CMS ENERGY CORP
Form 10-Q
April 28, 2016

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended March 31, 2016
OR
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from_____to_____

Commission File Number	Registrant; State of Incorporation; Address; and Telephone Number	IRS Employer Identification No.
1-9513	**CMS ENERGY CORPORATION** (A Michigan Corporation) One Energy Plaza, Jackson, Michigan 49201 (517) 788-0550	38-2726431
1-5611	**CONSUMERS ENERGY COMPANY** (A Michigan Corporation) One Energy Plaza, Jackson, Michigan 49201 (517) 788-0550	38-0442310

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

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

Indicate by check mark whether the registrant has submitted electronically 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 x No o **Consumers Energy Company:** Yes x No o

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

Consumers Energy Company:

Large accelerated filer o	Accelerated filer o
Non-Accelerated filer x (Do not check if a smaller reporting company)	Smaller reporting company o

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

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

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

CMS Energy Corporation:

CMS Energy Common Stock, $0.01 par value (including 803,551 shares owned by Consumers Energy Company)	279,961,710
Consumers Energy Company:	
Consumers Common Stock, $10 par value, privately held by CMS Energy Corporation	84,108,789

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CMS Energy Corporation

Consumers Energy Company

Quarterly Reports on Form 10-Q to the Securities and Exchange Commission for the Period Ended March 31, 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

AOCI
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
Defined Benefit Supplemental Executive Retirement Plan

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

DOE
U.S. Department of Energy

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

EPS
Earnings per share

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Exchange Act
Securities Exchange Act of 1934

FDIC
Federal Deposit Insurance Corporation

FERC
The Federal Energy Regulatory Commission

FTR
Financial transmission right

GAAP
U.S. Generally Accepted Accounting Principles

GCR
Gas cost recovery

GDP
Gross domestic product

Genesee
Genesee Power Station Limited Partnership, a variable interest entity in which HYDRA-CO Enterprises, Inc., a wholly owned subsidiary of CMS Enterprises, has a 50 percent interest

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

MGP
Manufactured gas plant

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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

PSCR
Power supply cost recovery

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REC
Renewable energy credit established under the 2008 Energy Law

ReliabilityFirst Corporation
ReliabilityFirst Corporation, a non-affiliated company responsible for the preservation and enhancement of bulk power system reliability and security

Resource Conservation and Recovery Act
Federal Resource Conservation and Recovery Act of 1976

RMRR
Routine maintenance, repair, and replacement

ROA
Retail Open Access, which allows electric generation customers to choose alternative electric suppliers pursuant to a Michigan statute enacted in 2000

SEC
U.S. Securities and Exchange Commission

securitization
A financing method authorized by statute and approved by the MPSC which allows a utility to sell its right to receive a portion of the rate payments received from its customers for the repayment of securitization bonds issued by a special-purpose entity affiliated with such utility

Sherman Act
Sherman Antitrust Act of 1890

Smart Energy
Consumers Smart Energy grid modernization project, which includes the installation of smart meters that transmit and receive data, a two-way communications network, and modifications to Consumers existing information technology system to manage the data and enable changes to key business processes

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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, 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

- 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

- CMS Energy s and Consumers securities credit ratings

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

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Accountability is part of CMS Energy s and Consumers corporate culture. CMS Energy and Consumers are committed to making the right choices to serve their customers safely and affordably and to acting responsibly as corporate citizens. CMS Energy and Consumers hold themselves accountable to the highest standards of safety, operational performance, and ethical behavior, and work diligently to comply with all laws, rules, and regulations that govern the electric and gas industry. Consumers 2015 Accountability Report, which is available to the public, provides an overview of Consumers efforts to continue meeting Michigan s energy needs safely and efficiently, and highlights Consumers commitment to Michigan businesses, its corporate citizenship, and its role in reducing the state s air emissions.

Safe, Excellent Operations

The safety of employees, customers, and the general public remains a priority of CMS Energy and Consumers. Accordingly, CMS Energy and Consumers have worked to integrate a set of safety principles into their business operations and culture. These principles include complying with applicable safety, health, and security regulations and implementing programs and processes aimed at continually improving safety and security conditions. 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, reducing repetitive outages, and increasing customer satisfaction. In 2015, Consumers attained reductions in the duration of electric customer outages and in the frequency of forced outages of its electric generation facilities. Consumers intensified customer focus has led to measureable improvements in customer satisfaction.

Also, 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 have declined by 64 percent over the last ten years, 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 PSCR 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 $8.4 billion. Presented in the following illustration are Consumers   planned capital investments through 2020:

Electric base ($2.5 billion)

Gas base ($1.6 billion)

Gas reliability enhancements ($1.6 billion)

Electric reliability enhancements ($1.1 billion)

Environmental ($0.7 billion)

Smart Energy ($0.3 billion)

Other ($0.6 billion)

Consumers   planned base capital investments of $4.1 billion represent projects to maintain Consumers   system and comprise $2.5 billion at the electric utility to preserve reliability and capacity and $1.6 billion at the gas utility to sustain deliverability and enhance pipeline integrity. An additional $2.7 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 $1.1 billion at the electric utility to strengthen circuits and substations and replace poles. Consumers also expects to spend $0.7 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.

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 March 2016, MPSC Commissioner John Quackenbush resigned, and a new commissioner has not yet been appointed. The MPSC still has the authority to issue orders with only two members instead of the normal three members. Other important 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 an additional $222 million in total for incremental investments that Consumers plans to make from 2017 through 2019, subject to reconciliation.

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- **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 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. Presently, 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.

Environmental regulation is another area of importance for CMS Energy and Consumers, and they are monitoring numerous legislative and regulatory initiatives, including initiatives to regulate greenhouse gases, and related litigation. CMS Energy and Consumers believe that environmental laws and regulations related to their operations will continue to become more stringent and require them to make additional 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.

Financial Performance

For the three months ended March 31, 2016, CMS Energy s net income available to common stockholders was $164 million and diluted EPS were $0.59. This compares with net income available to common stockholders of $202 million and diluted EPS of $0.73 for the three months ended March 31, 2015. Among the primary factors contributing to CMS Energy s decreased earnings in 2016 were lower electric and gas deliveries, reflecting the second-warmest winter in Consumers history, offset partially by benefits from electric and gas rate increases.

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.

In recent years, Michigan has benefited from strong economic growth; it ranked third among states in GDP growth from 2009 through 2014. Consumers expects that the continued rise in industrial production will drive its electric deliveries to increase annually by about 0.5 to 1.0 percent on average through 2020. Excluding the impacts of energy efficiency programs, Consumers expects its electric deliveries to increase by about 1.0 to 1.5 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.

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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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RESULTS OF OPERATIONS

CMS Energy Consolidated Results of Operations

						In Millions, Except Per Share Amounts
Three Months Ended March 31		2016		2015		Change
Net Income Available to Common Stockholders	$	164	$	202	$	(38)
Basic Earnings Per Share	$	0.59	$	0.73	$	(0.14)
Diluted Earnings Per Share	$	0.59	$	0.73	$	(0.14)

						In Millions
Three Months Ended March 31		2016		2015		Change
Electric utility	$	91	$	94	$	(3)
Gas utility		81		121		(40)
Enterprises		6		7		(1)
Corporate interest and other		(14)		(20)		6
Net Income Available to Common Stockholders	$	164	$	202	$	(38)

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

			In Millions
	March 31, 2016 better/(worse) than 2015		
Reasons for the change	Three Months Ended		
Consumers electric utility and gas utility			
Electric sales			
Weather	$ (18)		
Non-weather	-	$ (18)	
Gas sales			
Weather	(56)		
Non-weather	13	(43)	
Electric rate increase		29	
Gas rate increase		8	
Employee benefit costs		6	
Depreciation and property taxes		(14)	
Operating and maintenance costs		(7)	
Other		(4)	$ (43)
Enterprises			
Maintenance costs			(1)
Corporate interest and other			
EnerBank earnings			2
Other			4
Total change			$ (38)

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Consumers Electric Utility Results of Operations

						In Millions
Three Months Ended March 31		2016		2015		Change
Net Income Available to Common Stockholders	$	91	$	94	$	(3)
Reasons for the change						
Electric deliveries and rate increases					$	18
Maintenance and other operating expenses						(7)
Depreciation and amortization						(6)
General taxes						(4)
Other income, net of expenses						(6)
Interest charges						(2)
Income taxes						4
Total change					$	(3)

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

Electric Deliveries and Rate Increases: For the three months ended March 31, 2016, electric delivery revenues increased $18 million compared with 2015. This change reflected $48 million from a December 2015 rate increase and a $7 million increase associated with energy efficiency programs. These increases were offset partially by a $27 million decrease in sales, reflecting the second-warmest winter in Consumers history. Additionally, revenue associated with securitization bonds decreased $10 million, due primarily to the retirement in October 2015 of securitization bonds issued by Consumers in 2001. Deliveries to end-use customers were 9.1 billion kWh in 2016 and 9.5 billion kWh in 2015.

Maintenance and Other Operating Expenses: For the three months ended March 31, 2016, maintenance and other operating expenses increased $7 million compared with 2015. This change was due to a $9 million increase in storm restoration costs, a $7 million increase associated with energy efficiency programs, and a $3 million increase in forestry spending. These increases were offset partially by a $6 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. The increases were also offset partially by a $3 million reduction in uncollectible accounts expense and a $3 million reduction in other operating and maintenance expenses.

Depreciation and Amortization: For the three months ended March 31, 2016, depreciation and amortization expense increased $6 million compared with 2015. This increase was 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. These increases were 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 March 31, 2016, general taxes increased $4 million compared with 2015, due to increased property taxes, reflecting higher capital spending.

Other Income, Net of Expenses: For the three months ended March 31, 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 March 31, 2016, income taxes decreased $4 million compared with 2015, due primarily 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 further details on the implementation of this standard, see Note 1, New Accounting Standards.

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Consumers Gas Utility Results of Operations

						In Millions
Three Months Ended March 31		2016		2015		Change
Net Income Available to Common Stockholders	$	81	$	121	$	(40)
Reasons for the change						
Gas deliveries and rate increases					$	(53)
Maintenance and other operating expenses						3
Depreciation and amortization						(10)
General taxes						(3)
Other income, net of expenses						(2)
Income taxes						25
Total change					$	(40)

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

Gas Deliveries and Rate Increases: For the three months ended March 31, 2016, gas delivery revenues decreased $53 million compared with 2015. This change was attributable to $68 million in decreased sales, reflecting the second-warmest winter in Consumers history. The decrease was offset partially by $13 million from a January 2016 rate increase and $2 million in other revenue. Deliveries to end-use customers were 121 bcf in 2016 and 152 bcf in 2015.

Maintenance and Other Operating Expenses: For the three months ended March 31, 2016, maintenance and other operating expenses decreased $3 million compared with 2015. This change was due primarily to a decrease in postretirement benefit costs attributable 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.

Depreciation and Amortization: For the three months ended March 31, 2016, depreciation and amortization expense increased $10 million compared with 2015, due primarily to increased plant in service.

General Taxes: For the three months ended March 31, 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 March 31, 2016, income taxes decreased $25 million compared with 2015. Of this decrease, $23 million was attributable to lower gas utility earnings and $2 million 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 further details on the implementation of this standard, see Note 1, New Accounting Standards.

Enterprises Results of Operations

						In Millions
Three Months Ended March 31		2016		2015		Change
Net Income Available to Common Stockholders	$	6	$	7	$	(1)

For the three months ended March 31, 2016, net income of the enterprises segment decreased $1 million compared with 2015, due primarily to higher maintenance expenses.

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Corporate Interest and Other Results of Operations

						In Millions
Three Months Ended March 31		2016		2015		Change
Net Income (Loss) Available to Common Stockholders	$	(14)	$	(20)	$	6

For the three months ended March 31, 2016, corporate interest and other net expenses decreased $6 million compared with 2015, due primarily to a $4 million reduction in miscellaneous corporate costs and $2 million of higher earnings at EnerBank.

CASH POSITION, INVESTING, AND FINANCING

At March 31, 2016, CMS Energy had $205 million of consolidated cash and cash equivalents, which included $28 million of restricted cash and cash equivalents. At March 31, 2016, Consumers had $55 million of consolidated cash and cash equivalents, which included $28 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 three months ended March 31, 2016 and 2015:

						In Millions
Three Months Ended March 31		2016		2015		Change
CMS Energy, including Consumers						
Net income	$	164	$	202	$	(38)
Non-cash transactions1		327		363		(36)
		491		565		(74)
Changes in core working capital2		242		294		(52)
Postretirement benefits contributions		(2)		(31)		29
Changes in other assets and liabilities, net		(99)		(68)		(31)
Net cash provided by operating activities	$	632	$	760	$	(128)
Consumers						
Net income	$	172	$	215	$	(43)
Non-cash transactions1		316		299		17
		488		514		(26)
Changes in core working capital2		261		299		(38)
Postretirement benefits contributions		(1)		(30)		29
Changes in other assets and liabilities, net		(83)		3		(86)
Net cash provided by operating activities	$	665	$	786	$	(121)

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 three months ended March 31, 2016, net cash provided by operating activities at CMS Energy decreased $128 million compared with 2015 and net cash provided by operating activities at Consumers decreased $121 million compared with 2015. These changes were due primarily to lower net income, net of non-cash transactions, and lower collections of GCR underrecoveries, offset partially by a decrease in

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postretirement benefit contributions. Higher income tax payments to CMS Energy also contributed to the decrease in net cash provided by operating activities at Consumers.

Investing Activities

Presented in the following table are specific components of net cash used in investing activities for the three months ended March 31, 2016 and 2015:

						In Millions
Three Months Ended March 31		2016		2015		Change
CMS Energy, including Consumers						
Capital expenditures	$	(407)	$	(348)	$	(59)
Increase in EnerBank notes receivable		(16)		(29)		13
DB SERP fund contributions		-		(25)		25
Costs to retire property and other		(28)		(20)		(8)
Net cash used in investing activities	$	(451)	$	(422)	$	(29)
Consumers						
Capital expenditures	$	(406)	$	(345)	$	(61)
DB SERP fund contributions		-		(17)		17
Costs to retire property and other		(27)		(21)		(6)
Net cash used in investing activities	$	(433)	$	(383)	$	(50)

For the three months ended March 31, 2016, net cash used in investing activities at CMS Energy increased $29 million compared with 2015 and net cash used in investing activities at Consumers increased $50 million compared with 2015. At CMS Energy, the change was due primarily to higher capital expenditures at Consumers, offset partially by slower growth in EnerBank consumer lending and the absence, in 2016, of DB SERP fund contributions. The change at Consumers was due primarily to higher capital expenditures, offset partially by the absence, in 2016, of DB SERP fund contributions.

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Financing Activities

Presented in the following table are specific components of net cash used in financing activities for the three months ended March 31, 2016 and 2015:

			In Millions
Three Months Ended March 31	2016	2015	Change
CMS Energy, including Consumers			
Payment of dividends on common stock	$ (86)	$ (80)	$ (6)
Retirement of debt	(30)	(11)	(19)
Issuance of common stock	63	4	59
Proceeds from EnerBank certificates of deposit, net	14	40	(26)
Issuance of debt	30	100	(70)
Decrease in notes payable	(249)	(60)	(189)
Other financing activities	(12)	(16)	4
Net cash used in financing activities	$ (270)	$ (23)	$ (247)
Consumers			
Payment of dividends on common stock	$ (155)	$ (122)	$ (33)
Retirement of debt	-	(11)	11
Stockholder contribution from CMS Energy	150	150	-
Decrease in notes payable	(249)	(60)	(189)
Other financing activities	(1)	(6)	5
Net cash used in financing activities	$ (255)	$ (49)	$ (206)

For the three months ended March 31, 2016, net cash used in financing activities at CMS Energy increased $247 million compared with 2015 and net cash used in financing activities at Consumers increased $206 million compared with 2015. At CMS Energy, the change was due primarily to higher repayments under Consumers commercial paper program and a decrease in debt issuances, offset partially by increased common stock issuances under the continuous equity offering program. At Consumers, the change was due primarily to higher repayments under the commercial paper program and higher dividend payments to CMS Energy.

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 three months ended March 31, 2016, Consumers paid $155 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.

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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 at 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 March 31, 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 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 March 31, 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 March 31, 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 March 31, 2016, as presented in the following table:

		March 31, 2016	
Credit Agreement, Indenture, or Facility		Limit	Actual
CMS Energy parent			
Debt to EBITDA[1]	≤	6.0 to 1.0	4.5 to 1.0
Consumers			
Debt to Capital[2]	≤	0.65 to 1.0	0.47 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 March 31, 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.

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: 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.

By the end of 2017, Consumers expects that it will have installed a total of 1.8 million smart meters and 600,000 communication modules throughout its service territory. As of March 31, 2016, Consumers had upgraded 889,000 electric customers to smart meters and had installed 116,000 communication modules on gas meters.

In areas where it provides only natural gas to customers, Consumers plans to deploy automated meter reading technology on gas meters beginning in 2018. 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

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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.

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 MDEQ granted an extension of the project s air permit in January 2015, which will be void if Consumers does not 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 1.5 to 2.0 percent compared with 2015.

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

- energy conservation measures and results of energy efficiency programs
- 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 March 31, 2016, electric

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deliveries under the ROA program were at the ten-percent limit and alternative electric suppliers were providing 749 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. Presently, 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.

Electric Transmission: In 2012, ReliabilityFirst Corporation informed Consumers that Consumers may not have been properly registered to meet certain NERC electric reliability standards. Consumers assessed its registration status, taking into consideration FERC s December 2012 order on the definition of a bulk electric system, and became registered under NERC standards as a transmission owner, transmission planner, and transmission operator in October 2015. In March 2016, Consumers received FERC approval to begin collecting transmission revenues under MISO s transmission tariff effective April 2016. 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. Consumers completed the reclassification in April 2016.

In a separate matter, 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.

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

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:

	In Millions
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.

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 $0.7 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:

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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 are 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 evaluating this rule to determine what, if any, effect it will have on its electric generating units.

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

- changes in environmental compliance costs related to Consumers coal-fueled power units
- a change in the fuel mix at coal-fueled and oil-fueled power units
- 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. 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 be due September 2016 with extensions available until 2018. States choosing not to develop their own implementation plans would be subject to the federal plan.

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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 plans to file a state carbon implementation plan. In light of the stay of the Clean Power Plan, the State of Michigan has ceased additional work pending outcome of the litigation.

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 Michigan s implementation plan, which was to be submitted for EPA review and approval in 2018, but now will likely be delayed. Consumers will continue to monitor regulatory activity regarding greenhouse gas emissions standards that may affect electric generating units.

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

CCRs: In 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.

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. Consumers believes its environmental strategy will allow it to achieve compliance with the final rule. In November 2015, the EPA released its final effluent limitation guidelines, which set stringent new requirements for the discharge of arsenic, mercury, selenium, and nitrogen from electric generating units into wastewater streams.

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.

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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 2016.

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.

Consumers Gas Utility Outlook and Uncertainties

Gas Deliveries: Consumers expects weather-adjusted gas deliveries in 2016 to increase by 1.0 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:

- 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

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- 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.

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 three percent of CMS Energy s net assets at March 31, 2016 and five percent of CMS Energy s net income available to common stockholders for the three months ended March 31, 2016. The carrying value of EnerBank s loan portfolio was $1.2 billion at March 31, 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 March 31, 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 March 31, 2016.

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)

		In Millions, Except Per Share Amounts		
Three Months Ended March 31		2016		2015
Operating Revenue	$	1,801	$	2,111
Operating Expenses				
Fuel for electric generation		125		167
Purchased and interchange power		346		349
Purchased power related parties		22		23
Cost of gas sold		354		589
Maintenance and other operating expenses		293		283
Depreciation and amortization		238		222
General taxes		87		81
Total operating expenses		1,465		1,714
Operating Income		336		397
Other Income (Expense)				
Interest income		1		1
Allowance for equity funds used during construction		3		2
Income from equity method investees		4		4
Other income		3		3
Other expense		(3)		(4)
Total other income		8		6
Interest Charges				
Interest on long-term debt		100		96
Other interest expense		7		6
Allowance for borrowed funds used during construction		(1)		(1)
Total interest charges		106		101
Income Before Income Taxes		238		302
Income Tax Expense		74		100
Net Income Available to Common Stockholders	$	164	$	202
Basic Earnings Per Average Common Share	$	0.59	$	0.73
Diluted Earnings Per Average Common Share	$	0.59	$	0.73
Dividends Declared Per Common Share	$	0.31	$	0.29

The accompanying notes are an integral part of these statements.

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CMS Energy Corporation

Consolidated Statements of Comprehensive Income (Unaudited)

		In Millions
Three Months Ended March 31	2016	2015
Net Income	$ 164	$ 202
Retirement Benefits Liability		
Amortization of net actuarial loss, net of tax of $- and $1	-	1
Other Comprehensive Income	-	1
Comprehensive Income	$ 164	$ 203

The accompanying notes are an integral part of these statements.

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CMS Energy Corporation

Consolidated Statements of Cash Flows (Unaudited)

				In Millions
Three Months Ended March 31		2016		2015
Cash Flows from Operating Activities				
Net income	$	164	$	202
Adjustments to reconcile net income to net cash provided by operating activities				
Depreciation and amortization		238		222
Deferred income taxes and investment tax credit		68		99
Other non-cash operating activities		21		42
Cash provided by (used in) changes in assets and liabilities				
Accounts receivable, notes receivable, and accrued revenue		16		(48)
Inventories		274		378
Accounts payable and accrued refunds		(48)		(36)
Other current and non-current assets and liabilities		(101)		(99)
Net cash provided by operating activities		632		760
Cash Flows from Investing Activities				
Capital expenditures (excludes assets placed under capital lease)		(407)		(348)
Increase in EnerBank notes receivable		(16)		(29)
Cost to retire property and other investing activities		(28)		(45)
Net cash used in investing activities		(451)		(422)
Cash Flows from Financing Activities				
Proceeds from issuance of debt		30		100
Proceeds from EnerBank certificates of deposit, net		14		40
Issuance of common stock		63		4
Retirement of long-term debt		(30)		(11)
Payment of dividends on common stock		(86)		(80)
Decrease in notes payable		(249)		(60)
Payment of capital lease obligations and other financing costs		(12)		(16)
Net cash used in financing activities		(270)		(23)
Net Increase (Decrease) in Cash and Cash Equivalents		(89)		315
Cash and Cash Equivalents, Beginning of Period		266		207
Cash and Cash Equivalents, End of Period	$	177	$	522
Other non-cash investing and financing activities				
Non-cash transactions				
Capital expenditures not paid	$	173	$	117

The accompanying notes are an integral part of these statements.

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CMS Energy Corporation

Consolidated Balance Sheets (Unaudited)

ASSETS

	March 31 2016	December 31 2015
		In Millions
Current Assets		
Cash and cash equivalents	$ 177	$ 266
Restricted cash and cash equivalents	28	19
Accounts receivable and accrued revenue, less allowances of $29 in 2016 and $28 in 2015	730	774
Notes receivable, less allowances of $10 in 2016 and $9 in 2015	135	128
Notes receivable held for sale	16	16
Accounts receivable related parties	11	11
Inventories at average cost		
Gas in underground storage	314	568
Materials and supplies	120	126
Generating plant fuel stock	64	84
Deferred property taxes	193	235
Regulatory assets	11	16
Prepayments and other current assets	91	77
Total current assets	1,890	2,320
Plant, Property, and Equipment		
Plant, property, and equipment, gross	19,334	18,943
Less accumulated depreciation and amortization	5,878	5,747
Plant, property, and equipment, net	13,456	13,196
Construction work in progress	1,451	1,509
Total plant, property, and equipment	14,907	14,705
Other Non-current Assets		
Regulatory assets	1,827	1,840
Accounts and notes receivable	1,034	1,027
Investments	64	64
Other	315	343
Total other non-current assets	3,240	3,274
Total Assets	$ 20,037	$ 20,299

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LIABILITIES AND EQUITY

	March 31 2016	December 31 2015
		In Millions
Current Liabilities		
Current portion of long-term debt, capital leases, and financing obligation	$ 950	$ 706
Notes payable	-	249
Accounts payable	534	633
Accounts payable related parties	9	9
Accrued rate refunds	34	26
Accrued interest	72	106
Accrued taxes	254	349
Regulatory liabilities	76	82
Other current liabilities	118	142
Total current liabilities	2,047	2,302
Non-current Liabilities		
Long-term debt	8,170	8,400
Non-current portion of capital leases and financing obligation	114	118
Regulatory liabilities	2,092	2,088
Postretirement benefits	581	591
Asset retirement obligations	440	439
Deferred investment tax credit	55	56
Deferred income taxes	2,078	2,017
Other non-current liabilities	314	313
Total non-current liabilities	13,844	14,022
Commitments and Contingencies (Notes 2 and 3)		
Equity		
Common stockholders equity		
Common stock, authorized 350.0 shares; outstanding 279.2 shares in 2016 and 277.2 shares in 2015	3	3
Other paid-in capital	4,897	4,837
Accumulated other comprehensive loss	(47)	(47)
Accumulated deficit	(744)	(855)
Total common stockholders equity	4,109	3,938
Noncontrolling interests	37	37
Total equity	4,146	3,975
Total Liabilities and Equity	$ 20,037	$ 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)

		In Millions
Three Months Ended March 31	2016	2015
Total Equity at Beginning of Period	$ 3,975	$ 3,707
Common Stock		
At beginning and end of period	3	3
Other Paid-in Capital		
At beginning of period	4,837	4,774
Common stock issued	70	10
Common stock repurchased	(10)	(11)
Common stock reissued	-	10
At end of period	4,897	4,783
Accumulated Other Comprehensive Loss		
At beginning of period	(47)	(49)
Retirement benefits liability		
At beginning of period	(43)	(48)
Amortization of net actuarial loss	-	1
At end of period	(43)	(47)
Investments		
At beginning and end of period	(4)	(1)
At end of period	(47)	(48)
Accumulated Deficit		
At beginning of period	(855)	(1,058)
Cumulative effect of change in accounting principle	33	-
Net income attributable to CMS Energy	164	202
Dividends declared on common stock	(86)	(80)
At end of period	(744)	(936)
Noncontrolling Interests		
At beginning and end of period	37	37
Total Equity at End of Period	$ 4,146	$ 3,839

The accompanying notes are an integral part of these statements.

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Consumers Energy Company

Consolidated Statements of Income (Unaudited)

		In Millions
Three Months Ended March 31	2016	2015
Operating Revenue	$ 1,723	$ 2,028
Operating Expenses		
Fuel for electric generation	99	133
Purchased and interchange power	343	346
Purchased power related parties	22	23
Cost of gas sold	351	583
Maintenance and other operating expenses	269	265
Depreciation and amortization	237	220
General taxes	85	79
Total operating expenses	1,406	1,649
Operating Income	317	379
Other Income (Expense)		
Interest income	1	1
Allowance for equity funds used during construction	3	2
Other income	3	12
Other expense	(3)	(4)
Total other income	4	11
Interest Charges		
Interest on long-term debt	65	63
Other interest expense	3	3
Allowance for borrowed funds used during construction	(1)	(1)
Total interest charges	67	65
Income Before Income Taxes	254	325
Income Tax Expense	82	110
Net Income Available to Common Stockholder	$ 172	$ 215

The accompanying notes are an integral part of these statements.

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Consumers Energy Company

Consolidated Statements of Comprehensive Income (Unaudited)

		In Millions
Three Months Ended March 31	2016	2015
Net Income	$ 172	$ 215
Retirement Benefits Liability		
Amortization of net actuarial loss, net of tax of $- for all periods	-	1
Investments		
Unrealized gain on investments, net of tax of $2 and $-	3	-
Reclassification adjustments included in net income, net of tax of $- and $(3)	-	(5)
Other Comprehensive Income (Loss)	3	(4)
Comprehensive Income	$ 175	$ 211

The accompanying notes are an integral part of these statements.

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Consumers Energy Company

Consolidated Statements of Cash Flows (Unaudited)

		In Millions
Three Months Ended March 31	2016	2015
Cash Flows from Operating Activities		
Net income	$ 172	$ 215
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	237	220
Deferred income taxes and investment tax credit	62	39
Other non-cash operating activities	17	40
Cash provided by (used in) changes in assets and liabilities		
Accounts receivable, notes receivable, and accrued revenue	33	(43)
Inventories	270	374
Accounts payable and accrued refunds	(42)	(32)
Other current and non-current assets and liabilities	(84)	(27)
Net cash provided by operating activities	665	786
Cash Flows from Investing Activities		
Capital expenditures (excludes assets placed under capital lease)	(406)	(345)
Cost to retire property and other investing activities	(27)	(38)
Net cash used in investing activities	(433)	(383)
Cash Flows from Financing Activities		
Retirement of long-term debt	-	(11)
Payment of dividends on common stock	(155)	(122)
Stockholder contribution	150	150
Decrease in notes payable	(249)	(60)
Payment of capital lease obligations and other financing costs	(1)	(6)
Net cash used in financing activities	(255)	(49)
Net Increase (Decrease) in Cash and Cash Equivalents	(23)	354
Cash and Cash Equivalents, Beginning of Period	50	71
Cash and Cash Equivalents, End of Period	$ 27	$ 425
Other non-cash investing and financing activities		
Non-cash transactions		
Capital expenditures not paid	$ 154	$ 117

The accompanying notes are an integral part of these statements.

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Consumers Energy Company

Consolidated Balance Sheets (Unaudited)

ASSETS

		In Millions
	March 31 2016	December 31 2015
Current Assets		
Cash and cash equivalents	$ 27	$ 50
Restricted cash and cash equivalents	28	19
Accounts receivable and accrued revenue, less allowances of $29 in 2016 and $28 in 2015	713	758
Accounts receivable related parties	1	17
Inventories at average cost		
Gas in underground storage	314	568
Materials and supplies	115	120
Generating plant fuel stock	63	80
Deferred property taxes	193	235
Regulatory assets	11	16
Prepayments and other current assets	84	66
Total current assets	1,549	1,929
Plant, Property, and Equipment		
Plant, property, and equipment, gross	19,165	18,797
Less accumulated depreciation and amortization	5,821	5,676
Plant, property, and equipment, net	13,344	13,121
Construction work in progress	1,449	1,467
Total plant, property, and equipment	14,793	14,588
Other Non-current Assets		
Regulatory assets	1,827	1,840
Accounts and notes receivable	10	10
Investments	34	29
Other	209	239
Total other non-current assets	2,080	2,118
Total Assets	$ 18,422	$ 18,635

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LIABILITIES AND EQUITY

		In Millions
	March 31 2016	December 31 2015
Current Liabilities		
Current portion of long-term debt, capital leases, and financing obligation	$ 469	$ 220
Notes payable	-	249
Accounts payable	521	613
Accounts payable related parties	15	15
Accrued rate refunds	34	26
Accrued interest	47	65
Accrued taxes	262	352
Regulatory liabilities	76	82
Other current liabilities	87	109
Total current liabilities	1,511	1,731
Non-current Liabilities		
Long-term debt	4,934	5,183
Non-current portion of capital leases and financing obligation	114	118
Regulatory liabilities	2,092	2,088
Postretirement benefits	519	529
Asset retirement obligations	439	438
Deferred investment tax credit	55	56
Deferred income taxes	2,799	2,710
Other non-current liabilities	243	236
Total non-current liabilities	11,195	11,358
Commitments and Contingencies (Notes 2 and 3)		
Equity		
Common stockholder s equity		
Common stock, authorized 125.0 shares; outstanding 84.1 shares for both periods	841	841
Other paid-in capital	3,874	3,724
Accumulated other comprehensive loss	(3)	(6)
Retained earnings	967	950
Total common stockholder s equity	5,679	5,509
Preferred stock	37	37
Total equity	5,716	5,546
Total Liabilities and Equity	$ 18,422	$ 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)

		In Millions
Three Months Ended March 31	2016	2015
Total Equity at Beginning of Period	$ 5,546	$ 5,277
Common Stock		
At beginning and end of period	841	841
Other Paid-in Capital		
At beginning of period	3,724	3,574
Stockholder contribution	150	150
At end of period	3,874	3,724
Accumulated Other Comprehensive Loss		
At beginning of period	(6)	(7)
Retirement benefits liability		
At beginning of period	(19)	(26)
Amortization of net actuarial loss	-	1
At end of period	(19)	(25)
Investments		
At beginning of period	13	19
Unrealized gain on investments	3	-
Reclassification adjustments included in net income	-	(5)
At end of period	16	14
At end of period	(3)	(11)
Retained Earnings		
At beginning of period	950	832
Net income	172	215
Dividends declared on common stock	(155)	(122)
At end of period	967	925
Preferred Stock		
At beginning and end of period	37	