability of CMS Energy's subsidiaries, including Consumers, to pay dividends to CMS Energy depends upon each subsidiary's revenues, earnings, cash needs, and other factors. In addition, Consumers' ability to pay dividends is restricted by certain terms included in its debt covenants and articles of incorporation and potentially by FERC requirements and provisions under the Federal Power Act and the Natural Gas Act. For additional details on Consumers' dividend restrictions, see Note 4, Financings and Capitalization—Dividend Restrictions. For the six months ended June 30, 2016, Consumers paid \$213 million in dividends on its common stock to CMS Energy.

As a result of federal tax legislation passed in December 2015 that extends bonus depreciation, CMS Energy expects to be able to extend the use of federal net operating loss carryforwards by two years and, accordingly, defer its federal income tax payments through 2019. As a consequence, however, CMS Energy expects to receive lower tax-sharing payments from Consumers during that period. This may require CMS Energy to maintain higher levels of debt in order to invest in its businesses, pay dividends, and fund its general obligations. Despite this, CMS Energy does not anticipate a need for a block equity offering.

In April 2015, CMS Energy entered into an updated continuous equity offering program. Under this program, CMS Energy may sell, from time to time in the market offerings, common stock having an aggregate sales price of up to \$100 million. CMS Energy issued common stock under the program and received net proceeds of \$60 million in March 2016 and \$30 million in 2015.

Consumers uses cash flows generated from operations and external financing transactions, as well as stockholder contributions from CMS Energy, to fund capital expenditures, retire debt, pay dividends, contribute to its employee benefit plans, and fund its other obligations. As a result of accelerated pension funding in recent years and several initiatives to reduce costs, Consumers anticipates continued strong cash flows from operating activities for the remainder of 2016.

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

At June 30, 2016, CMS Energy had \$549 million of its secured revolving credit facility available and Consumers had \$893 million available. CMS Energy and Consumers use these credit facilities for general working capital purposes and to issue letters of credit. An additional source of liquidity is Consumers' commercial paper program, which allows Consumers to issue, in one or more placements, up to \$500 million in the aggregate in commercial paper notes with maturities of up to 365 days and that bear

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interest at fixed or floating rates. These issuances are supported by one of Consumers' revolving credit facilities. While the amount of outstanding commercial paper does not reduce the revolving credit facility's available capacity, Consumers would not issue commercial paper in an amount exceeding the available facility capacity. At June 30, 2016, no commercial paper notes were outstanding under this program. For additional details on CMS Energy's and Consumers' secured revolving credit facilities and commercial paper program, see Note 4, Financings and Capitalization.

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, 2016, no default had occurred with respect to any financial covenants contained in CMS Energy's and Consumers' credit agreements, debt indentures, or other facilities. CMS Energy and Consumers were each in compliance with these covenants as of June 30, 2016, as presented in the following table:

Credit Agreement, Indenture, or Facility		June 30, 2016 Limit	Actual
CMS Energy, parent only			
Debt to EBITDA ¹	≤	6.0 to 1.0	4.4 to 1.0
Consumers			
Debt to Capital ²	≤	0.65 to 1.0	0.46 to 1.0

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

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

Components of CMS Energy's and Consumers' cash management plan include controlling operating expenses and capital expenditures and evaluating market conditions for financing and refinancing opportunities. CMS Energy's and Consumers' present level of cash and expected cash flows from operating activities, together with access to sources of liquidity, are anticipated to be sufficient to fund the companies' contractual obligations for 2016 and beyond.

Off-Balance-Sheet Arrangements

CMS Energy, Consumers, and certain of their subsidiaries enter into various arrangements in the normal course of business to facilitate commercial transactions with third parties. These arrangements include indemnities, surety bonds, letters of credit, and financial and performance guarantees. Indemnities are usually agreements to reimburse a counterparty that may incur losses due to outside claims or breach of contract terms. The maximum payment that could be required under a number of these indemnity obligations is not estimable; the maximum obligation under indemnities for which such amounts were estimable was \$153 million at June 30, 2016. While CMS Energy and Consumers believe it is unlikely that they will incur any material losses related to indemnities they have not recorded as liabilities, they cannot predict the impact of these contingent obligations on their liquidity and financial condition. For additional details on these and other guarantee arrangements, see Note 3, Contingencies and Commitments - Guarantees.

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OUTLOOK

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

Consumers Electric Utility and Gas Utility Outlook and Uncertainties

Smart Energy and Gas AMR: Consumers began the full-scale deployment of smart meters in 2012 and expects to complete it in 2017. Smart meters allow customers to monitor and manage their energy usage, which Consumers expects will help reduce demand during critical peak times, resulting in lower peak electric capacity requirements. In addition, Consumers is able to disconnect and reconnect service, read, and bill from smart meters remotely. Consumers will continue to add further functionality to its smart meters. Consumers is also installing communication modules on gas meters in areas where it provides both electricity and natural gas to customers. The communication modules allow Consumers to read and bill from gas meters remotely.

Consumers expects that under its Smart Energy program it will have installed a total of 1.8 million smart meters and 600,000 communication modules throughout its service territory by the end of 2017. As of June 30, 2016, Consumers had upgraded one million electric customers to smart meters and had installed 196,000 communication modules on gas meters.

In areas where it provides only natural gas to customers, Consumers will deploy Gas AMR technology beginning in 2017. Under this program, communication modules will be installed on 1.2 million gas meters, allowing Consumers to conduct drive-by meter reading.

Consumers Electric Utility Outlook and Uncertainties

Clean Energy Plan: Consumers continues to experience increasing demand for electricity due to Michigan's recovering economy and increased use of air conditioning, consumer electronics, and other electric devices, offset partially by the predicted effects of energy efficiency and conservation. In order to address future capacity requirements and growing electric demand in Michigan, Consumers has a comprehensive clean energy plan designed to meet the short-term and long-term electricity needs of its customers through:

- energy efficiency
- demand management

- expanded use of renewable energy
- construction or purchase of electric generating units
- continued operation or upgrade of existing units
- purchases of short-term market capacity

In April 2016, Consumers retired seven of its coal-fueled electric generating units, representing 950 MW of generating capacity. Even with these retirements, Consumers expects to meet the capacity requirements of its full-service customers for 2016 through 2020 through the use of a 540-MW natural gas-fueled electric generating plant purchased in December 2015, upgrades at Ludington, expanded use of renewable energy, energy efficiency programs, and demand management programs. As demand forecasts become more certain, Consumers may take additional actions to cover any remaining capacity requirements for its full-service customers, including participation in the annual MISO planning resource auction.

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In 2014, Consumers deferred the development of a proposed 700-MW natural gas-fueled electric generating plant at its Thetford complex in Genesee County, Michigan. The project's air permit has now expired, as Consumers chose not to start construction or obtain a further extension before July 2016.

Renewable Energy Plan: Consumers' renewable energy plan details how Consumers expects to meet REC and capacity standards prescribed by the 2008 Energy Law. This law requires Consumers to submit RECs, which represent proof that the associated electricity was generated from a renewable energy resource, in an amount equal to at least ten percent of Consumers' electric sales volume each year. Under its renewable energy plan, Consumers expects to meet its renewable energy requirement each year with a combination of newly generated RECs and previously generated RECs carried over from prior years.

In conjunction with its renewable energy plan, Consumers signed a 15-year agreement in September 2015 to purchase renewable capacity, energy, and RECs from a 100-MW wind park to be constructed in Huron County, Michigan. The wind park is expected to be operational in 2017. Consumers also completed construction of a community solar project in April 2016 and expects to complete construction of another later in the year. Together, these solar projects will provide a combined four MW of nameplate capacity.

Electric Customer Deliveries and Revenue: Consumers' electric customer deliveries are largely dependent on Michigan's economy. Consumers expects weather-adjusted electric deliveries to increase in 2016 by 0.5 to 1.0 percent compared with 2015.

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

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

Electric ROA: The 2008 Energy Law allows electric customers in Consumers' service territory to buy electric generation service from alternative electric suppliers in an aggregate amount up to ten percent of Consumers' weather-adjusted retail sales for the preceding calendar year. At June 30, 2016, electric deliveries under the ROA program were at the ten-percent limit and alternative electric suppliers were providing 745 MW of generation service to ROA customers. Of Consumers' 1.8 million electric customers, 304 customers, or 0.02 percent, purchased electric generation service under the ROA program.

Michigan Energy Legislation: In 2015, Michigan's governor outlined several key goals for the state's energy policy, with a focus on increasing the use of clean energy sources, reducing Michigan's reliance on coal, deploying smart meters, investing in the power grid and pipeline system, eliminating energy waste, and ensuring affordable, reliable, and adaptable energy while protecting the environment. The Michigan Senate and

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House of Representatives are considering two separate but similar pieces of legislation to address energy policy. Consumers is unable to predict the form and timing of any final legislation. While most of the proposed changes represent potential benefits to Consumers' customers, Consumers' business plan assumes no changes to the existing law.

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

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Electric Rate Case: In March 2016, Consumers filed an application with the MPSC seeking an annual rate increase of \$225 million, based on a 10.7 percent authorized return on equity. The filing requested authority to recover new investment in system reliability, environmental compliance, and technology enhancements. Presented in the following table are the components of the requested increase in revenue:

		<i>In Millions</i>
Components of the rate increase		
Investment in rate base	\$	161
Operating and maintenance costs		21
Gross margin		17
Cost of capital		15
Working capital		11
Total	\$	225

The filing also seeks approval of an investment recovery mechanism that would allow recovery of \$38 million in 2017, \$92 million in 2018, and \$92 million in 2019 for incremental investments that Consumers plans to make in those years, subject to reconciliation. In July 2016, Consumers submitted to the MPSC its plan to self-implement an annual rate increase of \$170 million in September 2016.

Electric Environmental Outlook: Consumers' operations are subject to various state and federal environmental laws and regulations. Consumers estimates that it will incur capital expenditures of \$0.6 billion from 2016 through 2020 to continue to comply with the Clean Air Act, Clean Water Act, and numerous state and federal environmental regulations. Consumers expects to recover these costs in customer rates, but cannot guarantee this result. Consumers' primary environmental compliance focus includes, but is not limited to, the following matters.

Air Quality: CSAPR, which became effective in January 2015, requires Michigan and 27 other states to improve air quality by reducing power plant emissions that, according to EPA computer models, contribute to ground-level ozone and fine particle pollution in other downwind states. In December 2015, the EPA proposed new ozone-season standards for CSAPR, which would begin in 2017. Consumers expects its emissions to be within the CSAPR allowance allocations.

In 2012, the EPA published emission standards for electric generating units, based on Section 112 of the Clean Air Act, calling the final rule MATS. Under MATS, all of Consumers' existing coal-fueled electric generating units were required to add additional controls for hazardous air pollutants. Consumers met the extended deadline of April 2016 for five coal-fueled units and two oil/gas-fueled units it continues to operate and retired its seven remaining coal-fueled units. MATS is presently being litigated, but any decision is not presently expected to impact Consumers' MATS compliance strategy. In addition, Consumers must still comply with the Michigan Mercury Rule and with its settlement agreement with the EPA entered into in November 2014 concerning opacity and NSR.

In October 2015, the EPA released its new rule to lower the NAAQS for ozone. The new ozone NAAQS will make it more difficult to construct or modify power plants in many areas of the country, including some parts of Michigan, if the areas are designated to be in nonattainment of the new standard. Consumers is monitoring the designation process of this rule to determine what, if any, effect it will have on its electric generating units.

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

- a change in Consumers' fuel mix
- changes in how certain units are used
- the retirement, mothballing, or repowering with an alternative fuel of some of Consumers' generating units

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

In August 2015, the EPA finalized new rules pursuant to Section 111(b) of the Clean Air Act to limit carbon dioxide emissions from new electric generating units. New coal-fueled units will not be able to meet this limit without installing carbon dioxide control equipment using such methods as carbon capture and sequestration. Also in August 2015, the EPA finalized new rules pursuant to Section 111(b) of the Clean Air Act to limit carbon dioxide emissions from modified or reconstructed electric generating units. Both of these rules are being litigated.

In October 2015, the EPA published final rules pursuant to Section 111(d) of the Clean Air Act to limit carbon dioxide emissions from existing electric generating units, calling the rules the Clean Power Plan. Certain states, corporations, and industry groups have initiated litigation opposing the proposed Clean Power Plan. In February 2016, the U.S. Supreme Court stayed the Clean Power Plan while the litigation proceeds. While Michigan's Attorney General has joined the litigation, the governor had indicated that Michigan intended to file a state carbon implementation plan, which was to be submitted for EPA review and approval in 2018. Work on this plan has ceased, however, in light of the stay of the Clean Power Plan and pending outcome of the litigation.

The rules would require a 32 percent nationwide reduction in carbon emissions from existing power plants by 2030 (based on 2005 levels). Initial state implementation plans would have been due September 2016 with extensions available until 2018. States choosing not to develop their own implementation plans would be subject to the federal plan.

In December 2015, a group of 195 countries finalized the Paris Agreement, which governs carbon dioxide reduction measures beginning in 2020. As part of this agreement, the United States pledged a 26 percent reduction in greenhouse gas emissions by 2025 (with aspirations to achieve a 28 percent reduction) compared with 2005 levels. These targets are in line with the now-stayed Clean Power Plan targets. While these emission reduction commitments are non-binding, they will be governed by the Clean Power Plan should it survive judicial scrutiny.

Consumers believes that it is favorably positioned to deal with the impact of carbon regulation through its clean energy plan, its present carbon reduction target, and its emphasis on supply diversity. Consumers cannot, however, predict the outcome of these EPA rules in court, or of

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Michigan's potential implementation plan. Consumers will continue to monitor regulatory activity regarding greenhouse gas emissions standards that may affect electric generating units.

Litigation, as well as federal laws, EPA regulations regarding greenhouse gases, or similar treaties, state laws, or rules, if enacted or ratified, could require Consumers to replace equipment, install additional emission control equipment, purchase emission allowances, curtail operations, arrange for alternative

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sources of supply, or take other steps to manage or lower the emission of greenhouse gases. Although associated capital or operating costs relating to greenhouse gas regulation or legislation could be material and cost recovery cannot be assured, Consumers expects to recover these costs and capital expenditures in rates consistent with the recovery of other reasonable costs of complying with environmental laws and regulations.

CCRs: In April 2015, the EPA published a final rule regulating CCRs, such as coal ash, under the Resource Conservation and Recovery Act. The final rule adopts minimum standards for beneficially reusing and disposing of non-hazardous CCRs. The rule establishes new minimum requirements for site location, groundwater monitoring, flood protection, storm water design, fugitive dust control, and public disclosure of information. The rule also sets out conditions under which CCR units would be forced to cease receiving CCR and non-CCR waste and initiate closure based on the inability to achieve minimum safety standards, meet a location standard, or meet minimum groundwater standards. Consumers continues to develop work plans for submission to the MDEQ for concurrence to ensure coordination between federal and state requirements. As a result, Consumers may need to adjust its recorded asset retirement obligation associated with coal ash disposal sites depending on the outcome of its submissions to the MDEQ.

Water: The EPA's rule to regulate existing electric generating plant cooling water intake systems under Section 316(b) of the Clean Water Act became effective in October 2014. The rule is aimed at reducing alleged harmful impacts on fish and shellfish. In November 2015, the EPA released its final effluent limitation guidelines, which set stringent new requirements for the discharge from electric generating units into wastewater streams. Consumers believes its environmental strategy will allow it to achieve compliance with these final rules.

In June 2015, the EPA and the U.S. Army Corps of Engineers published a final rule redefining waters of the United States, which designates the EPA's jurisdiction under the Clean Water Act. Numerous states and other interested parties, including Michigan's Attorney General, have filed suits in federal courts to block the rule, which was stayed in October 2015, and that litigation remains pending. Consumers does not expect any adverse changes to its environmental strategy as a result of the final rule.

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

PCBs: In 2010, the EPA issued an Advance Notice of Proposed Rulemaking, indicating that it is considering a variety of regulatory actions with respect to PCBs. One approach would aim to phase out equipment containing PCBs by 2025. Another approach would eliminate an exemption for small equipment containing PCBs. To comply with any such regulatory actions, Consumers could incur substantial costs associated with existing electrical equipment potentially containing PCBs. A proposed rule is expected in 2017.

Other electric environmental matters could have a material impact on Consumers' outlook. For additional details on other electric environmental matters, see Note 3, Contingencies and Commitments - Consumers Electric Utility Contingencies - Electric Environmental Matters.

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Consumers Gas Utility Outlook and Uncertainties

Gas Deliveries: Consumers expects weather-adjusted gas deliveries in 2016 to increase by about 2.0 percent compared with 2015. Over the next five years, Consumers plans conservatively for stable deliveries. This outlook reflects modest growth in gas demand offset by the predicted effects of energy efficiency and conservation. Actual delivery levels from year to year may vary from this expectation due to:

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

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

Gas Environmental Outlook: Consumers expects to incur response activity costs at a number of sites, including 23 former MGP sites. For additional details, see Note 3, Contingencies and Commitments' Consumers Gas Utility Contingencies' Gas Environmental Matters.

Enterprises Outlook and Uncertainties

The primary focus with respect to CMS Energy's non-utility businesses is to optimize cash flow and maximize the value of their generating assets, which represent 1,077 MW of capacity.

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

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- changes in energy and capacity prices
- changes in commodity prices and interest rates on certain derivative contracts that do not qualify for hedge accounting and must be marked to market through earnings
- changes in various environmental laws, regulations, principles, or practices, or in their interpretation
- the outcome of certain legal proceedings
- indemnity and environmental remediation obligations at Bay Harbor
- obligations related to a tax claim from the government of Equatorial Guinea
- representations, warranties, and indemnities provided by CMS Energy in connection with previous sales of assets

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

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Other Outlook and Uncertainties

EnerBank: EnerBank is a Utah state-chartered, FDIC-insured industrial bank providing unsecured consumer installment loans for financing home improvements. EnerBank represented four percent of CMS Energy's net assets at June 30, 2016 and six percent of CMS Energy's net income available to common stockholders for the six months ended June 30, 2016. The carrying value of EnerBank's loan portfolio was \$1.2 billion at June 30, 2016. Its loan portfolio was funded primarily by certificates of deposit of \$1.1 billion. The twelve-month rolling average net default rate on loans held by EnerBank was 0.7 percent at June 30, 2016. CMS Energy is required both by law and by contract to provide financial support, including infusing additional capital, to ensure that EnerBank satisfies mandated capital requirements and has sufficient liquidity to operate. With its self-funding plan, EnerBank has exceeded these requirements historically and exceeded them as of June 30, 2016.

Employee Separation Program: In June 2016, CMS Energy and Consumers announced a voluntary separation program for non-union employees. Under the program, employees elected to request separation, and management decided which requests to accept. In July 2016, management communicated its decisions to affected employees, who will have 45 days to decide whether to separate. CMS Energy and Consumers estimate that they will recognize a charge in the range of \$10 million to \$15 million in 2016 related to the program. As a result of the program, however, CMS Energy and Consumers expect to benefit from future cost savings, as employee staffing levels will be better matched to workload demand, which reflects the companies' ongoing productivity and quality improvements.

Litigation: CMS Energy, Consumers, and certain of their subsidiaries are named as parties in various litigation matters, as well as in administrative proceedings before various courts and governmental agencies, arising in the ordinary course of business. For additional details regarding these and other legal matters, see Note 2, Regulatory Matters and Note 3, Contingencies and Commitments.

NEW ACCOUNTING STANDARDS

For details regarding new accounting standards issued but not yet effective, see Note 1, New Accounting Standards.

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CMS Energy Corporation

Consolidated Statements of Income (Unaudited)

June 30	Three Months Ended		<i>In Millions, Except Per Share Amounts</i>	
	2016	2015	Six Months Ended 2016	2015
Operating Revenue	\$ 1,371	\$ 1,350	\$ 3,172	\$ 3,461
Operating Expenses				
Fuel for electric generation	97	134	222	301
Purchased and interchange power	365	341	711	690
Purchased power related parties	21	17	43	40
Cost of gas sold	91	113	445	702
Maintenance and other operating expenses	276	312	569	595
Depreciation and amortization	176	169	414	391
General taxes	60	60	147	141
Total operating expenses	1,086	1,146	2,551	2,860
Operating Income	285	204	621	601
Other Income (Expense)				
Interest income	2	1	3	2
Allowance for equity funds used during construction	3	2	6	4
Income from equity method investees	3	1	7	5
Other income	2	3	5	6
Other expense	(4)	(4)	(7)	(8)
Total other income	6	3	14	9
Interest Charges				
Interest on long-term debt	103	97	203	193
Other interest expense	7	7	14	13
Allowance for borrowed funds used during construction	(2)	(1)	(3)	(2)
Total interest charges	108	103	214	204
Income Before Income Taxes	183	104	421	406
Income Tax Expense	58	36	132	136
Net Income	125	68	289	270
Income Attributable to Noncontrolling Interests	1	1	1	1
Net Income Available to Common Stockholders	\$ 124	\$ 67	\$ 288	\$ 269
Basic Earnings Per Average Common Share	\$ 0.45	\$ 0.25	\$ 1.04	\$ 0.98
Diluted Earnings Per Average Common Share	\$ 0.45	\$ 0.25	\$ 1.04	\$ 0.98
Dividends Declared Per Common Share	\$ 0.31	\$ 0.29	\$ 0.62	\$ 0.58

The accompanying notes are an integral part of these statements.

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CMS Energy Corporation

Consolidated Statements of Comprehensive Income (Unaudited)

June 30	Three Months Ended		Six Months Ended	
	2016	2015	2016	2015
<i>In Millions</i>				
Net Income	\$ 125	\$ 68	\$ 289	\$ 270
Retirement Benefits Liability				
Amortization of net actuarial loss, net of tax of \$-, \$1, \$-, and \$2	1	1	1	2
Amortization of prior service credit, net of tax of \$- for all periods	(1)	-	(1)	-
Investments				
Unrealized loss on investments, net of tax of \$- for all periods	-	(1)	-	(1)
Other Comprehensive Income	-	-	-	1
Comprehensive Income	125	68	289	271
Comprehensive Income Attributable to Noncontrolling Interests	1	1	1	1
Comprehensive Income Attributable to CMS Energy	\$ 124	\$ 67	\$ 288	\$ 270

The accompanying notes are an integral part of these statements.

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CMS Energy Corporation

Consolidated Statements of Cash Flows (Unaudited)

Six Months Ended June 30	2016	<i>In Millions</i> 2015
Cash Flows from Operating Activities		
Net income	\$ 289	\$ 270
<i>Adjustments to reconcile net income to net cash provided by operating activities</i>		
Depreciation and amortization	414	391
Deferred income taxes and investment tax credit	127	135
Other non-cash operating activities	33	84
<i>Cash provided by (used in) changes in assets and liabilities</i>		
Accounts receivable, notes receivable, and accrued revenue	97	194
Inventories	198	235
Accounts payable and accrued refunds	(21)	(35)
Other current and non-current assets and liabilities	(36)	(12)
Net cash provided by operating activities	1,101	1,262
Cash Flows from Investing Activities		
Capital expenditures (excludes assets placed under capital lease)	(817)	(675)
Increase in EnerBank notes receivable	(43)	(99)
Proceeds from the sale of EnerBank notes receivable	-	48
Cost to retire property and other investing activities	(50)	(56)
Net cash used in investing activities	(910)	(782)
Cash Flows from Financing Activities		
Proceeds from issuance of debt	329	100
Proceeds from EnerBank certificates of deposit, net	12	39
Issuance of common stock	66	27
Retirement of long-term debt	(42)	(137)
Payment of dividends on common and preferred stock	(173)	(161)
Decrease in notes payable	(249)	(60)
Payment of capital lease obligations and other financing costs	(15)	(18)
Net cash used in financing activities	(72)	(210)
Net Increase in Cash and Cash Equivalents	119	270
Cash and Cash Equivalents, Beginning of Period	266	207
Cash and Cash Equivalents, End of Period	\$ 385	\$ 477
Other non-cash investing and financing activities		
<i>Non-cash transactions</i>		
Capital expenditures not paid	\$ 178	\$ 148
Refund of capitalized sales and use tax not received	29	-

The accompanying notes are an integral part of these statements.

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CMS Energy Corporation

Consolidated Balance Sheets (Unaudited)

ASSETS

	June 30 2016	<i>In Millions</i> December 31 2015
Current Assets		
Cash and cash equivalents	\$ 385	\$ 266
Restricted cash and cash equivalents	18	19
Accounts receivable and accrued revenue, less allowances of \$27 in 2016 and \$28 in 2015	603	774
Notes receivable, less allowances of \$10 in 2016 and \$9 in 2015	142	128
Notes receivable held for sale	15	16
Accounts receivable related parties	12	11
<i>Inventories at average cost</i>		
Gas in underground storage	377	568
Materials and supplies	119	126
Generating plant fuel stock	77	84
Deferred property taxes	174	235
Regulatory assets	7	16
Prepayments and other current assets	102	77
Total current assets	2,031	2,320
Plant, Property, and Equipment		
Plant, property, and equipment, gross	20,497	18,943
Less accumulated depreciation and amortization	5,922	5,747
Plant, property, and equipment, net	14,575	13,196
Construction work in progress	612	1,509
Total plant, property, and equipment	15,187	14,705
Other Non-current Assets		
Regulatory assets	1,796	1,840
Accounts and notes receivable	1,098	1,027
Investments	66	64
Other	285	343
Total other non-current assets	3,245	3,274
Total Assets	\$ 20,463	\$ 20,299

Table of Contents**LIABILITIES AND EQUITY**

	June 30 2016	<i>In Millions</i> December 31 2015
Current Liabilities		
Current portion of long-term debt, capital leases, and financing obligation	\$ 918	\$ 706
Notes payable	-	249
Accounts payable	559	633
Accounts payable related parties	9	9
Accrued rate refunds	41	26
Accrued interest	107	106
Accrued taxes	252	349
Regulatory liabilities	78	82
Other current liabilities	127	142
Total current liabilities	2,091	2,302
Non-current Liabilities		
Long-term debt	8,486	8,400
Non-current portion of capital leases and financing obligation	110	118
Regulatory liabilities	2,070	2,088
Postretirement benefits	570	591
Asset retirement obligations	442	439
Deferred investment tax credit	73	56
Deferred income taxes	2,127	2,017
Other non-current liabilities	301	313
Total non-current liabilities	14,179	14,022
Commitments and Contingencies (Notes 2 and 3)		
Equity		
<i>Common stockholders' equity</i>		
Common stock, authorized 350.0 shares; outstanding 279.3 shares in 2016 and 277.2 shares in 2015	3	3
Other paid-in capital	4,906	4,837
Accumulated other comprehensive loss	(47)	(47)
Accumulated deficit	(706)	(855)
Total common stockholders' equity	4,156	3,938
Noncontrolling interests	37	37
Total equity	4,193	3,975
Total Liabilities and Equity	\$ 20,463	\$ 20,299

The accompanying notes are an integral part of these statements.

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CMS Energy Corporation

Consolidated Statements of Changes in Equity (Unaudited)

June 30	Three Months Ended		Six Months Ended	
	2016	2015	2016	2015
<i>In Millions</i>				
Total Equity at Beginning of Period	\$ 4,146	\$ 3,839	\$ 3,975	\$ 3,707
Common Stock				
At beginning and end of period	3	3	3	3
Other Paid-in Capital				
At beginning of period	4,897	4,783	4,837	4,774
Common stock issued	9	29	79	39
Common stock repurchased	-	-	(10)	(11)
Common stock reissued	-	-	-	10
At end of period	4,906	4,812	4,906	4,812
Accumulated Other Comprehensive Loss				
At beginning of period	(47)	(48)	(47)	(49)
<i>Retirement benefits liability</i>				
At beginning of period	(43)	(47)	(43)	(48)
Amortization of net actuarial loss	1	1	1	2
Amortization of prior service credit	(1)	-	(1)	-
At end of period	(43)	(46)	(43)	(46)
<i>Investments</i>				
At beginning of period	(4)	(1)	(4)	(1)
Unrealized loss on investments	-	(1)	-	(1)
At end of period	(4)	(2)	(4)	(2)
At end of period	(47)	(48)	(47)	(48)
Accumulated Deficit				
At beginning of period	(744)	(936)	(855)	(1,058)
Cumulative effect of change in accounting principle	-	-	33	-
Net income attributable to CMS Energy	124	67	288	269
Dividends declared on common stock	(86)	(80)	(172)	(160)
At end of period	(706)	(949)	(706)	(949)
Noncontrolling Interests				
At beginning of period	37	37	37	37
Income attributable to noncontrolling interests	1	1	1	1
Distributions and other changes in noncontrolling interests	(1)	(1)	(1)	(1)
At end of period	37	37	37	37
Total Equity at End of Period	\$ 4,193	\$ 3,855	\$ 4,193	\$ 3,855

The accompanying notes are an integral part of these statements.

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Consumers Energy Company

Consolidated Statements of Income (Unaudited)

June 30	Three Months Ended		Six Months Ended	
	2016	2015	2016	2015
<i>In Millions</i>				
Operating Revenue	\$ 1,293	\$ 1,281	\$ 3,016	\$ 3,309
Operating Expenses				
Fuel for electric generation	73	110	172	243
Purchased and interchange power	360	337	703	683
Purchased power related parties	21	17	43	40
Cost of gas sold	87	108	438	691
Maintenance and other operating expenses	254	291	523	556
Depreciation and amortization	173	168	410	388
General taxes	61	58	146	137
Total operating expenses	1,029	1,089	2,435	2,738
Operating Income	264	192	581	571
Other Income (Expense)				
Interest income	1	1	2	2
Interest and dividend income related parties	1	-	1	-
Allowance for equity funds used during construction	3	2	6	4
Other income	2	3	5	15
Other expense	(4)	(4)	(7)	(8)
Total other income	3	2	7	13
Interest Charges				
Interest on long-term debt	65	63	130	126
Other interest expense	3	4	6	7
Allowance for borrowed funds used during construction	(2)	(1)	(3)	(2)
Total interest charges	66	66	133	131
Income Before Income Taxes	201	128	455	453
Income Tax Expense	69	44	151	154
Net Income	132	84	304	299
Preferred Stock Dividends	1	1	1	1
Net Income Available to Common Stockholder	\$ 131	\$ 83	\$ 303	\$ 298

The accompanying notes are an integral part of these statements.

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Consumers Energy Company

Consolidated Statements of Comprehensive Income (Unaudited)

June 30	Three Months Ended		Six Months Ended	
	2016	2015	2016	2015
<i>In Millions</i>				
Net Income	\$ 132	\$ 84	\$ 304	\$ 299
Retirement Benefits Liability				
Amortization of net actuarial loss, net of tax of \$-, \$1, \$-, and \$1	-	1	-	2
Investments				
Unrealized gain (loss) on investments, net of tax of \$1, \$(1), \$3, and \$(1)	2	(2)	5	(2)
Reclassification adjustments included in net income, net of tax of \$-, \$-, \$-, and \$(3)	-	-	-	(5)
Other Comprehensive Income (Loss)	2	(1)	5	(5)
Comprehensive Income	\$ 134	\$ 83	\$ 309	\$ 294

The accompanying notes are an integral part of these statements.

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Consumers Energy Company

Consolidated Statements of Cash Flows (Unaudited)

Six Months Ended June 30	2016	<i>In Millions</i> 2015
Cash Flows from Operating Activities		
Net income	\$ 304	\$ 299
<i>Adjustments to reconcile net income to net cash provided by operating activities</i>		
Depreciation and amortization	410	388
Deferred income taxes and investment tax credit	130	24
Other non-cash operating activities	27	78
<i>Cash provided by (used in) changes in assets and liabilities</i>		
Accounts receivable, notes receivable, and accrued revenue	119	195
Inventories	197	233
Accounts payable and accrued refunds	(15)	(34)
Other current and non-current assets and liabilities	(40)	68
Net cash provided by operating activities	1,132	1,251
Cash Flows from Investing Activities		
Capital expenditures (excludes assets placed under capital lease)	(813)	(667)
Cost to retire property and other investing activities	(51)	(47)
Net cash used in investing activities	(864)	(714)
Cash Flows from Financing Activities		
Retirement of long-term debt	(12)	(37)
Payment of dividends on common and preferred stock	(214)	(255)
Stockholder contribution	275	150
Decrease in notes payable	(249)	(60)
Payment of capital lease obligations and other financing costs	(1)	(9)
Net cash used in financing activities	(201)	(211)
Net Increase in Cash and Cash Equivalents	67	326
Cash and Cash Equivalents, Beginning of Period	50	71
Cash and Cash Equivalents, End of Period	\$ 117	\$ 397
Other non-cash investing and financing activities		
<i>Non-cash transactions</i>		
Capital expenditures not paid	\$ 162	\$ 148
Refund of capitalized sales and use tax not received	29	-

The accompanying notes are an integral part of these statements.

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Consumers Energy Company

Consolidated Balance Sheets (Unaudited)

ASSETS

	June 30 2016	<i>In Millions</i> December 31 2015
Current Assets		
Cash and cash equivalents	\$ 117	\$ 50
Restricted cash and cash equivalents	18	19
Accounts receivable and accrued revenue, less allowances of \$27 in 2016 and \$28 in 2015	585	758
Accounts receivable related parties	1	17
<i>Inventories at average cost</i>		
Gas in underground storage	377	568
Materials and supplies	114	120
Generating plant fuel stock	74	80
Deferred property taxes	174	235
Regulatory assets	7	16
Prepayments and other current assets	97	66
Total current assets	1,564	1,929
Plant, Property, and Equipment		
Plant, property, and equipment, gross	20,326	18,797
Less accumulated depreciation and amortization	5,863	5,676
Plant, property, and equipment, net	14,463	13,121
Construction work in progress	609	1,467
Total plant, property, and equipment	15,072	14,588
Other Non-current Assets		
Regulatory assets	1,796	1,840
Accounts and notes receivable	54	10
Investments	37	29
Other	179	239
Total other non-current assets	2,066	2,118
Total Assets	\$ 18,702	\$ 18,635

Table of Contents**LIABILITIES AND EQUITY**

	June 30 2016	<i>In Millions</i> December 31 2015
Current Liabilities		
Current portion of long-term debt, capital leases, and financing obligation	\$ 469	\$ 220
Notes payable	-	249
Accounts payable	545	613
Accounts payable related parties	15	15
Accrued rate refunds	41	26
Accrued interest	65	65
Accrued taxes	265	352
Regulatory liabilities	78	82
Other current liabilities	93	109
Total current liabilities	1,571	1,731
Non-current Liabilities		
Long-term debt	4,922	5,183
Non-current portion of capital leases and financing obligation	110	118
Regulatory liabilities	2,070	2,088
Postretirement benefits	510	529
Asset retirement obligations	441	438
Deferred investment tax credit	73	56
Deferred income taxes	2,858	2,710
Other non-current liabilities	231	236
Total non-current liabilities	11,215	11,358
Commitments and Contingencies (Notes 2 and 3)		
Equity		
<i>Common stockholder's equity</i>		
Common stock, authorized 125.0 shares; outstanding 84.1 shares for both periods	841	841
Other paid-in capital	3,999	3,724
Accumulated other comprehensive loss	(1)	(6)
Retained earnings	1,040	950
Total common stockholder's equity	5,879	5,509
Preferred stock	37	37
Total equity	5,916	5,546
Total Liabilities and Equity	\$ 18,702	\$ 18,635

The accompanying notes are an integral part of these statements.

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Consumers Energy Company

Consolidated Statements of Changes in Equity (Unaudited)

June 30	Three Months Ended		Six Months Ended	
	2016	2015	2016	2015
<i>In Millions</i>				
Total Equity at Beginning of Period	\$ 5,716	\$ 5,516	\$ 5,546	\$ 5,277
Common Stock				
At beginning and end of period	841	841	841	841
Other Paid-in Capital				
At beginning of period	3,874	3,724	3,724	3,574
Stockholder contribution	125	-	275	150
At end of period	3,999	3,724	3,999	3,724
Accumulated Other Comprehensive Loss				
At beginning of period	(3)	(11)	(6)	(7)
<i>Retirement benefits liability</i>				
At beginning of period	(19)	(25)	(19)	(26)
Amortization of net actuarial loss	-	1	-	2
At end of period	(19)	(24)	(19)	(24)
<i>Investments</i>				
At beginning of period	16	14	13	19
Unrealized gain (loss) on investments	2	(2)	5	(2)
Reclassification adjustments included in net income	-	-	-	(5)
At end of period	18	12	18	12
At end of period	(1)	(12)	(1)	(12)
Retained Earnings				
At beginning of period	967	925	950	832
Net income	132	84	304	299
Dividends declared on common stock	(58)	(132)	(213)	(254)
Dividends declared on preferred stock	(1)	(1)	(1)	(1)
At end of period	1,040	876	1,040	876
Preferred Stock				
At beginning and end of period	37	37	37	37
Total Equity at End of Period	\$ 5,916	\$ 5,466	\$ 5,916	\$ 5,466

The accompanying notes are an integral part of these statements.

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CMS Energy Corporation

Consumers Energy Company

Notes to the Unaudited Consolidated Financial Statements

These interim consolidated financial statements have been prepared by CMS Energy and Consumers in accordance with GAAP for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. As a result, CMS Energy and Consumers have condensed or omitted certain information and note disclosures normally included in consolidated financial statements prepared in accordance with GAAP. CMS Energy and Consumers have reclassified certain prior period amounts to conform to the presentation in the current period. In management's opinion, the unaudited information contained in this report reflects all adjustments of a normal recurring nature necessary to ensure the fair presentation of financial position, results of operations, and cash flows for the periods presented. The notes to the unaudited consolidated financial statements and the related unaudited consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes contained in the 2015 Form 10-K. Due to the seasonal nature of CMS Energy's and Consumers' operations, the results presented for this interim period are not necessarily indicative of results to be achieved for the fiscal year.

1: NEW ACCOUNTING STANDARDS

Implementation of New Accounting Standards

ASU 2014-12, Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period: This standard, which was effective on January 1, 2016 for CMS Energy and Consumers, addresses stock awards with performance targets that can be met after an employee has completed the required service period. The standard was issued to resolve diversity in practice regarding the accounting treatment for this type of award. Under the new guidance, the probability of the performance target being met should be factored into compensation expense each period. This guidance is consistent with the accounting that CMS Energy and Consumers already applied to awards of this type. Therefore, the standard had no impact on CMS Energy's or Consumers' consolidated financial statements.

ASU 2015-02, Amendments to the Consolidation Analysis: This standard, which was effective on January 1, 2016 for CMS Energy and Consumers, provides amended guidance on whether reporting entities should consolidate certain legal entities, including limited partnerships. CMS Energy and Consumers determined that the standard does not change any of their consolidation conclusions or have any impact on their consolidated income, cash flows, or financial position.

ASU 2015-03, Simplifying the Presentation of Debt Issuance Costs: This standard, which was effective on January 1, 2016 for CMS Energy and Consumers, requires that debt issuance costs be presented as a direct deduction from the carrying amount of long-term debt on the balance sheet. Previously, debt issuance costs were reported as an asset. The new guidance aligns the presentation of debt issuance costs with debt discounts

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and premiums. In accordance with the standard, CMS Energy included \$41 million and Consumers included \$22 million of unamortized debt issuance costs in long-term debt on their consolidated balance sheets at June 30, 2016. In addition, this standard requires that companies apply the new guidance retrospectively to all prior periods presented. Accordingly, CMS Energy reclassified \$41 million and Consumers reclassified \$23 million of unamortized debt issuance costs from other non-current assets to long-term debt on their consolidated balance sheets at December 31, 2015.

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ASU 2016-09, Improvements to Employee Share-Based Payment Accounting: This standard was issued to simplify and improve the accounting for employee share-based payment awards. The standard will be effective on January 1, 2017 for CMS Energy and Consumers, but early adoption is permitted. CMS Energy and Consumers elected to adopt the standard as of January 1, 2016. The standard requires all excess tax benefits and deficiencies that occur upon vesting of employee stock awards to be recognized in net income. Previously, CMS Energy and Consumers did not record excess tax benefits on restricted stock awards in net income but, under this standard, CMS Energy and Consumers recorded \$6 million of excess tax benefits in net income for the six months ended June 30, 2016. Also, in accordance with the standard, CMS Energy recorded a \$33 million cumulative adjustment to its accumulated deficit at January 1, 2016. This amount represented excess federal tax benefits that CMS Energy had not recognized in prior periods due to the use of tax loss carryforwards. The implementation of this standard had no other material impacts on CMS Energy's or Consumers' consolidated financial statements.

New Accounting Standards Not Yet Effective

ASU 2014-09, Revenue from Contracts with Customers: This standard, which will become effective January 1, 2018 for CMS Energy and Consumers, provides new guidance for recognizing revenue from contracts with customers. A primary objective of the standard is to provide a single, comprehensive revenue recognition model that will be applied across entities, industries, and capital markets. The new guidance will replace most of the existing revenue recognition requirements in GAAP, although certain guidance specific to rate-regulated utilities will be retained. Entities will have the option to apply the standard retrospectively to all prior periods presented, or to apply it retrospectively only to contracts existing at the effective date, with the cumulative effect of the standard recorded as an adjustment to beginning retained earnings. CMS Energy and Consumers are evaluating the impact of the standard on their consolidated financial statements.

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

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

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ASU 2016-13, Measurement of Credit Losses on Financial Instruments: This standard, which will be effective January 1, 2020 for CMS Energy and Consumers, provides new guidance for estimating and recording credit losses on financial instruments. The standard will apply to the recognition of loan losses at EnerBank as well as to the recognition of uncollectible accounts expense at Consumers. CMS Energy and Consumers are evaluating the impact of the standard on their consolidated financial statements.

2: REGULATORY MATTERS

Regulatory matters are critical to Consumers. The Michigan Attorney General, ABATE, the MPSC Staff, and certain other parties typically participate in MPSC proceedings concerning Consumers, such as Consumers' rate cases and PSCR and GCR processes. These parties often challenge various aspects of those proceedings, including the prudence of Consumers' policies and practices, and seek cost disallowances and other relief. The parties also have appealed significant MPSC orders. Depending upon the specific issues, the outcomes of rate cases and proceedings, including judicial proceedings challenging MPSC orders or other actions, could negatively affect CMS Energy's and Consumers' liquidity, financial condition, and results of operations. Consumers cannot predict the outcome of these proceedings.

There are multiple appeals pending that involve various issues concerning cost recovery from customers, the adequacy of the record evidence supporting the recovery of Smart Energy investments, and other matters. Consumers is unable to predict the outcome of these appeals.

Electric Rate Case: In December 2014, Consumers filed an application with the MPSC seeking an annual rate increase of \$163 million, based on a 10.7 percent authorized return on equity. In June 2015, Consumers self-implemented an annual rate increase of \$110 million, subject to refund with interest. The MPSC issued an order in November 2015, authorizing an annual rate increase of \$165 million, based on a 10.3 percent authorized rate of return on equity. In April 2016, upon the retirement of seven coal-fueled electric generating units, the annual rate increase was reduced to \$126 million.

In February 2016, Consumers filed a reconciliation of total revenues collected during self-implementation to those that would have been collected under final rates. In June 2016, the MPSC approved a settlement agreement that resulted in a \$1 million refund to customers.

Gas Rate Case: In July 2015, Consumers filed an application with the MPSC seeking an annual rate increase of \$85 million, based on a 10.7 percent authorized return on equity. In January 2016, Consumers self-implemented an annual rate increase of \$60 million, subject to refund with interest. In April 2016, the MPSC approved a settlement agreement authorizing a \$40 million annual rate increase.

In July 2016, Consumers filed a reconciliation of total revenues collected during self-implementation to those that would have been collected under final rates. The reconciliation indicated that a \$10 million refund would be required, which Consumers had recorded as a reserve for customer refunds at June 30, 2016.

Energy Optimization Plan Incentive: In May 2016, Consumers filed its 2015 energy optimization reconciliation, requesting the MPSC's approval to collect the maximum performance incentive of \$18 million from customers for exceeding its statutory savings targets in 2015 and

for achieving certain other goals.

Electric Transmission: Consumers became registered under NERC standards as a transmission owner, transmission planner, and transmission operator in October 2015. Consumers had previously received approval from the MPSC in 2014 and FERC in 2015 to reclassify \$34 million of net plant assets from distribution to transmission. In March 2016, Consumers received FERC approval to begin collecting transmission revenues under MISO's transmission tariff effective April 2016. Consumers completed the reclassification in April 2016.

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In a separate matter, in February 2015, METC notified Consumers that the reclassified assets need to be conveyed by Consumers to METC under the terms of the DTIA. Consumers disagrees with METC's interpretation of the provisions of the DTIA. The parties remain in dispute resolution.

In April 2016, METC filed a formal challenge to Consumers' transmission revenue requirement calculation filed at FERC. METC claims that Consumers' transmission revenue requirement should be reduced from \$9 million to \$6 million. Consumers is disputing METC's claim at FERC.

3: CONTINGENCIES AND COMMITMENTS

CMS Energy and Consumers are involved in various matters that give rise to contingent liabilities. Depending on the specific issues, the resolution of these contingencies could negatively affect CMS Energy's and Consumers' liquidity, financial condition, and results of operations. In their disclosures of these matters, CMS Energy and Consumers provide an estimate of the possible loss or range of loss when such an estimate can be made. Disclosures that state that CMS Energy or Consumers cannot predict the outcome of a matter indicate that they are unable to estimate a possible loss or range of loss for the matter.

CMS Energy Contingencies

Gas Index Price Reporting Litigation: CMS Energy, along with CMS MST, CMS Field Services, Cantera Natural Gas, Inc., and Cantera Gas Company, have been named as defendants in four class action lawsuits and one individual lawsuit arising as a result of alleged inaccurate natural gas price reporting to publications that report trade information. Allegations include price-fixing conspiracies, restraint of trade, and artificial inflation of natural gas retail prices in Kansas, Missouri, and Wisconsin. Plaintiffs are making claims for the following: treble damages, full consideration damages, exemplary damages, costs, interest, and/or attorneys' fees.

After removal to federal court, all of the cases were transferred to a single federal district court pursuant to the multidistrict litigation process. In 2010 and 2011, all claims against CMS Energy defendants were dismissed by the district court based on FERC preemption. Plaintiffs filed appeals in all of the cases. The issues on appeal were whether the district court erred in dismissing the cases based on FERC preemption and denying the plaintiffs' motions for leave to amend their complaints to add a federal Sherman Act antitrust claim.

In 2013, the U.S. Court of Appeals for the Ninth Circuit reversed the district court decision. The appellate court found that FERC preemption does not apply under the facts of these cases. The appellate court affirmed the district court's denial of leave to amend to add federal antitrust claims. The matter was appealed to the U.S. Supreme Court, which in 2015 upheld the Ninth Circuit's decision. The cases were remanded back to the federal district court. In May 2016, the federal district court granted the defendants' motion for summary judgment in the individual lawsuit based on a release in a prior settlement involving similar allegations and reinstated CMS Energy as a defendant in one of the class action lawsuits. Other CMS Energy entities remain as defendants in all four remaining class action lawsuits.

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These cases involve complex facts, a large number of similarly situated defendants with different factual positions, and multiple jurisdictions. Presently, any estimate of liability would be highly speculative; the amount of CMS Energy's reasonably possible loss would be based on widely varying models previously untested in this context. If the outcome after appeals is unfavorable, these cases could negatively affect CMS Energy's liquidity, financial condition, and results of operations.

Bay Harbor: CMS Land retained environmental remediation obligations for the collection and treatment of leachate, a liquid consisting of water and other substances, at Bay Harbor after selling its interests in

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the development in 2002. Leachate is produced when water enters into cement kiln dust piles left over from former cement plant operations at the site. In 2012, CMS Land and the MDEQ finalized an agreement that established the final remedies and the future water quality criteria at the site. CMS Land completed all construction necessary to implement the remedies required by the agreement and will continue to maintain and operate a system to discharge treated leachate into Little Traverse Bay under an NPDES permit issued in 2010. CMS Land is presently working with the MDEQ to renew this permit, which requires renewal every five years. Until a new permit is issued, CMS Land is authorized to continue operating under the existing permit.

Various claims have been brought against CMS Land or its affiliates, including CMS Energy, alleging environmental damage to property, loss of property value, insufficient disclosure of environmental matters, breach of agreement relating to access, or other matters. CMS Land and other parties have received a demand for payment from the EPA in the amount of \$8 million, plus interest. The EPA is seeking recovery under CERCLA of response costs allegedly incurred at Bay Harbor. These costs exceed what was agreed to in a 2005 order between CMS Land and the EPA, and CMS Land has communicated to the EPA that it does not believe that this is a valid claim. The EPA has filed a lawsuit to collect these costs.

At June 30, 2016, CMS Energy had a recorded liability of \$53 million for its remaining obligations. CMS Energy calculated this liability based on discounted projected costs, using a discount rate of 4.34 percent and an inflation rate of one percent on annual operating and maintenance costs. The undiscounted amount of the remaining obligation is \$68 million. CMS Energy expects to pay the following amounts for long-term liquid disposal and operating and maintenance costs in 2016 and in each of the next four years:

	<i>In Millions</i>				
	2016	2017	2018	2019	2020
CMS Energy					
Long-term liquid disposal and operating and maintenance costs	\$ 6	\$ 5	\$ 4	\$ 4	\$ 4

CMS Energy's estimate of response activity costs and the timing of expenditures could change if there are changes in circumstances or assumptions used in calculating the liability. Although a liability for its present estimate of remaining response activity costs has been recorded, CMS Energy cannot predict the ultimate financial impact or outcome of this matter.

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

Consumers Electric Utility Contingencies

Electric Environmental Matters: Consumers' operations are subject to environmental laws and regulations. Historically, Consumers has generally been able to recover, in customer rates, the costs to operate its facilities in compliance with these laws and regulations.

Cleanup and Solid Waste: Consumers expects to incur remediation and other response activity costs at a number of sites under the NREPA. Consumers believes that these costs should be recoverable in rates, but cannot guarantee that outcome. Consumers estimates that its liability for NREPA sites for which it can estimate a range of loss will be between \$3 million and \$4 million. At June 30, 2016, Consumers had a

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recorded liability of \$3 million, the minimum amount in the range of its estimated probable NREPA liability.

Consumers is a potentially responsible party at a number of contaminated sites administered under CERCLA. CERCLA liability is joint and several. In 2010, Consumers received official notification from the EPA that identified Consumers as a potentially responsible party for cleanup of PCBs at the Kalamazoo River CERCLA site. The notification claimed that the EPA has reason to believe that Consumers disposed of PCBs and arranged for the disposal and treatment of PCB-containing materials at portions of the site. In 2011, Consumers received a follow-up letter from the EPA requesting that Consumers agree to participate in a removal action plan along with several other companies for an area of lower Portage Creek, which is connected to the Kalamazoo River. All parties, including Consumers, that were asked to participate in the removal action plan declined to accept liability. Until further information is received from the EPA, Consumers is unable to estimate a range of potential liability for cleanup of the river.

Based on its experience, Consumers estimates that its share of the total liability for known CERCLA sites will be between \$3 million and \$8 million. Various factors, including the number of potentially responsible parties involved with each site, affect Consumers' share of the total liability. At June 30, 2016, Consumers had a recorded liability of \$3 million for its share of the total liability at these sites, the minimum amount in the range of its estimated probable CERCLA liability.

The timing of payments related to Consumers' remediation and other response activities at its CERCLA and NREPA sites is uncertain. Consumers periodically reviews these cost estimates. A change in the underlying assumptions, such as an increase in the number of sites, different remediation techniques, the nature and extent of contamination, and legal and regulatory requirements, could affect its estimates of NREPA and CERCLA liability.

Ludington PCB: In 1998, during routine maintenance activities, Consumers identified PCB as a component in certain paint, grout, and sealant materials at Ludington. Consumers removed part of the PCB material and replaced it with non-PCB material. Consumers has had several communications with the EPA regarding this matter. Consumers cannot predict the financial impact or outcome of this matter.

Consumers Gas Utility Contingencies

Gas Environmental Matters: Consumers expects to incur remediation and other response activity costs at a number of sites under the NREPA. These sites include 23 former MGP facilities. Consumers operated the facilities on these sites for some part of their operating lives. For some of these sites, Consumers has no present ownership interest or may own only a portion of the original site.

At June 30, 2016, Consumers had a recorded liability of \$108 million for its remaining obligations for these sites. This amount represents the present value of long-term projected costs, using a discount rate of 2.57 percent and an inflation rate of 2.5 percent. The undiscounted amount of the remaining obligation is \$120 million. Consumers expects to pay the following amounts for remediation and other response activity costs in 2016 and in each of the next four years:

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	<i>In Millions</i>				
	2016	2017	2018	2019	2020
Consumers					
Remediation and other response activity costs	\$ 8	\$ 25	\$ 14	\$ 19	\$ 10

Consumers periodically reviews these cost estimates. Any significant change in the underlying assumptions, such as an increase in the number of sites, changes in remediation techniques, or legal and

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regulatory requirements, could affect Consumers' estimates of annual response activity costs and the MGP liability.

Pursuant to orders issued by the MPSC, Consumers defers its MGP-related remediation costs and recovers them from its customers over a ten-year period. At June 30, 2016, Consumers had a regulatory asset of \$137 million related to the MGP sites.

Consumers estimates that its liability to perform remediation and other response activities at NREPA sites other than the MGP sites could reach \$3 million. At June 30, 2016, Consumers had a recorded liability of less than \$1 million, the minimum amount in the range of its estimated probable liability.

Guarantees

Presented in the following table are CMS Energy's and Consumers' guarantees at June 30, 2016:

Guarantee Description	Issue Date	Expiration Date	Maximum Obligation	<i>In Millions</i> Carrying Amount
CMS Energy, including Consumers				
Indemnity obligations from stock and asset sales agreements ¹	Various	Indefinite	\$ 153	\$ 7
Guarantees ²	Various	Indefinite	48	-
Consumers				
Guarantee ²	July 2011	Indefinite	\$ 30	\$ -

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

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

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

would be required to perform or incur substantial losses related to these indemnities to be remote.

Other Contingencies

Michigan Sales and Use Tax Litigation: In 2010, the Michigan Department of Treasury finalized a sales and use tax audit of Consumers for the period from October 1997 through December 2004. It determined that Consumers' electric distribution equipment and its natural gas system were not eligible for an industrial-processing exemption and therefore were subject to the use tax. Consumers paid the tax for the period from 1997 through 2004 and filed a claim in the Michigan Court of Claims disputing the tax determination. Consumers continued to apply the industrial-processing exemption for the years subsequent to 2004.

In December 2015 and June 2016, Consumers and the Michigan Department of Treasury reached settlement agreements under which the Michigan Department of Treasury will refund to Consumers

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\$60 million of use tax that Consumers paid on its electric distribution equipment and its natural gas system from 1997 through 2015. This amount comprises a \$42 million refund of taxes paid, a \$12 million refund of interest paid, and \$6 million of interest owed to Consumers.

In June 2016, Consumers received \$13 million of the total settlement amount and recorded a note receivable for the remainder, of which \$30 million will be received in 2017 and \$17 million in 2018. Also in June 2016, Consumers recorded a \$4 million reduction in maintenance and other operating expenses, and a reduction in plant, property, and equipment for the portion of the taxes paid that had been capitalized as a cost of equipment. Consumers had previously recognized the effects of \$37 million of the total settlement amount in its consolidated financial statements in December 2015.

Concurrently with the June 2016 sales and use tax settlement, CMS Energy reached agreement with the Michigan Department of Treasury on two other tax matters that were under dispute relating to Michigan single business tax and Michigan corporate income tax. As a result, CMS Energy recognized a \$3 million reduction in income tax expense and a \$3 million reduction in general taxes.

Other: In addition to the matters disclosed in this Note and Note 2, Regulatory Matters, there are certain other lawsuits and administrative proceedings before various courts and governmental agencies arising in the ordinary course of business to which CMS Energy, Consumers, and certain other subsidiaries of CMS Energy are parties. These other lawsuits and proceedings may involve personal injury, property damage, contracts, environmental matters, federal and state taxes, rates, licensing, employment, and other matters. Further, CMS Energy and Consumers occasionally self-report certain regulatory non-compliance matters that may or may not eventually result in administrative proceedings. CMS Energy and Consumers believe that the outcome of any one of these proceedings will not have a material negative effect on their consolidated results of operations, financial condition, or liquidity.

4: FINANCINGS AND CAPITALIZATION

Financings: Presented in the following table is a summary of major long-term debt transactions during the six months ended June 30, 2016.

	Principal (In Millions)	Interest Rate	Issue Date	Maturity Date
<i>Debt issuances</i>				
CMS Energy, parent only				
Senior notes	\$ 300	3.000 %	May 2016	May 2026
Total debt issuances	\$ 300			

Term Loan: In April 2016, CMS Energy reached an agreement to extend the maturity date of its \$180 million term loan by one year, through April 2018.

Regulatory Authorization for Financings: Consumers is required to maintain FERC authorization for financings. In June 2016, Consumers received authorization from FERC to have outstanding, at any one time, up to \$800 million of secured and unsecured short-term securities for general corporate purposes. FERC also authorized Consumers to issue and sell up to \$1.795 billion of secured and unsecured long-term securities for general corporate purposes. The authorization was effective July 1, 2016 and will terminate on June 30, 2018.

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Revolving Credit Facilities: The following secured revolving credit facilities with banks were available at June 30, 2016:

				<i>In Millions</i>	
Expiration Date	Amount of Facility	Amount Borrowed	Letters of Credit Outstanding	Amount Available	
CMS Energy, parent only					
May 27, 2021 ^{1,2}	\$ 550	\$ -	\$ 1	\$ 549	
Consumers					
May 27, 2021 ^{1,3}	\$ 650	\$ -	\$ 7	\$ 643	
November 23, 2017 ³	250	-	-	250	
May 9, 2018 ³	30	-	30		

1 In May 2016, the expiration date of this revolving credit agreement was extended from 2020 to 2021.

2 During the six months ended June 30, 2016, CMS Energy's average borrowings totaled \$5 million with a weighted-average interest rate of 1.68 percent. Obligations under this facility are secured by Consumers common stock.

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

Short-term Borrowings: Under Consumers' commercial paper program, Consumers may issue, in one or more placements, commercial paper notes with maturities of up to 365 days and that bear interest at fixed or floating rates. These issuances are supported by Consumers' \$650 million revolving credit facility and may have an aggregate principal amount outstanding of up to \$500 million. While the amount of outstanding commercial paper does not reduce the revolver's available capacity, Consumers would not issue commercial paper in an amount exceeding the available revolver capacity. At June 30, 2016, no commercial paper notes were outstanding under this program.

Dividend Restrictions: At June 30, 2016, payment of dividends by CMS Energy on its common stock was limited to \$4.2 billion under provisions of the Michigan Business Corporation Act of 1972.

Under the provisions of its articles of incorporation, at June 30, 2016, Consumers had \$974 million of unrestricted retained earnings available to pay dividends on its common stock to CMS Energy. Provisions of the Federal Power Act and the Natural Gas Act appear to restrict dividends payable by Consumers to the amount of Consumers' retained earnings. Several decisions from FERC suggest that under a variety of circumstances dividends from Consumers on its common stock would not be limited to amounts in Consumers' retained earnings. Any decision by Consumers to pay dividends on its common stock in excess of retained earnings would be based on specific facts and circumstances and would be subject to a formal regulatory filing process.

For the six months ended June 30, 2016, Consumers paid \$213 million in dividends on its common stock to CMS Energy.

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Issuance of Common Stock: In April 2015, CMS Energy entered into an updated continuous equity offering program permitting it to sell, from time to time in at the market offerings, common stock having an aggregate sales price of up to \$100 million. Presented in the following table are the transactions that CMS Energy entered into under the program:

	Number of Shares Issued	Average Price per Share	Proceeds (In Millions)
April July 2015	888,610	\$ 33.76	\$ 30
March 2016	1,449,171	41.40	60
Total	2,337,781	\$ 38.50	\$ 90

5: FAIR VALUE MEASUREMENTS

Accounting standards define fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. When measuring fair value, CMS Energy and Consumers are required to incorporate all assumptions that market participants would use in pricing an asset or liability, including assumptions about risk. A fair value hierarchy prioritizes inputs used to measure fair value according to their observability in the market. The three levels of the fair value hierarchy are as follows:

- Level 1 inputs are unadjusted quoted prices in active markets for identical assets or liabilities.
- Level 2 inputs are observable, market-based inputs, other than Level 1 prices. Level 2 inputs may include quoted prices for similar assets or liabilities in active markets, quoted prices in inactive markets, and inputs derived from or corroborated by observable market data.
- Level 3 inputs are unobservable inputs that reflect CMS Energy's or Consumers' own assumptions about how market participants would value their assets and liabilities.

CMS Energy and Consumers classify fair value measurements within the fair value hierarchy based on the lowest level of input that is significant to the fair value measurement in its entirety.

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Assets and Liabilities Measured at Fair Value on a Recurring Basis

Presented in the following table are CMS Energy's and Consumers' assets and liabilities recorded at fair value on a recurring basis:

	CMS Energy, including Consumers		Consumers	
	June 30	December 31	June 30	December 31
	2016	2015	2016	2015
<i>In Millions</i>				
<i>Assets</i>				
Cash equivalents	\$ 136	\$ 158	\$ -	\$ -
Restricted cash equivalents	18	19	18	19
CMS Energy common stock	-	-	37	29
Nonqualified deferred compensation plan assets	11	10	7	7
<i>DB SERP</i>				
Cash equivalents	3	2	2	2
Mutual funds	143	146	102	104
<i>Derivative instruments</i>				
Commodity contracts	3	1	3	1
Total	\$ 314	\$ 336	\$ 169	\$ 162
<i>Liabilities</i>				
Nonqualified deferred compensation plan liabilities	\$ 11	\$ 10	\$ 7	\$ 7
<i>Derivative instruments</i>				
Commodity contracts	1	-	1	-
Total	\$ 12	\$ 10	\$ 8	\$ 7

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

Cash Equivalents: Cash equivalents and restricted cash equivalents consist of money market funds with daily liquidity. Short-term debt instruments classified as cash equivalents on the consolidated balance sheets are not included since they are recorded at amortized cost.

Nonqualified Deferred Compensation Plan Assets and Liabilities: The nonqualified deferred compensation plan assets consist of mutual funds, which are valued using daily quoted NAVs. CMS Energy and Consumers value their nonqualified deferred compensation plan liabilities based on the fair values of the plan assets, as they reflect what is owed to the plan participants in accordance with their investment elections. CMS Energy and Consumers report the assets in other non-current assets and the liabilities in other non-current liabilities on their consolidated balance sheets.

DB SERP Assets: The DB SERP cash equivalents consist of a money market fund with daily liquidity. The DB SERP invests in mutual funds that hold primarily fixed-income instruments of varying maturities. In order to meet their investment objectives, the funds hold investment-grade debt securities and may invest a portion of their assets in high-yield securities, foreign debt, and derivative instruments. CMS Energy and

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Consumers value these funds using daily quoted NAVs. CMS Energy and Consumers report their DB SERP assets in other non-current assets on their consolidated balance sheets. For additional details about DB SERP securities, see Note 6, Financial Instruments.

Derivative Instruments: CMS Energy and Consumers value their derivative instruments using either a market approach that incorporates information from market transactions, or an income approach that discounts future expected cash flows to a present value amount. CMS Energy values its exchange-traded

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derivative contracts based on Level 1 quoted prices. CMS Energy's and Consumers' remaining derivatives are classified as Level 3.

The majority of these derivatives are FTRs held by Consumers. Consumers uses FTRs to manage price risk related to electricity transmission congestion. An FTR is a financial instrument that entitles its holder to receive compensation or requires its holder to remit payment for congestion-related transmission charges. Under regulatory accounting, all changes in fair value associated with FTRs are deferred as regulatory assets and liabilities until the instruments are settled. Due to the lack of quoted pricing information, Consumers determines the fair value of its FTRs based on Consumers' average historical settlements.

6: FINANCIAL INSTRUMENTS

Presented in the following table are the carrying amounts and fair values, by level within the fair value hierarchy, of CMS Energy's and Consumers' financial instruments that are not recorded at fair value. The table does not include information on cash, cash equivalents, short-term accounts and notes receivable, short-term investments, and current liabilities since the carrying amounts of these items approximate their fair values because of their short-term nature. For information about assets and liabilities recorded at fair value and for additional details regarding the fair value hierarchy, see Note 5, Fair Value Measurements.

<i>In Millions</i>										
		June 30, 2016					December 31, 2015			
	Carrying		Fair Value					Fair Value		
	Amount	Total	1	Level	2	3	Carrying	Total	1	Level
							Amount			2
										3
CMS Energy, including Consumers										
<i>Assets</i>										
Long-term receivables ¹	\$ 21	\$ 21	\$ -	\$ -	\$ 21	\$ -	\$ -	\$ -	\$ -	\$ -
Notes receivable ²	1,245	1,336	-	-	1,336	1,161	1,228	-	-	1,228
Securities held to maturity	13	13	-	13	-	11	11	-	11	-
<i>Liabilities</i>										
Long-term debt ³	9,383	10,394	-	9,324	1,070	9,084	9,599	-	8,648	951
Long-term payables ⁴	21	22	-	-	22	14	14	-	-	14
Consumers										
<i>Assets</i>										
Long-term receivables ⁵	\$ 21	\$ 21	\$ -	\$ -	\$ 21	\$ -	\$ -	\$ -	\$ -	\$ -
Notes receivable	44	44	-	-	44	-	-	-	-	-
<i>Liabilities</i>										
Long-term debt ⁶	5,370	6,019	-	4,949	1,070	5,381	5,684	-	4,733	951
Long-term payables	7	7	-	-	7	-	-	-	-	-

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- 1 Includes current accounts receivable of \$12 million at June 30, 2016.
- 2 Includes current portion of notes receivable of \$157 million at June 30, 2016 and \$144 million at December 31, 2015.
- 3 Includes current portion of long-term debt of \$897 million at June 30, 2016 and \$684 million at December 31, 2015.
- 4 Includes current portion of long-term payables of \$1 million at June 30, 2016 and December 31, 2015.
- 5 Includes current accounts receivable of \$12 million at June 30, 2016.
- 6 Includes current portion of long-term debt of \$448 million at June 30, 2016 and \$198 million at December 31, 2015.

At CMS Energy, notes receivable consist primarily of EnerBank's fixed-rate installment loans. EnerBank estimates the fair value of these loans using a discounted cash flows technique that incorporates market interest rates as well as assumptions about the remaining life of the loans and credit risk.

CMS Energy and Consumers estimate the fair value of their long-term debt using quoted prices from market trades of the debt, if available. In the absence of quoted prices, CMS Energy and Consumers calculate market yields and prices for the debt using a matrix method that incorporates market data for similarly rated debt. Depending on the information available, other valuation techniques and models may be used that rely on assumptions that cannot be observed or confirmed through market transactions.

The effects of third-party credit enhancements are excluded from the fair value measurements of long-term debt. At June 30, 2016 and December 31, 2015, CMS Energy's long-term debt included \$103 million principal amount that was supported by third-party credit enhancements. This entire principal amount was at Consumers.

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

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In Millions

	June 30, 2016				December 31, 2015			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value	Cost	Unrealized Gains	Unrealized Losses	Fair Value
CMS Energy, including Consumers								
<i>Available for sale</i>								
<i>DB SERP</i>								
Mutual funds	\$ 149	\$ -	\$ 6	\$ 143	\$ 152	\$ -	\$ 6	\$ 146
<i>Held to maturity</i>								
Debt securities	13	-	-	13	11	-	-	11
Consumers								
<i>Available for sale</i>								
<i>DB SERP</i>								
Mutual funds	\$ 107	\$ -	\$ 5	\$ 102	\$ 108	\$ -	\$ 4	\$ 104
CMS Energy common stock	4	33	-	37	4	25	-	29

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The mutual funds classified as available for sale hold primarily fixed-income instruments of varying maturities. Debt securities classified as held to maturity consist primarily of mortgage-backed securities and Utah Housing Corporation bonds held by EnerBank.

7: NOTES RECEIVABLE

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

	June 30, 2016	<i>In Millions</i> December 31, 2015
CMS Energy, including Consumers		
<i>Current</i>		
EnerBank notes receivable, net of allowance for loan losses	\$ 142	\$ 128
EnerBank notes receivable held for sale	15	16
<i>Non-current</i>		
EnerBank notes receivable	1,041	1,017
State of Michigan tax settlement	47	-
Total notes receivable	\$ 1,245	\$ 1,161
Consumers		
<i>Non-current</i>		
State of Michigan tax settlement	\$ 44	\$ -
Total notes receivable	\$ 44	\$ -

EnerBank notes receivable are unsecured consumer installment loans for financing home improvements. EnerBank records its notes receivable at cost, less an allowance for loan losses. At June 30, 2016, \$15 million of notes receivable were classified as held for sale; the fair value of notes receivable held for sale exceeded their carrying value. These notes are expected to be sold in 2016.

Authorized contractors pay fees to EnerBank to provide borrowers with same-as-cash, zero interest, or reduced interest loans. Unearned income associated with the loan fees, which is recorded as a reduction to notes receivable on CMS Energy's consolidated balance sheets, was \$85 million at June 30, 2016 and \$82 million at December 31, 2015. Unearned income associated with the loan fees for notes receivable held for sale was \$3 million at June 30, 2016 and December 31, 2015.

The allowance for loan losses is a valuation allowance to reflect estimated credit losses. The allowance is increased by the provision for loan losses and decreased by loan charge-offs net of recoveries. Management estimates the allowance balance required by taking into consideration historical loan loss experience, the nature and volume of the portfolio, economic conditions, and other factors. Loan losses are charged against the allowance when the loss is confirmed, but no later than the point at which a loan becomes 120 days past due.

Loans that are 30 days or more past due are considered delinquent. The balance of EnerBank's delinquent consumer loans was \$8 million at June 30, 2016 and at December 31, 2015.

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At June 30, 2016 and December 31, 2015, \$1 million of EnerBank's loans had been modified as troubled debt restructurings.

Table of Contents**8: RETIREMENT BENEFITS**

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

In January 2016, CMS Energy and Consumers changed the method they use to determine the discount rate used to calculate the service cost and interest expense components of net periodic benefit costs for the DB Pension and OPEB Plans. Historically, the discount rate used for this purpose represented a single weighted-average rate derived from the yield curve used to determine the benefit obligation. CMS Energy and Consumers have elected to use instead a full-yield-curve approach in the estimation of service cost and interest expense; this approach is more accurate in that it applies individual spot rates along the yield curve to future projected benefit payments based on the time of payment. As a result of changing to the full-yield-curve approach to determine the discount rate, for the six months ended June 30, 2016, the service cost and interest expense components of net periodic benefit costs were reduced by \$12 million for the DB Pension Plan and \$6 million for the OPEB Plan for CMS Energy and by \$11 million for the DB Pension Plan and \$6 million for the OPEB Plan for Consumers.

Presented in the following table are the costs (credits) and other changes in plan assets and benefit obligations incurred in CMS Energy's and Consumers' retirement benefits plans:

June 30	DB Pension Plan				OPEB Plan			
	Three Months Ended		Six Months Ended		Three Months Ended		Six Months Ended	
	2016	2015	2016	2015	2016	2015	2016	2015
<i>In Millions</i>								
CMS Energy, including Consumers								
<i>Net periodic cost (credit)</i>								
Service cost	\$ 10	\$ 12	\$ 21	\$ 24	\$ 4	\$ 6	\$ 9	\$ 12
Interest expense	22	26	43	51	11	14	23	29
Expected return on plan assets	(37)	(35)	(74)	(69)	(21)	(22)	(43)	(45)
<i>Amortization of:</i>								
Net loss	18	22	35	45	6	6	11	11
Prior service cost (credit)	1	1	2	1	(11)	(11)	(21)	(21)
Net periodic cost (credit)	\$ 14	\$ 26	\$ 27	\$ 52	\$ (11)	\$ (7)	\$ (21)	\$ (14)
Consumers								
<i>Net periodic cost (credit)</i>								
Service cost	\$ 10	\$ 12	\$ 20	\$ 24	\$ 5	\$ 6	\$ 9	\$ 12
Interest expense	21	24	42	49	11	14	22	28
Expected return on plan assets	(36)	(34)	(72)	(67)	(20)	(21)	(40)	(43)
<i>Amortization of:</i>								
Net loss	17	22	34	44	5	5	11	11
Prior service cost (credit)	1	1	2	1	(10)	(10)	(20)	(20)
Net periodic cost (credit)	\$ 13	\$ 25	\$ 26	\$ 51	\$ (9)	\$ (6)	\$ (18)	\$ (12)

Table of Contents**9: INCOME TAXES**

Presented in the following table is a reconciliation of the statutory U.S. federal income tax rate to the effective income tax rate from continuing operations:

Six Months Ended June 30	2016	2015
CMS Energy, including Consumers		
U.S. federal income tax rate	35.0 %	35.0 %
<i>Increase (decrease) in income taxes from:</i>		
State and local income taxes, net of federal effect	3.8	4.8
Accelerated flow-through of regulatory tax benefits ¹	(4.6)	(4.9)
Employee share-based awards ²	(1.3)	-
Other, net	(1.5)	(1.4)
Effective tax rate	31.4 %	33.5 %
Consumers		
U.S. federal income tax rate	35.0 %	35.0 %
<i>Increase (decrease) in income taxes from:</i>		
State and local income taxes, net of federal effect	4.6	4.8
Accelerated flow-through of regulatory tax benefits ¹	(4.1)	(4.3)
Employee share-based awards ²	(1.2)	-
Other, net	(1.1)	(1.5)
Effective tax rate	33.2 %	34.0 %

¹ Since 2014, Consumers has followed a new regulatory treatment ordered by the MPSC that accelerates the return of certain income tax benefits to customers. This change, which also accelerates Consumers' recognition of the income tax benefits, reduced Consumers' income tax expense by \$19 million for the six months ended June 30, 2016 and by \$20 million for the six months ended June 30, 2015.

² CMS Energy and Consumers elected to adopt ASU 2016-09, *Improvements to Employee Share-Based Payment Accounting*, as of January 1, 2016. For further details on the implementation of this standard, see Note 1, New Accounting Standards.

[Table of Contents](#)**10: EARNINGS PER SHARE CMS ENERGY**

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

June 30	Three Months Ended		<i>In Millions, Except Per Share Amounts</i>	
	2016	2015	Six Months Ended 2016	2015
<i>Income available to common stockholders</i>				
Net income	\$ 125	\$ 68	\$ 289	\$ 270
Less income attributable to noncontrolling interests	1	1	1	1
Net income available to common stockholders basic and diluted	\$ 124	\$ 67	\$ 288	\$ 269
<i>Average common shares outstanding</i>				
Weighted-average shares basic	278.2	275.4	277.4	275.1
Add dilutive nonvested stock awards	1.1	0.8	1.2	0.8
Weighted-average shares diluted	279.3	276.2	278.6	275.9
<i>Net income per average common share available to common stockholders</i>				
Basic	\$ 0.45	\$ 0.25	\$ 1.04	\$ 0.98
Diluted	0.45	0.25	1.04	0.98

Nonvested Stock Awards

CMS Energy's nonvested stock awards are composed of participating and non-participating securities. The participating securities accrue cash dividends when common stockholders receive dividends. Since the recipient is not required to return the dividends to CMS Energy if the recipient forfeits the award, the nonvested stock awards are considered participating securities. As such, the participating nonvested stock awards were included in the computation of basic EPS. The non-participating securities accrue stock dividends that vest concurrently with the stock award. If the recipient forfeits the award, the stock dividends accrued on the non-participating securities are also forfeited. Accordingly, the non-participating awards and stock dividends were included in the computation of diluted EPS, but not basic EPS.

11: REPORTABLE SEGMENTS

Reportable segments consist of business units defined by the products and services they offer. CMS Energy and Consumers evaluate the performance of each segment based on its contribution to net income available to CMS Energy's common stockholders.

CMS Energy

The reportable segments for CMS Energy are:

- electric utility, consisting of regulated activities associated with the generation, transmission, and distribution of electricity in Michigan
- gas utility, consisting of regulated activities associated with the transportation, storage, and distribution of natural gas in Michigan
- enterprises, consisting of various subsidiaries engaging primarily in domestic independent power production

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

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Consumers

The reportable segments for Consumers are:

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

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

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

	Three Months Ended		Six Months Ended	
June 30	2016	2015	2016	2015
<i>In Millions</i>				
CMS Energy, including Consumers				
<i>Operating revenue</i>				
Electric utility	\$ 1,022	\$ 1,007	\$ 2,035	\$ 2,040
Gas utility	271	274	981	1,269
Enterprises	49	45	97	105
Other reconciling items	29	24	59	47
Total operating revenue CMS Energy	\$ 1,371	\$ 1,350	\$ 3,172	\$ 3,461
Consumers				
<i>Operating revenue</i>				
Electric utility	\$ 1,022	\$ 1,007	\$ 2,035	\$ 2,040
Gas utility	271	274	981	1,269
Total operating revenue Consumers	\$ 1,293	\$ 1,281	\$ 3,016	\$ 3,309
CMS Energy, including Consumers				
<i>Net income (loss) available to common stockholders</i>				
Electric utility	\$ 113	\$ 82	\$ 204	\$ 176
Gas utility	18	1	99	122
Enterprises	3	-	9	7
Other reconciling items	(10)	(16)	(24)	(36)
Total net income available to common stockholders CMS Energy	\$ 124	\$ 67	\$ 288	\$ 269
Consumers				
<i>Net income available to common stockholder</i>				
Electric utility	\$ 113	\$ 82	\$ 204	\$ 176
Gas utility	18	1	99	122
Total net income available to common stockholder Consumers	\$ 131	\$ 83	\$ 303	\$ 298

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	June 30, 2016	In Millions December 31, 2015
CMS Energy, including Consumers		
<i>Plant, property, and equipment, gross</i>		
Electric utility ¹	\$ 14,297	\$ 13,059
Gas utility ¹	6,014	5,723
Enterprises	160	120
Other reconciling items	26	41
Total plant, property, and equipment, gross CMS Energy	\$ 20,497	\$ 18,943
Consumers		
<i>Plant, property, and equipment, gross</i>		
Electric utility ¹	\$ 14,297	\$ 13,059
Gas utility ¹	6,014	5,723
Other reconciling items	15	15
Total plant, property, and equipment, gross Consumers	\$ 20,326	\$ 18,797
CMS Energy, including Consumers		
<i>Total assets</i>		
Electric utility ¹	\$ 12,901	\$ 12,660
Gas utility ¹	5,744	5,912
Enterprises	267	270
Other reconciling items	1,551	1,457
Total assets CMS Energy ²	\$ 20,463	\$ 20,299
Consumers		
<i>Total assets</i>		
Electric utility ¹	\$ 12,902	\$ 12,660
Gas utility ¹	5,744	5,912
Other reconciling items	56	63
Total assets Consumers ²	\$ 18,702	\$ 18,635

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

² CMS Energy and Consumers changed the reporting of debt issuance costs on their consolidated balance sheets in accordance with ASU 2015-03, *Simplifying the Presentation of Debt Issuance Costs*, as of January 1, 2016, and retrospectively adjusted prior-period amounts for comparability. For further details on the implementation of this standard, see Note 1, New Accounting Standards.

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

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There have been no material changes to market risk as previously disclosed in Part II Item 7A. Quantitative and Qualitative Disclosures About Market Risk, in the 2015 Form 10-K.

Item 4. Controls and Procedures

CMS ENERGY

Disclosure Controls and Procedures: CMS Energy's management, with the participation of its CEO and CFO, has evaluated the effectiveness of its disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this report. Based on such evaluation, CMS Energy's CEO and CFO have concluded that, as of the end of such period, its disclosure controls and procedures are effective.

Internal Control Over Financial Reporting: There have not been any changes in CMS Energy's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the last fiscal quarter that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting.

CONSUMERS

Disclosure Controls and Procedures: Consumers' management, with the participation of its CEO and CFO, has evaluated the effectiveness of its disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this report. Based on such evaluation, Consumers' CEO and CFO have concluded that, as of the end of such period, its disclosure controls and procedures are effective.

Internal Control Over Financial Reporting: There have not been any changes in Consumers' internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the last fiscal quarter that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting.

Part II Other Information

Item 1. Legal Proceedings

CMS Energy, Consumers, and certain of their affiliates are parties to various lawsuits and regulatory matters in the ordinary course of business. For information regarding material legal proceedings, including updates to information reported under Part I Item 3. Legal Proceedings, of the 2015 Form 10-K, see Part I Item 1. Financial Statements Notes to the Unaudited Consolidated Financial Statements Note 2, Regulatory Matters and Note 3, Contingencies and Commitments.

Table of Contents**Item 1A. Risk Factors**

There have been no material changes to the Risk Factors as previously disclosed in Part I Item 1A. Risk Factors, in the 2015 Form 10-K, which Risk Factors are incorporated herein by reference.

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

None.

ISSUER REPURCHASES OF EQUITY SECURITIES

Presented in the following table are CMS Energy's repurchases of equity securities for the three months ended June 30, 2016:

Period	Total Number of Shares Purchased ¹	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares That May Yet Be Purchased Under Publicly Announced Plans or Programs
April 1, 2016 to				
April 30, 2016	2,607	\$ 42.09	-	-
May 1, 2016 to				
May 31, 2016	-	-	-	-
June 1, 2016 to				
June 30, 2016	225	42.02	-	-
Total	2,832	\$ 42.08	-	-

¹ All of the common shares were repurchased to satisfy the minimum statutory income tax withholding obligation for common shares that have vested under the Performance Incentive Stock Plan. The value of shares repurchased is based on the market price on the vesting date.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

See CMS Energy's and Consumers' Exhibit Index included as the last part of this report, which is incorporated herein by reference.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, each registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized. The signature for each undersigned company shall be deemed to relate only to matters having reference to such company or its subsidiary.

CMS ENERGY CORPORATION

Dated: July 28, 2016

By:

/s/ Thomas J. Webb
Thomas J. Webb
Executive Vice President and Chief Financial Officer

CONSUMERS ENERGY COMPANY

Dated: July 28, 2016

By:

/s/ Thomas J. Webb
Thomas J. Webb
Executive Vice President and Chief Financial Officer

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EXHIBITS

Table of Contents**CMS ENERGY S AND CONSUMERS EXHIBIT INDEX**

The agreements included as exhibits to this Form 10-Q filing are included solely to provide information regarding the terms of the agreements and are not intended to provide any other factual or disclosure information about CMS Energy, Consumers, or other parties to the agreements. The agreements may contain representations and warranties made by each of the parties to each of the agreements that were made exclusively for the benefit of the parties involved in each of the agreements and should not be treated as statements of fact. The representations and warranties were made as a way to allocate risk if one or more of those statements prove to be incorrect. The statements were qualified by disclosures of the parties to each of the agreements that may not be reflected in each of the agreements. The agreements may apply standards of materiality that are different than standards applied to other investors. Additionally, the statements were made as of the date of the agreements or as specified in the agreements and have not been updated. The representations and warranties may not describe the actual state of affairs of the parties to each agreement.

Additional information about CMS Energy and Consumers may be found in this filing, at www.cmsenergy.com, at www.consumersenergy.com, and through the SEC's website at www.sec.gov.

<u>Exhibits</u>	<u>Description</u>
4.11	Thirty-Third Supplemental Indenture dated as of May 5, 2016 between CMS Energy and The Bank of New York Mellon, as Trustee (Exhibit 4.1 to Form 8-K filed May 5, 2016 and incorporated herein by reference)
10.11	Description of the \$180,000,000 Term Loan Credit Agreement Extension (Exhibit 10.3 to Form 10-Q for the quarterly period ended March 31, 2016 and incorporated herein by reference)
10.21	Description of the \$550 million Third Amended and Restated Revolving Credit Agreement Extension (Exhibit 10.1 to Form 8-K filed June 1, 2016 and incorporated herein by reference)
10.3	Description of the \$650 million Fourth Amended and Restated Revolving Credit Agreement Extension (Exhibit 10.2 to Form 8-K filed June 1, 2016 and incorporated herein by reference)
10.42	2016 Form of Change in Control Agreement (Exhibit 10.1 to Form 8-K filed June 23, 2016 and incorporated herein by reference)
12.1	Statement regarding computation of CMS Energy's Ratios of Earnings to Fixed Charges and Combined Fixed Charges and Preferred Dividends
12.2	Statement regarding computation of Consumers' Ratios of Earnings to Fixed Charges and Combined Fixed Charges and Preferred Dividends
31.1	CMS Energy's certification of the CEO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	CMS Energy's certification of the CFO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.3	Consumers' certification of the CEO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.4	Consumers' certification of the CFO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	CMS Energy's certifications pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Consumers' certifications pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS3	XBRL Instance Document
101.SCH3	XBRL Taxonomy Extension Schema
101.CAL3	XBRL Taxonomy Extension Calculation Linkbase
101.DEF3	XBRL Taxonomy Extension Definition Linkbase
101.LAB3	XBRL Taxonomy Extension Labels Linkbase
101.PRE3	XBRL Taxonomy Extension Presentation Linkbase

2 Management contract or compensatory plan or arrangement.

3 The financial information contained in the XBRL-related information is unaudited and unreviewed.
