

Edgar Filing: CMS ENERGY CORP - Form 10-Q/A

CMS ENERGY CORP
Form 10-Q/A
July 23, 2003

=====

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q/A

AMENDMENT NO. 1

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

OR

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

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

| | | |
|--------|------------------------|------------|
| 1-9513 | CMS ENERGY CORPORATION | 38-2726431 |
|--------|------------------------|------------|

(A Michigan Corporation)
Fairlane Plaza South, Suite 1100
330 Town Center Drive, Dearborn, Michigan 48126
(313)436-9200

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. Yes X No
--- ---

Number of shares outstanding of the issuer's class of common stock at October 31, 2002:

CMS ENERGY CORPORATION:
CMS Energy Common Stock, \$.01 par value 144,086,749

=====

CMS ENERGY CORPORATION

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

Explanatory Note

Edgar Filing: CMS ENERGY CORP - Form 10-Q/A

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

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

In May 2002, as a result of certain financial reporting issues surrounding round-trip trading transactions at CMS MST, CMS Energy announced that it would restate its consolidated financial statements for 2000 and 2001 to eliminate the effects of round-trip energy trades and form a Special Committee to investigate these trades. Following this announcement, CMS Energy received formal notification from Arthur Andersen that it had terminated its relationship with CMS Energy and affiliates. Arthur Andersen notified CMS Energy that due to the investigation, Arthur Andersen's historical opinions on CMS Energy's financial statements for the periods being restated could not be relied upon. Arthur Andersen also notified CMS Energy that it would be unable to give an opinion on CMS Energy's restated financial statements when they were completed. Arthur Andersen's reports on CMS Energy's, Consumers', and Panhandle's consolidated financial statements for each of the fiscal years ended December 31, 2001 and December 31, 2000 contained no adverse or disclaimer of opinion, nor were the reports qualified or modified regarding uncertainty, audit scope or accounting principles.

There were no disagreements between CMS Energy and Arthur Andersen on any matter of accounting principle or practice, financial statement disclosure, or auditing scope or procedure during the years 2000 and 2001 and through the date of their opinion for the quarter ended March 31, 2002.

As a result of the restatement required with respect to the round-trip trading transactions, Ernst & Young was engaged to re-audit CMS Energy's consolidated financial statements for each of the fiscal years ended December 31, 2001 and December 31, 2000, which included audit work at Consumers and Panhandle for these years.

In connection with Ernst & Young's re-audit of the financial statements for the fiscal years ended December 31, 2001 and December 31, 2000, CMS Energy has made, in consultation with Ernst & Young, certain adjustments (in addition to the round-trip trades) to its consolidated financial statements for the fiscal years ended December 31, 2001 and December 31, 2000, which affect the results of the quarterly periods within 2001 and 2002. Therefore, the consolidated financial statements for the quarters of 2001, the years ended December 31, 2001 and 2000, and the quarters of 2002 have been restated from amounts previously reported. At the time it adopted the accounting treatment for these items, CMS Energy believed such accounting was

appropriate under accounting principles generally accepted in the United States. The primary restated items: 1) adjust the timing of the recognition of

Edgar Filing: CMS ENERGY CORP - Form 10-Q/A

Consumers' losses for underrecoveries of power costs on power purchases from the MCV; 2) account for Consumers' new headquarters building as a capital lease; 3) reverse a 2001 charge associated with the DIG complex; 4) eliminate mark-to-market gains and losses on inter-book and intercompany transactions at CMS MST; 5) record adjustments associated with account reconciliations at CMS MST; 6) reverse deferred income tax benefits recorded in association with the write-down of certain foreign investments; 7) record an additional write-down of system-balancing gas at Panhandle; 8) change the accounting treatment for CMS Energy's and Panhandle's interest in the LNG business; and 9) change the accounting treatment for CMS Energy's financing of its methanol plant.

In addition to restatements related to the re-audit, goodwill write-downs of \$616 million (\$379 million, net of tax) were reflected in discontinued operations retroactively to the first quarter of 2002 as a cumulative effect of change in accounting for goodwill, pursuant to the requirements of SFAS No. 142 (see Note 4, Goodwill).

A summary of the principal effects of the restatement on CMS Energy's consolidated financial statements for the quarterly periods ended September 30, 2002 and September 30, 2001 is contained in Note 10, Restatement, and unaudited restated financial statements for the first and second quarters of 2002, with comparable restated periods for 2001, are contained in Note 12, Restated Financial Statements for First and Second Quarters, in the notes to the consolidated financial statements.

Each item of the September 30, 2002 Form 10-Q that is affected by the restatement has been amended and restated. Generally, no attempt has been made in this Form 10-Q/A to modify or update other disclosures as presented in the September 30, 2002 Form 10-Q except as required to reflect the effects of the restatement. However, material subsequent events have been reported in a separate section of the MD&A, entitled "Subsequent Events", and in Note 11, Subsequent Events, in the notes to the consolidated financial statements. In addition, certain financial information from the first and second quarters of 2002 and 2001 has been included in the Results of Operations and Capital Resources and Liquidity sections of the MD&A, and restated financial statements for March 31, 2002 and 2001 and June 30, 2002 and 2001 have been included in Note 12 Restated Financial Statements for First and Second Quarters, in the notes to the consolidated financial statements. This document should be read in conjunction with CMS Energy's Form 10-K/A Amendment No. 2 for the fiscal year ended December 31, 2002, CMS Energy's Form 10-Q for the quarterly period ended March 31, 2003 and CMS Energy's Form 8-K, each of which is incorporated by reference herein, and were filed with the SEC on July 1, 2003, May 14, 2003 and June 24, 2003, respectively.

CMS ENERGY CORPORATION

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

This Form 10-Q/A is filed by CMS Energy Corporation. Separate Form 10Q/A's have been filed by Consumers Energy Company and Panhandle Eastern Pipe Line Company. Accordingly, except for their respective subsidiaries, Consumers Energy Company and Panhandle Eastern Pipe Line Company make no representation as to information relating to any other companies affiliated with CMS Energy Corporation.

Edgar Filing: CMS ENERGY CORP - Form 10-Q/A

TABLE OF CONTENTS

Glossary.....

PART I: FINANCIAL INFORMATION

CMS Energy Corporation

Management's Discussion and Analysis

- Change in Auditors and Restatement.....
- Modified Management's Discussion and Analysis.....
- Forward-Looking Statements and Risk Factors.....
- Round-Trip Trades.....
- Other Matters.....
- Results of Operations.....
- Critical Accounting Policies.....
- Capital Resources and Liquidity.....
- Market Risk Information.....
- Outlook.....
- Other Outlook.....
- Subsequent Events.....

Consolidated Financial Statements

- Consolidated Statements of Income.....
- Consolidated Statements of Cash Flows.....
- Consolidated Balance Sheets.....
- Consolidated Statements of Common Stockholders' Equity.....

Condensed Notes to Consolidated Financial Statements:

- 1. Corporate Structure and Basis of Presentation.....
- 2. Discontinued Operations.....
- 3. Asset Dispositions.....
- 4. Goodwill.....
- 5. Uncertainties.....
- 6. Short-Term and Long-Term Financings, and Capitalization.....
- 7. Earnings Per Share and Dividends.....
- 8. Risk Management Activities and Financial Instruments.....
- 9. Reportable Segments.....
- 10. Restatement.....
- 11. Subsequent Events.....
- 12. Restated Financial Statements for First and Second Quarters
- 13. Equity Method Investments.....

Quantitative and Qualitative Disclosures About Market Risk.....

PART II. OTHER INFORMATION

- Item 1. Legal Proceedings.....
- Item 5. Other Information.....
- Item 6. Exhibits and Reports on Form 8-K.....
- Signatures.....

GLOSSARY

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

| | |
|-------------------------------------|--|
| ABATE..... | Association of Businesses Advocating Tariff Equity |
| Accumulated Benefit Obligation..... | The liabilities of a pension plan based on service and differs from the Projected Benefit Obligation that is disclosed in that it does not reflect expected future |
| AEP..... | American Electric Power Co. |
| ALJ..... | Administrative Law Judge |
| Alliance..... | Alliance Regional Transmission Organization |
| AMT..... | Alternative minimum tax |
| APB..... | Accounting Principles Board |
| APB Opinion No. 18..... | APB Opinion No. 18, "The Equity Method of Accounting f in Common Stock" |
| APB Opinion No. 25..... | APB Opinion No. 25, "Accounting for Stock Issued to Em |
| APB Opinion No. 30..... | APB Opinion No. 30, "Reporting Results of Operations - Effects of Disposal of a Segment of a Business" |
| Arthur Andersen..... | Arthur Andersen, LLP |
| Attorney General..... | Michigan Attorney General |
| bcf..... | Billion cubic feet |
| Big Rock..... | Big Rock Point nuclear power plant, owned by Consumers |
| Board of Directors..... | Board of Directors of CMS Energy |
| Bookouts..... | Unplanned netting of transactions from multiple contra |
| Btu..... | British thermal unit |
| CEO..... | Chief Executive Officer |
| CFO..... | Chief Financial Officer |
| Clean Air Act..... | Federal Clean Air Act, as amended |
| CMS Electric and Gas..... | CMS Electric and Gas Company, a subsidiary of Enterpri |
| CMS Energy..... | CMS Energy Corporation, the parent of Consumers and En |
| CMS Energy Common Stock..... | Common stock of CMS Energy, par value \$.01 per share |
| CMS Gas Transmission..... | CMS Gas Transmission Company, a subsidiary of Enterpri |
| CMS Generation..... | CMS Generation Co., a subsidiary of Enterprises |
| CMS Holdings..... | CMS Midland Holdings Company, a subsidiary of Consumer |
| CMS Midland..... | CMS Midland Inc., a subsidiary of Consumers |
| CMS MST..... | CMS Marketing, Services and Trading Company, a subsidi Enterprises |
| CMS Oil and Gas | CMS Oil and Gas Company, a subsidiary of Enterprises |
| CMS Panhandle..... | Panhandle Eastern Pipeline Company, including subsidia Pan Storage, Panhandle Storage, and Trunkline LNG. Pa wholly owned subsidiary of CMS Gas Transmission |
| CMS Viron..... | CMS Viron Energy Services, a wholly owned subsidiary o |
| Common Stock..... | All classes of Common Stock of CMS Energy and each of subsidiaries, or any of them individually, at the time grant under the Performance Incentive Stock Plan |
| Consumers..... | Consumers Energy Company, a subsidiary of CMS Energy |

Edgar Filing: CMS ENERGY CORP - Form 10-Q/A

| | |
|------------------------------------|---|
| Consumers Campus Holdings..... | Consumers Campus Holdings, L.L.C., a wholly owned subsidiary of Consumers |
| Consumers Receivables Funding..... | Consumers Receivables Funding L.L.C., a wholly-owned subsidiary of Consumers |
| Court of Appeals..... | Michigan Court of Appeals |
| Customer Choice Act..... | Customer Choice and Electricity Reliability Act, a Michigan law enacted in June 2000 that allows all retail customers to choose alternative electric suppliers no later than January 1, 2001, for full recovery of net stranded costs and implementation of a rate freeze and rate cap, and allows for securitization of rate of return |
| Detroit Edison..... | The Detroit Edison Company, a non-affiliated company |
| DIG..... | Dearborn Industrial Generation, L.L.C., a wholly owned subsidiary of CMS Generation |
| DOE..... | U.S. Department of Energy |
| Dow..... | The Dow Chemical Company, a non-affiliated company |
| DSM..... | Demand-side management |
| Duke Energy..... | Duke Energy Corporation, a non-affiliated company |
| EISP..... | Executive Incentive Separation Plan |
| EITF..... | Emerging Issues Task Force |
| El Chocon..... | The 1,200 MW hydro power plant located in Argentina with a 17.23 percent ownership interest. |
| Enterprises..... | CMS Enterprises Company, a subsidiary of CMS Energy |
| EPA..... | U.S. Environmental Protection Agency |
| EPS..... | Earnings per share |
| ERISA..... | Employee Retirement Income Security Act |
| Ernst & Young..... | Ernst & Young LLP |
| FASB..... | Financial Accounting Standards Board |
| FERC..... | Federal Energy Regulatory Commission |
| FMLP..... | First Midland Limited Partnership, a partnership which has a 17.23 percent ownership interest in the MCV facility |
| FondElec..... | FondElec Essential Services Growth Fund, an investment fund formed in 1997 to invest in companies whose business is in the telecommunications and utility sectors, primarily in Latin America |
| FTC..... | Federal Trade Commission |
| GCR..... | Gas cost recovery |
| GTNs..... | CMS Energy General Term Notes (R), \$200 million Series E and \$300 million Series F |
| GWh..... | Gigawatt-hour |
| Health Care Plan..... | The medical, dental, and prescription drug programs of Consumers Energy for eligible employees of Panhandle, Consumers and CMS Energy |
| HL Power..... | H.L. Power Company, a California Limited Partnership, which is a joint venture for a power generation project in Wendel, California |
| IPP..... | Independent Power Producer |
| ISO..... | Independent System Operator |
| ITC..... | Investment tax credit |
| JEC..... | Jubail Energy Company |
| Jorf Lasfar..... | The 1,356 MW coal-fueled power plant in Morocco, jointly owned by CMS Energy Generation and ABB Energy Venture, Inc. |
| kWh..... | Kilowatt-hour |

| | |
|----------------------------------|--|
| LIBOR..... | London Inter-Bank Offered Rate |
| Loy Yang..... | The 2,000 MW brown coal fueled Loy Yang A power plant associated coal mine in Victoria, Australia, in which holds a 50 percent ownership interest |
| LNG..... | Liquefied natural gas |
| LNG Holdings..... | CMS Trunkline LNG Holdings, LLC, jointly owned by CMS Holdings, LLC and Dekatherm Investor Trust |
| Ludington..... | Ludington pumped storage plant, jointly owned by Consumers Energy and Edison |
| mcf..... | Thousand cubic feet |
| MCV Facility..... | A natural gas-fueled, combined-cycle cogeneration facility owned by the MCV Partnership |
| MCV Partnership..... | Midland Cogeneration Venture Limited Partnership in which CMS has a 49 percent interest through CMS Midland |
| MD&A..... | Management's Discussion and Analysis |
| METC..... | Michigan Electric Transmission Company, a subsidiary of Consumers Energy |
| Michigan Gas Storage..... | Michigan Gas Storage Company, a subsidiary of Consumers Energy |
| Michigan Power..... | CMS Generation Michigan Power, LLC, owner of the Kalamazoo Station and the Livingston Generating Station |
| MISO..... | Midwest Independent System Operator |
| MPSC..... | Michigan Public Service Commission |
| MTH..... | Michigan Transco Holdings, Limited Partnership |
| MW..... | Megawatts |
| NEIL..... | Nuclear Electric Insurance Limited, an industry mutual reinsurance company owned by member utility companies |
| Nitrotec..... | Nitrotec Corporation, a proprietary gas technology company. Consumers Energy Gas Transmission owns an equity interest |
| NMC..... | Nuclear Management Company, a Wisconsin company, formerly known as Northern States Power Company (now Xcel Energy Inc.), Wisconsin Electric Power Company, and Wisconsin Public Service Company, to operate and manage nuclear generating facilities owned by member utilities |
| NOPR..... | Notice of Proposed Rulemaking |
| NOx..... | Nitrogen Oxide |
| NPS..... | National Power Supply Company, Ltd., owner of two generating facilities in Thailand. CMS Generation sold its 66.2 percent interest in NPS to NPS Energy |
| NRC..... | Nuclear Regulatory Commission |
| NYMEX..... | New York Mercantile Exchange |
| OATT..... | Open Access Transmission Tariff |
| OPEB..... | Postretirement benefit plans other than pensions for non-union employees |
| Palisades..... | Palisades nuclear power plant, owned by Consumers Energy |
| Pan Gas Storage..... | Pan Gas Storage Company, a subsidiary of Panhandle Eastern Pipe Line Company |
| Panhandle..... | Panhandle Eastern Pipe Line Company, including its subsidiaries: Trunkline, Pan Gas Storage, Panhandle Storage, and Trunkline Storage. Panhandle is a wholly owned subsidiary of CMS Gas Transmission |
| Panhandle Eastern Pipe Line..... | Panhandle Eastern Pipe Line Company, a wholly owned subsidiary of Consumers Energy |

Edgar Filing: CMS ENERGY CORP - Form 10-Q/A

8

| | |
|-------------------------|--|
| Panhandle Storage..... | CMS Panhandle Storage Company, a subsidiary of Panhandle Line Company |
| PCB..... | Polychlorinated biphenyl |
| Pension Plan..... | The trustee, non-contributory, defined benefit pension plan for Panhandle, Consumers and CMS Energy |
| PJM..... | Pennsylvania-Jersey-Maryland |
| Powder River..... | CMS Oil & Gas owns a significant interest in 13 coal basins or fields or projects developed within the Powder River Basin along the border between Wyoming and Montana. |
| PPA..... | The Power Purchase Agreement between Consumers and CMS Energy with a 35-year term commencing in March 1990 |
| ppm..... | Parts per million |
| Price-Anderson Act..... | Price-Anderson Act, enacted in 1957 as an amendment to the Energy Act of 1954, as revised and extended over the years. It stipulates between nuclear licensees and the U.S. government regarding insurance, financial responsibility, and legal liability for nuclear accidents. |
| PSCR..... | Power supply cost recovery |
| PUHCA..... | Public Utility Holding Company Act of 1935 |
| PURPA..... | Public Utility Regulatory Policies Act of 1978 |
| RTO..... | Regional Transmission Organization |
| SAB..... | Staff Accounting Bulletin |
| SAB No. 101..... | SEC SAB No. 101, "Revenue Recognition" |
| SADAF..... | Saudi Petrochemical Company |
| Sea Robin..... | Sea Robin Pipeline Company |
| SEC..... | U.S. Securities and Exchange Commission |
| Securitization..... | A financing authorized by statute in which a MPSC approves revenues from a portion of the rates charged by a utility. The customers is set aside and pledged as security for the issuance of securitization bonds issued by a special purpose entity created with such utility |
| SERP..... | Supplemental Executive Retirement Plan |
| SFAS..... | Statement of Financial Accounting Standards |
| SFAS No. 5..... | SFAS No. 5, "Accounting for Contingencies" |
| SFAS No. 13..... | SFAS No. 13 "Accounting for Leases" |
| SFAS No. 34..... | SFAS No. 34, "Capitalization of Interest Cost" |
| SFAS No. 52..... | SFAS No. 52, "Foreign Currency Translation" |
| SFAS No. 71..... | SFAS No. 71, "Accounting for the Effects of Certain Transactions" |
| SFAS No. 87..... | SFAS No. 87, "Employers' Accounting for Pensions" |
| SFAS No. 106..... | SFAS No. 106, "Employers' Accounting for Postretirement Benefits" |
| SFAS No. 115..... | SFAS No. 115, "Accounting for Certain Investments in Debt Securities" |
| SFAS No. 121..... | SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets for Long-Lived Assets to be Disposed Of" |
| SFAS No. 123..... | SFAS No. 123, "Accounting for Stock-Based Compensation" |
| SFAS No. 133..... | SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities, as amended and interpreted" |
| SFAS No. 142..... | SFAS No. 142, "Goodwill and Other Intangible Assets" |

9

Edgar Filing: CMS ENERGY CORP - Form 10-Q/A

| | |
|---------------------------------|--|
| SFAS No. 143..... | SFAS No. 143, "Accounting for Asset Retirement Obligat |
| SFAS No. 144..... | SFAS No. 144, "Accounting for the Impairment or Dispos Assets" |
| SFAS No. 145..... | SFAS No. 145, "Rescission of FASB Statements No. 4, 44 Amendment of FASB Statement No. 13, and Technical Corr |
| SFAS No. 146..... | SFAS No. 146, "Accounting for Costs Associated With Ex Activities with Exit or Disposal Activities" |
| SFAS No. 149..... | SFAS No. 149, "Amendment of Statement No. 133 on Deriv Instruments and Hedging Activities" |
| SFAS No. 150..... | SFAS No. 150, "Accounting for Certain Financial Instru Characteristics of Both Liabilities and Equity" |
| SIPS..... | State Implementation Plans |
| Special Committee..... | A special committee of independent directors, establis Energy's Board of Directors, to investigate matters su round-trip trading |
| Stranded Costs..... | Costs incurred by utilities in order to serve their cu regulated monopoly environment, but which may not be r competitive environment because of customers leaving t ceasing to pay for their costs. These costs could inc purchased generation and regulatory assets. |
| Superfund..... | Comprehensive Environmental Response, Compensation and |
| Taweelah..... | Al Taweelah A2, a power and desalination plant of Emir Company, a forty percent owned subsidiary of CMS Gener |
| Toledo Power..... | Toledo Power Company, the 135 MW coal and fuel oil pow on Cebu Island, Phillipines, in which CMS Generation h percent interest. Toledo Power was sold to Mirant Tol Corporation on April 24, 2002 |
| Transition Costs..... | Stranded Costs, as defined, plus the costs incurred in to competition. |
| Trunkline..... | Trunkline Gas Company, a subsidiary of Panhandle Easte Company |
| Trunkline LNG..... | Trunkline LNG Company, a subsidiary of Panhandle Easte Company |
| Trust Preferred Securities..... | Securities representing an undivided beneficial intere of statutory business trusts, which interests have a p respect to certain trust distributions over the intere Energy or Consumers, as applicable, as owner of the co interests of the trusts |
| Union..... | Utility Workers of America, AFL-CIO |
| VEBA Trusts..... | VEBA (voluntary employees' beneficiary association) Tr tax-exempt accounts established to specifically set as contributed assets to pay for future expenses of the O |

(This page intentionally left blank)

Edgar Filing: CMS ENERGY CORP - Form 10-Q/A

CHANGE IN AUDITORS AND RESTATEMENT

CMS Energy's consolidated financial statements for the quarterly periods ended September 30, 2002 and 2001 have been restated, pursuant to audit adjustments resulting from the re-audit of the consolidated financial statements for the years 2001 and 2000, as well as completion of its restatement of the consolidated financial statements for the quarters of 2002 and 2001. This document should be read in conjunction with CMS Energy's Form 10-K/A Amendment No. 2 for the fiscal year ended December 31, 2002 and CMS Energy's Form 10-Q for the quarterly period ended March 31, 2003 and CMS Energy's Form 8-K, each of which is incorporated by reference herein, and were filed with the SEC on July 1, 2003, May 14, 2003 and June 24, 2003, respectively.

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

In May 2002, as a result of certain financial reporting issues surrounding round-trip trading transactions at CMS MST, CMS Energy announced that it would restate its consolidated financial statements for 2000 and 2001 to eliminate the effects of round-trip energy trades and form a Special Committee to investigate these trades. Following this announcement, CMS Energy received formal notification from Arthur Andersen that it had terminated its relationship with CMS Energy and affiliates. Arthur Andersen notified CMS Energy that due to the investigation, Arthur Andersen's historical opinions on CMS Energy's financial statements for the periods being restated could not be relied upon. Arthur Andersen also notified CMS Energy that it would be unable to give an opinion on CMS Energy's restated financial statements when they were completed. As a result, Ernst & Young began the process of re-auditing CMS Energy's consolidated financial statements for each of the fiscal years ended December 31, 2001 and December 31, 2000. Although Arthur Andersen's notification did not apply to separate, audited financial statements of Consumers and Panhandle for the applicable years, the re-audit did include audit work at Consumers and Panhandle for these years.

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

The primary restated items: 1) change the accounting associated with the PPA reserve, which results in: the reversal of the 2001 increase to the PPA reserve of \$126 million; the reversal of a net \$12 million charged to operating expenses associated with the PPA in 2001; and the reversal of \$29 million of the amount charged to the PPA reserve in 2000; 2) recognize Consumers' new headquarters lease as a capital lease,

Edgar Filing: CMS ENERGY CORP - Form 10-Q/A

CMS Energy Corporation

instead of an operating lease, and record the lease obligation and capitalize costs incurred; 3) reverse a 2001 charge for a contract loss associated with the DIG complex; 4) eliminate mark-to-market gains and losses on inter-book and intercompany transactions at CMS MST; 5) record adjustments associated with account reconciliations at CMS MST; 6) reverse deferred income tax benefits recorded in association with the write-down of certain foreign investments; 7) record an additional write-down of system-balancing gas at Panhandle; 8) change the accounting treatment for CMS Energy's and Panhandle's interest in the LNG business; and 9) change the accounting treatment for CMS Energy's financing of its methanol plant.

In addition to restatements related to the re-audit, goodwill write-downs of \$616 million (\$379 million, net of tax) were reflected in discontinued operations retroactively to the first quarter of 2002 as a cumulative effect of change in accounting for goodwill, pursuant to the requirements of SFAS No. 142 (see Note 4, Goodwill).

A summary of the principal effects of the restatement on CMS Energy's consolidated financial statements for the quarterly periods ended March 31, June 30, and September 30, 2002 and 2001 are contained in Note 10, Restatement, and unaudited restated financial statements for the first and second quarters of 2002, with comparable restated periods for 2001 are contained in Note 12, Restated Financial Statements for First and Second Quarters, in the notes to the consolidated financial statements. In addition, certain financial information from the first and second quarters of 2002 and 2001 has been included in the Results of Operations and Capital Resources and Liquidity sections of this MD&A.

MODIFIED MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis has been modified for the restatement, including the first and second quarters of 2002 and 2001, and should be read in conjunction with CMS Energy's consolidated financial statements and notes to those statements included in this Form 10-Q/A, and CMS Energy's 2002 Form 10-K/A Amendment No. 2 that was previously filed with the SEC on July 1, 2003. All note references within this MD&A refer to the notes to CMS Energy's consolidated financial statements.

CMS Energy is the parent holding company of Consumers and Enterprises. Consumers is a combination electric and gas utility company serving Michigan's Lower Peninsula. Enterprises, through subsidiaries, including Panhandle and its subsidiaries, is engaged in several domestic and international diversified energy businesses including: natural gas transmission, storage and processing; independent power production; and energy marketing, services and trading.

FORWARD-LOOKING STATEMENTS AND RISK FACTORS

The MD&A of this Form 10-Q/A should be read along with the MD&A and other parts of CMS Energy's 2001 Form 10-K. This MD&A refers to, and in some sections specifically incorporates by reference, CMS Energy's Condensed Notes to Consolidated Financial Statements and should be read in conjunction with such Consolidated Financial Statements and Notes. This Form 10-Q/A and other written and oral statements that CMS Energy may make contain forward-looking statements as defined by the Private Securities Litigation Reform Act of 1995. CMS Energy's intentions with the use of the words "anticipates," "believes," "estimates," "expects," "intends," and "plans," and variations of such words and similar expressions, are solely to identify forward-looking statements that involve risk and uncertainty. These forward-looking statements are subject to various factors that could cause CMS Energy's actual results to differ materially from the results anticipated in such statements. CMS Energy has no obligation to update

Edgar Filing: CMS ENERGY CORP - Form 10-Q/A

or revise forward-looking statements regardless of whether new information, future events or any

13

CMS Energy Corporation

other factors affect the information contained in such statements. CMS Energy does, however, discuss certain risk factors, uncertainties and assumptions in this MD&A and in Item 1 of the 2001 Form 10-K in the section entitled "CMS Energy, Consumers, and Panhandle Forward-Looking Statements Cautionary Factors and Uncertainties" and in various public filings it periodically makes with the SEC. In addition to any assumptions and other factors referred to specifically in connection with such forward-looking statements, there are numerous factors that could cause our actual results to differ materially from those contemplated in any forward-looking statements. Such factors include our inability to predict and/or control:

- o The efficient sale of non-strategic and under-performing international assets and discontinuation of our international energy distribution systems;
- o Achievement of operating synergies and revenue enhancements;
- o Capital and financial market conditions, including current price of CMS Energy's Common Stock, interest rates and availability of financing to CMS Energy, Consumers, Panhandle or any of their affiliates and the energy industry;
- o CMS Energy, Consumers, Panhandle or any of their affiliates' securities ratings;
- o Market perception of the energy industry, CMS Energy, Consumers, Panhandle or any of their affiliates;
- o Ability to successfully access the capital markets;
- o Currency fluctuations and exchange controls;
- o Factors affecting utility and diversified energy operations such as unusual weather conditions, catastrophic weather-related damage, unscheduled generation outages, maintenance or repairs, unanticipated changes to fossil fuel, nuclear fuel or gas supply costs or availability due to higher demand, shortages, transportation problems or other developments, environmental incidents, or electric transmissions or gas pipeline system constraints;
- o International, national, regional and local economic, competitive and regulatory conditions and developments;
- o Adverse regulatory or legal decisions, including environmental laws and regulations;
- o Federal regulation of electric sales and transmission of electricity including re-examination by Federal regulators of the market-based sales authorizations by which our subsidiaries participate in wholesale power markets without price restrictions and proposals by FERC to change the way it currently lets our subsidiaries and other public utilities and natural gas companies interact with each other;
- o Energy markets, including the timing and extent of unanticipated changes in commodity prices for oil, coal, natural gas liquids, electricity and certain related products due to lower or higher demand, shortages, transportation problems or other developments;
- o The increased competition of new pipeline and pipeline expansion projects that transport large additional volumes of natural gas to the Midwestern United States from Canada, which could reduce the volumes of gas transported by our natural gas transmission business or cause them to lower rates in order to meet competition;
- o Potential disruption, expropriation or interruption of facilities or

Edgar Filing: CMS ENERGY CORP - Form 10-Q/A

- operations due to accidents, war and terrorism or political events and the ability to get or maintain insurance coverage for such events;
- o Nuclear power plant performance, decommissioning, policies, procedures, incidents, and regulation, including the availability of spent nuclear fuel storage;
- o Technological developments in energy production, delivery and usage;
- o Changes in financial or regulatory accounting principles or policies;
- o Outcome, cost and other effects of legal and administrative proceedings, settlements, investigations and claims, including particularly claims, damages and fines resulting from those involving round-trip trading and inaccurate reporting of trading confirmations to the publishers of energy price indexes;

14

CMS Energy Corporation

- o Limitations on our ability to control the development or operation of projects in which our subsidiaries have a minority interest;
- o Disruptions in the normal commercial insurance and surety bond markets that may increase costs or reduce traditional insurance coverage, particularly terrorism and sabotage insurance and performance bonds;
- o Other business or investment considerations that may be disclosed from time to time in CMS Energy's, Consumers' or Panhandle's SEC filings or in other publicly disseminated written documents; and
- o Other uncertainties, which are difficult to predict and many of which are beyond our control.

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

ROUND-TRIP TRADES

During the period of May 2000 through January 2002, CMS MST engaged in simultaneous, prearranged commodity trading transactions in which energy commodities were sold and repurchased at the same price. These transactions, which had no impact on previously reported consolidated net income, earnings per share or cash flows, had the effect of increasing operating revenues, operating expenses, accounts receivable, accounts payable and reported trading volumes. After internally concluding that cessation of these trades was in CMS Energy's best interest, these so called round-trip trades were halted in January 2002.

CMS Energy accounted for these trades in gross revenue and expense through the third quarter of 2001, but subsequently concluded that these round-trip trades should have been reflected on a net basis. In the fourth quarter of 2001, CMS Energy ceased recording these trades in either revenues or expenses. CMS Energy's 2001 Form 10-K, issued in March 2002, restated revenue and expense for the first three quarters of 2001 to eliminate \$4.2 billion of previously reported revenue and expense. The 2001 Form 10-K did include \$5 million of revenue and expense for 2001 from such trades, which remained uncorrected. At the time of the initial restatement, CMS Energy inadvertently failed to restate 2000 for round-trip trades.

CMS Energy is cooperating with an SEC investigation regarding round-trip trading and the Company's financial statements, accounting practices and controls. CMS Energy is also cooperating with inquiries by the Commodity Futures Trading

Edgar Filing: CMS ENERGY CORP - Form 10-Q/A

Commission, the FERC, and the United States Department of Justice regarding these transactions. CMS Energy has also received subpoenas from U.S. Attorneys Offices regarding investigations of these trades and has received a number of shareholder class action lawsuits. In addition, CMS Energy's Board of Directors established the Special Committee of independent directors to investigate matters surrounding round-trip trading and the Special Committee retained outside counsel to assist in the investigation.

On October 31, 2002, the Special Committee reported the results of its investigation to the Board of Directors. The Special Committee discovered no new information inconsistent with the information previously reported by CMS Energy and as reported above. The investigation also concluded that the round-trip trades were undertaken to raise CMS MST's profile as an energy marketer, with the goal of enhancing CMS MST's ability to promote its services to new customers. The Special Committee found no apparent effort to manipulate the price of CMS Energy Common Stock or to affect energy prices.

15

CMS Energy Corporation

The Special Committee also made recommendations designed to prevent any reoccurrence of this practice, some of which have already been implemented, including the termination of the speculative trading business and revisions to CMS Energy's risk management policy. The Board of Directors adopted, and CMS Energy has begun implementing, the remaining recommendations of the Special Committee.

OTHER MATTERS

COMPLIANCE WITH THE SARBANES-OXLEY ACT OF 2002

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

CEO AND CFO CERTIFICATIONS

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

DISCLOSURE AND INTERNAL CONTROLS

CMS Energy's CEO and CFO are responsible for establishing and maintaining CMS Energy's disclosure controls and procedures. Management, under the direction of CMS Energy's principal executive and financial officers, has evaluated the effectiveness of CMS Energy's disclosure controls and procedures as of September 30, 2002. Based on this evaluation, other than the control weaknesses at CMS MST described below, CMS Energy's CEO and CFO have concluded that disclosure controls and procedures are effective to ensure that material information was presented to them and properly disclosed, particularly during the third quarter of 2002. There have been no significant changes in CMS Energy's internal controls or in factors, other than as discussed below, that could significantly

Edgar Filing: CMS ENERGY CORP - Form 10-Q/A

affect internal controls subsequent to September 30, 2002.

CONTROL WEAKNESSES AT CMS MST

In late 2001 and during 2002, the Company identified a number of deficiencies in CMS MST's systems of internal accounting controls. The internal control deficiencies related to, among other things, a lack of account reconciliations, unidentified differences between subsidiary ledgers and the general ledger, and procedures and processes surrounding the Company's accounting for energy trading contracts, including mark-to-market accounting.

Senior management, the Audit Committee of the Board of Directors, the Board of Directors, and the independent auditors were notified of these deficiencies as they were discovered, and the Company commenced a plan of remediation that included the replacement of certain key personnel and the deployment of additional internal and external accounting personnel to CMS MST. Certain aspects of the remediation plan, which includes the implementation of improvements and changes to CMS MST's internal accounting controls, were postponed to enable the Company to prepare restated financial

16

CMS Energy Corporation

statements for 2000 and 2001. While a number of these control improvements and changes were implemented in late 2002, the most important ones occurred in the first quarter of 2003.

The implementation of certain elements of its remediation plan enabled the Company to prepare reliable restated financial statements for CMS MST for December 31, 2000 and 2001, as well as for the quarterly periods and full year of 2002. Management has also prepared restated quarterly financial statements for 2001; refer to the consolidated financial statements, and Note 12, Restated Financial Statements for First and Second Quarters, to the consolidated financial statements.

Management believes that the improvements to its system of internal accounting controls implemented in late 2002 and the first quarter of 2003 are appropriate and responsive to the internal control deficiencies that were identified. Management will continue to monitor the operation of the improved internal controls to assess their sustained effectiveness through 2003.

RESTRUCTURING AND OTHER COSTS

CMS Energy began a series of initiatives in the aftermath of CMS Energy's round-trip trading disclosure and the sharp drop of the Company's stock price. Significant expenses associated with these initiatives have been incurred and are considered restructuring and other costs. These actions include: termination of five officers, 18 CMS Field Services employees and 37 CMS MST trading group employees, renegotiating a number of debt agreements, responding to many investigation and litigation matters, re-audit of the 2000 and 2001 financial statements and plans to relocate the corporate headquarters to Jackson, Michigan.

Restructuring and other costs for the year-to-date September 30, 2002, which are reported in operating expenses (\$41 million) and fixed charges (\$12 million) includes:

- o Involuntary termination benefits of \$17 million for officers and employees.

Edgar Filing: CMS ENERGY CORP - Form 10-Q/A

- o Consulting and restructuring fees of \$12 million to assist CMS Energy to arrange credit facilities related to the July 2002 debt renegotiations.
- o The \$12 million of expense associated with responding to and/or defending against investigations and lawsuits related to round-trip trading. These expenses could total \$21 million for attorneys' fees and costs. Potential insurance proceeds may total \$12 million, reducing these expenses to \$9 million.
- o Expenses for future rentals of \$7 million have been accrued in connection with relocating the corporate headquarters to Jackson, Michigan. The relocation is expected to be complete by June 2003.
- o Other expenses, including the cost of re-auditing 2000 and 2001 total \$5 million.

Of the above \$53 million, \$12 million has been paid for consulting and restructuring fees and \$10 million has been paid for severance and benefits as of September 30, 2002.

Additional restructuring and other costs are expected in the fourth quarter of 2002 of approximately \$5 million related to relocating the corporate headquarters, terminating approximately 30 employees, and additional legal expenses for litigation issues. In the first half of 2003, restructuring and other costs related to relocating employees and other headquarters expenses are expected to be \$2 million. The relocation is expected to occur between March and June 2003.

17

CMS Energy Corporation

RESULTS OF OPERATIONS

CMS ENERGY CONSOLIDATED EARNINGS (LOSS)

CMS Energy Consolidated earnings reflect the continued implementation of the financial improvement plan and on-going asset sales program first announced in 2001. The financial improvement plan focuses on strengthening CMS Energy's balance sheet and improving financial liquidity through debt reduction and aggressive cost management. The on-going asset sales program's objective is to reduce business risk and to provide for more predictable on-going earnings. This encompasses the sale of non-strategic and under-performing assets, the proceeds of which are being used to reduce debt. In 2002, CMS Energy has recorded charges to earnings in connection with the execution of its "back-to-basics" strategy.

For the three and nine months ended September 30, 2002, and 2001, consolidated net income included gains (losses) on asset sales, asset write-downs, restructuring costs associated with implementing CMS Energy's new strategic direction, AMT tax credit write-offs, and the discontinued operations of CMS Oil and Gas, CMS Electric and Gas, CMS Panhandle, CMS Viron, and other non-strategic businesses. The nine months ended September 30, 2002 also reflects the adoption of SFAS No. 142 as of January 1, 2002, which required an after-tax goodwill impairment of \$369 million for Panhandle and \$10 million for CMS Viron reflected in discontinued operations. The following tables depict CMS Energy's Results of Operations.

In Millions, Except

Edgar Filing: CMS ENERGY CORP - Form 10-Q/A

 THREE MONTHS ENDED SEPTEMBER 30 RESTATED
2002

| | | |
|--|--|---------|
| CMS Energy Consolidated Net Income (Loss) | | \$ 37 |
| CMS Energy Basic Earnings (Loss) Per Share | | \$ 0.26 |
| CMS Energy Diluted Earnings (Loss) Per Share | | \$ 0.26 |

=====

| THREE MONTHS ENDED SEPTEMBER 30 | RESTATED 2002 | RESTATED 2001 |
|--|------------------|------------------|
| Electric Utility | \$88 | \$ 15 |
| Gas Utility | (18) | (11) |
| Independent Power Production | 49 | (89) |
| Natural Gas Transmission | - | (20) |
| Marketing, Services, and Trading | 8 | (7) |
| Corporate Interest and Other | (115) | (64) |
| Income (Loss) From Continuing Operations | 12 | (176) |
| Discontinued Operations | 24 | (202) |
| Cumulative Accounting Change | 1 | - |
| Consolidated Net Income (Loss) | \$ 37 | \$ (378) |

=====

18

CMS Energy Corporation

For the three months ended September 30, 2002, CMS Energy's net income was \$37 million, an increase of \$415 million from the \$378 million loss for the comparable period in 2001. Income from discontinued operations was \$24 million, an increase of \$226 million from the \$202 million loss for the comparable 2001 period. Income from continuing operations was \$12 million, an increase of \$188 million from the \$176 million loss for the comparable prior period primarily due to decreased power costs and increased deliveries at the Electric Utility, and the impact of asset sales and write-downs that occurred in the three months ended September 30, 2001, partially offset by higher corporate interest and other expenses.

In Millions, Except

 NINE MONTHS ENDED SEPTEMBER 30 RESTATED
2002

| | | |
|--|--|---------|
| CMS Energy Consolidated Net Income (Loss) | | \$ 5 |
| CMS Energy Basic Earnings (Loss) Per Share | | \$ 0.04 |

Edgar Filing: CMS ENERGY CORP - Form 10-Q/A

CMS Energy Diluted Earnings (Loss) Per Share

\$ 0.04

| NINE MONTHS ENDED SEPTEMBER 30 | RESTATED 2002 | RESTATED 2001 |
|--|------------------|------------------|
| Electric Utility | \$ 222 | \$ 108 |
| Gas Utility | 13 | 16 |
| Independent Power Production | 83 | (44) |
| Natural Gas Transmission | 8 | (16) |
| Marketing, Services, and Trading | 13 | (27) |
| Corporate Interest and Other | (198) | (179) |
| Income (Loss) From Continuing Operations | 141 | (142) |
| Discontinued Operations | (154) | (154) |
| Cumulative Accounting Change | 18 | 9 |
| Consolidated Net Income (Loss) | \$ 5 | \$ (287) |

For the nine months ended September 30, 2002, CMS Energy's net income was \$5 million, an increase of \$292 million from the net loss of \$287 million for the nine months ended 2001. Loss from discontinued operations was \$154 million for both 2002 and 2001. Income from continuing operations was \$141 million, an increase of \$283 million from the \$142 million loss from continuing operations for the nine months ended September 2001. The increase is primarily due to decreased power costs and increased deliveries at the Electric Utility, the impact of asset write-downs that occurred in 2001, improved earnings at CMS MST, and gains on asset sales in 2002.

For the three and six months ended June 30, 2002, consolidated net income included gains on asset sales, restructuring costs associated with implementing CMS Energy's new strategic direction, and the discontinued operations of CMS Oil and Gas, CMS Electric and Gas, Panhandle and other non-strategic businesses. The six months ended June 30, 2002 also reflects the adoption of SFAS No. 142 as of January 1, 2002, which required an after-tax goodwill impairment of \$369 million for Panhandle and \$10 million for CMS Viron reflected in discontinued operations.

19

CMS Energy Corporation

In Millions, Except

| THREE MONTHS ENDED JUNE 30 | RESTATED 2002 |
|--|------------------|
| CMS Energy Consolidated Net Income (Loss) | \$ (74) |
| CMS Energy Basic Earnings (Loss) Per Share | \$ (0.55) |
| CMS Energy Diluted Earnings (Loss) Per Share | \$ (0.55) |

Edgar Filing: CMS ENERGY CORP - Form 10-Q/A

| THREE MONTHS ENDED JUNE 30 | RESTATED 2002 | RESTATED 2001 |
|--|------------------|------------------|
| Electric Utility | \$ 84 | \$ 31 |
| Gas Utility | 3 | — |
| Independent Power Production | 17 | 20 |
| Natural Gas Transmission | (4) | (1) |
| Marketing, Services, and Trading | (20) | (16) |
| Corporate Interest and Other | (44) | (52) |
| Income (Loss) From Continuing Operations | 36 | (18) |
| Discontinued Operations | (127) | 21 |
| Cumulative Accounting Change | 17 | — |
| Consolidated Net Income (Loss) | \$ (74) | \$ 3 |

For the three months ended June 30, 2002, CMS Energy's net loss totaled \$74 million, a change of \$77 million from the \$3 million net income for the comparable 2001 period. Loss from discontinued operations was \$127 million, a change of \$148 million from the \$21 million income for the comparable period in 2001. Income from continuing operations was \$36 million, an increase of \$54 million from the loss of \$18 million for the comparable period in 2001. The increase primarily reflects decreased power costs at the Electric Utility resulting from outages at Palisades in the second quarter of 2001, and a gain on the May 2002 sale of Consumers' electric transmission facilities.

20

CMS Energy Corporation

In Millions, Except

| SIX MONTHS ENDED JUNE 30 | RESTATED 2002 | RESTATED 2001 |
|--|------------------|------------------|
| CMS Energy Consolidated Net Income (Loss) | \$ (32) | \$ (32) |
| CMS Energy Basic Earnings (Loss) Per Share | \$ (0.24) | \$ (0.24) |
| CMS Energy Diluted Earnings (Loss) Per Share | \$ (0.24) | \$ (0.24) |

| SIX MONTHS ENDED JUNE 30 | RESTATED 2002 | RESTATED 2001 |
|----------------------------------|------------------|------------------|
| Electric Utility | \$ 134 | \$ 93 |
| Gas Utility | 31 | 27 |
| Independent Power Production | 34 | 45 |
| Natural Gas Transmission | 8 | 4 |
| Marketing, Services, and Trading | 5 | (20) |

Edgar Filing: CMS ENERGY CORP - Form 10-Q/A

| | | |
|---|---------|-------|
| Corporate Interest and Other | (83) | (115) |
| <hr style="border-top: 1px dashed black;"/> | | |
| Income From Continuing Operations | 129 | 34 |
| Discontinued Operations | (178) | 48 |
| Cumulative Accounting Change | 17 | 9 |
| <hr style="border-top: 1px dashed black;"/> | | |
| Consolidated Net Income (Loss) | \$ (32) | \$ 91 |
| <hr style="border-top: 3px double black;"/> | | |

For the six months ended June 30, 2002, net loss totaled \$32 million, a change of \$123 million from the \$91 million net income for the comparable period in 2001. Loss from discontinued operations totaled \$178 million, a change of \$226 million from the \$48 million income for the comparable period in 2001. Income from continuing operations totaled \$129 million compared to \$34 million for the comparable period in 2001, an increase of \$95 million. This increase reflects the after-tax benefit of decreased electric power costs from the comparable period in 2001, the gain on the sale of Consumers' electric transmission facilities, and decreased Corporate Interest and Other expenses.

For the three months ended March 31, 2002, consolidated net income included gains on asset sales, restructuring costs associated with implementing CMS Energy's new strategic direction, and the discontinued operations of CMS Oil and Gas, CMS Electric and Gas, Panhandle and other non-strategic businesses. The three months ended March 31, 2002 also reflects the adoption of SFAS No. 142 as of January 1, 2002, which required an after-tax goodwill impairment of \$369 million for Panhandle and \$10 million for CMS Viron reflected in discontinued operations.

21

CMS Energy Corporation

In Millions, Except

| | | |
|---|--|------------------|
| | | RESTATED 2002 |
| <hr style="border-top: 1px dashed black;"/> | | |
| THREE MONTHS ENDED MARCH 31 | | |
| <hr style="border-top: 1px dashed black;"/> | | |
| CMS Energy Consolidated Net Income | | \$ 42 |
| CMS Energy Basic Earnings Per Share | | \$ 0.32 |
| CMS Energy Diluted Earnings Per Share | | \$ 0.32 |
| <hr style="border-top: 3px double black;"/> | | |

| | | |
|---|------------------|------------------|
| | RESTATED 2002 | RESTATED 2001 |
| <hr style="border-top: 1px dashed black;"/> | | |
| THREE MONTHS ENDED MARCH 31 | | |
| <hr style="border-top: 1px dashed black;"/> | | |
| Electric Utility | \$ 50 | \$ 62 |
| Gas Utility | 28 | 27 |
| Independent Power Production | 17 | 25 |
| Natural Gas Transmission | 12 | 5 |
| Marketing, Services, and Trading | 25 | (4) |
| Corporate Interest and Other | (39) | (63) |

Edgar Filing: CMS ENERGY CORP - Form 10-Q/A

| | | |
|-----------------------------------|-------|-------|
| Income From Continuing Operations | 93 | 52 |
| Discontinued Operations | (51) | 27 |
| Cumulative Accounting Change | - | 9 |
| Consolidated Net Income | \$ 42 | \$ 88 |

For the three months ended March 31, 2002, net income totaled \$42 million compared to \$88 million for the comparable 2001 period, a change of \$46 million from the comparable period in 2001. Loss from discontinued operations totaled \$51 million a change of \$78 million from the \$27 million of income in the comparable period in 2001. Discontinued operations includes the after-tax goodwill impairment of \$369 million for Panhandle and \$10 million for CMS Viron, offset by the gain on the CMS Oil and Gas Equatorial Guinea properties of \$310 million, net of tax. Income from continuing operations totaled \$93 million compared to \$52 million for the comparable period in 2001, an increase of \$41 million. This increase primarily reflects improved CMS MST earnings and lower corporate interest and other costs.

For further information, see the individual results of operations for each CMS Energy business segment in this MD&A.

22

CMS Energy Corporation

CONSUMERS' ELECTRIC UTILITY RESULTS OF OPERATIONS

ELECTRIC UTILITY NET INCOME:

| SEPTEMBER 30 | RESTATED 2002 | RESTATED 2001 |
|--------------------|------------------|------------------|
| Three months ended | \$ 88 | \$ 15 |
| Nine months ended | 222 | 108 |

| REASONS FOR CHANGE | THREE MONTHS ENDED SEPTEMBER 30 2002 VS. 2001 RESTATED | 2001 |
|--|--|------|
| Electric deliveries | \$ 25 | |
| Power supply costs and related revenue | 100 | |
| Other operating expenses and non-commodity revenue | (16) | |
| Gain on asset sales | - | |
| Fixed charges | 4 | |
| Income taxes | (40) | |
| Total change | \$ 73 | |

Edgar Filing: CMS ENERGY CORP - Form 10-Q/A

ELECTRIC DELIVERIES: For the three months ended September 30, 2002, electric delivery revenues increased by \$25 million from the 2001 level. Electric deliveries, including transactions with other wholesale market participants and other electric utilities, were 10.9 billion kWh, a decrease of 0.1 billion kWh, or 0.9 percent from the comparable period in 2001. This reduction in electric deliveries is primarily due to reduced transactions with other utilities and the expiration of wholesale power sales contracts with certain Michigan municipal utilities. Although total deliveries were below the 2001 level, increased deliveries to the higher-margin residential and commercial sectors, along with growth in retail deliveries, more than offset the impact of reductions to the lower-margin customers. Even though deliveries were below the 2001 level, Consumers set an all-time monthly sendout record during the month of July, and a monthly hourly peak demand record of 7,312 MW was set on September 9, 2002.

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

23

CMS Energy Corporation

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

For the nine months ended September 30, 2002, power supply costs and related revenues increased by a total of \$113 million from the comparable period in 2001. This net increase was primarily due to reduced purchased power costs resulting from the Palisades plant being returned to service in 2002. In 2001, Consumers purchased higher cost replacement power during the refueling outage that began in March and ended in May and the unscheduled forced outage at Palisades that began in June and ended in January 2002. Also contributing to this decrease is lower-priced power options and dispatchable capacity contracts that were purchased for 2002.

OTHER OPERATING EXPENSES AND NON-COMMODITY REVENUES: For the three and nine months ended September 30, 2002, other operating expenses increased \$16 million and \$26 million, respectively, from the comparable period in 2001. Both of these increases are attributed to higher amortization of securitized assets, higher depreciation expense resulting from higher plant in service along with increased operating costs resulting from higher health care and storm restoration

Edgar Filing: CMS ENERGY CORP - Form 10-Q/A

expenses.

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

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

24

CMS Energy Corporation

| JUNE 30 | RESTATED 2002 | RESTA 2 |
|--------------------|------------------|------------|
| Three months ended | \$ 84 | |
| Six months ended | 134 | |

| REASONS FOR CHANGE | THREE MONTHS ENDED JUNE 30 2002 VS. 2001 RESTATED | 200 |
|--|---|-----|
| Electric deliveries | \$ 10 | |
| Power supply costs and related revenue | 34 | |
| Other operating expenses and non-commodity revenue | (13) | |
| Gain on asset sales | 38 | |
| Fixed charges | 6 | |
| Income taxes | (22) | |
| Total change | \$ 53 | |

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

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

Edgar Filing: CMS ENERGY CORP - Form 10-Q/A

of reduced first quarter industrial usage due to the economic downturn.

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

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

OTHER OPERATING EXPENSES AND NON-COMMODITY REVENUES: For the three months ended June 30, 2002, other operating expenses increased \$13 million due to higher amortization of securitized assets, increased depreciation expense resulting from higher plant in service along with a decrease in miscellaneous revenues.

CMS Energy Corporation

For the six months ended June 30, 2002, other operating expenses increased \$16 million due to higher amortization of securitized assets, increased depreciation expense resulting from higher plant in service along with a decrease in miscellaneous revenues.

GAIN ON ASSET SALES: For the three and six months ended June 30, 2002, asset sales increased as a result of the \$31 million pre-tax gain associated with the May 2002 sale of Consumers' electric transmission system and a \$7 million pre-tax gain on the sale of unused nuclear equipment from the cancelled Midland project.

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

| MARCH 31 | RESTATED 2002 | RESTATED 2001 |
|--------------------|------------------|------------------|
| Three months ended | \$50 | \$62 |

REASONS FOR CHANGE

200

Edgar Filing: CMS ENERGY CORP - Form 10-Q/A

Electric deliveries
 Power supply costs and related revenue
 Other operating expenses and non-commodity revenue
 Fixed charges
 Income taxes

Total change

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

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

26

CMS Energy Corporation

CONSUMERS' GAS UTILITY RESULTS OF OPERATIONS

GAS UTILITY NET INCOME (LOSS):

| SEPTEMBER 30 | RESTATED 2002 | RESTAT 2001 |
|--------------------|------------------|----------------|
| Three months ended | \$ (18) | \$ (11) |
| Nine months ended | 13 | 16 |

| REASONS FOR CHANGE | THREE MONTHS ENDED SEPTEMBER 30 2002 VS. 2001 RESTATED | 2001 |
|-----------------------------------|--|------|
| Gas deliveries | \$ (2) | |
| Gas rate increase | 1 | |
| Gas wholesale and retail services | 3 | |
| Operation and maintenance | (17) | |
| Other operating expenses | 4 | |
| Income taxes | 4 | |
| Total change | \$ (7) | |

Edgar Filing: CMS ENERGY CORP - Form 10-Q/A

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

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

27

CMS Energy Corporation

| JUNE 30 | RESTATED 2002 | RESTATED 2001 |
|--------------------|------------------|------------------|
| Three months ended | \$ 3 | \$ - |
| Six months ended | 31 | 27 |

| REASONS FOR CHANGE | THREE MONTHS ENDED JUNE 30 2002 VS. 2001 RESTATED | 2002 |
|-----------------------------------|---|------|
| Gas deliveries | \$ 9 | |
| Gas rate increase | 2 | |
| Gas wholesale and retail services | 1 | |
| Operation and maintenance | (4) | |
| Other operating expenses | (3) | |
| Income taxes | (2) | |
| Total change | \$ 3 | |

For the three months ended June 30, 2002, gas revenues increased due to colder temperatures compared to the second quarter 2001. Operation and maintenance cost increases reflect additional expenditures on customer reliability and service. System deliveries, including miscellaneous transportation volumes, totaled 65.3 bcf, an increase of 8.3 bcf or 14.7 percent compared with 2001.

For the six months ended June 30, 2002, gas revenues increased due to an interim

Edgar Filing: CMS ENERGY CORP - Form 10-Q/A

gas rate increase granted in December of 2001. System deliveries, including miscellaneous transportation volumes, totaled 214.5 bcf, a decrease of 2.0 bcf or 0.9 percent compared with 2001.

28

CMS Energy Corporation

| MARCH 31 | RESTATED 2002 | RESTATED 2001 |
|--------------------|------------------|------------------|
| Three months ended | \$28 | \$27 |

REASONS FOR CHANGE 200

| | | |
|--|--|--|
| Gas deliveries | | |
| Rate increase | | |
| Other operating expenses and non-commodity revenue | | |
| Fixed charges | | |
| Income taxes | | |
| Total change | | |

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

INDEPENDENT POWER PRODUCTION RESULTS OF OPERATIONS

| SEPTEMBER 30 | RESTATED 2002 | RESTATED 2001 |
|--------------------|------------------|------------------|
| Three months ended | \$ 49 | \$ (89) |
| Nine months ended | 83 | (44) |

For the three months ended September 30, 2002, net income increased by \$138 million from the comparable period in 2001. The increase was due primarily to the asset write-downs in 2001 (NPS, El Chocon, and HL Power). Additionally,

Edgar Filing: CMS ENERGY CORP - Form 10-Q/A

operational performance at DIG improved, reflecting lower costs for steam generation as compared to 2001 when the plant experienced construction delays. These performance improvements were offset by expropriation and devaluation issues at the Argentine plants as well as lower option premiums at the Michigan Power peaking units.

For the nine months ended September 30, 2002, net income increased \$127 million from the comparable period in 2001. The increase was due in large part to the asset write-downs in 2001 (NPS, El Chocon, and HL Power). Additionally, operational improvements at DIG lowered steam generation costs as compared to 2001 when the plant experienced construction delays. These performance improvements were offset by expropriation and devaluation issues at the Argentine plants, the loss on sale of assets (Toledo Power), as well as lower option premium revenue at the Michigan Power peaking units.

29

CMS Energy Corporation

| JUNE 30 | RESTATE 2002 | RESTATE 2001 |
|--------------------|-----------------|-----------------|
| Three months ended | \$ 17 | \$ 20 |
| Six months ended | 34 | 45 |
| | | |

For the three months ended June 30, 2002, net income decreased by \$3 million from the comparable period in 2001. Operational performance at DIG improved, reflecting lower costs for steam generation as compared to 2001 when the plant experienced construction delays. These performance improvements were offset by a loss on asset sales (primarily Toledo Power) as well as expropriation and devaluation issues at the Argentine plants in 2002. Additionally, in 2001, the company had recorded a gain on the sale of a purchase power agreement.

For the six months ended June 30, 2002, net income decreased by \$11 million from the comparable period in 2001. The decrease reflects the expropriation and devaluation issues at the Argentine plants in 2002, a gain on sale of a power purchase agreement in 2001, and losses on asset sales (primarily Toledo Power). Offsetting these were operational improvements at DIG due to lower steam generation costs as compared to 2001 when the plant experienced construction delays and lower operating costs.

| MARCH 31 | RESTATE 2002 | RESTATE 2001 |
|--------------------|-----------------|-----------------|
| Three months ended | \$ 17 | \$ 25 |
| | | |

Edgar Filing: CMS ENERGY CORP - Form 10-Q/A

NET INCOME: For the three months ended March 31, 2002, net income decreased by \$8 million from the comparable period in 2001. Results reflected expropriation and devaluation issues at the Argentine plants, partially offset by stronger operational performance at DIG reflecting lower costs for steam generation.

NATURAL GAS TRANSMISSION RESULTS OF OPERATIONS

| SEPTEMBER 30 | RESTATE 2002 | RESTA 2001 |
|--------------------|-----------------|---------------|
| Three months ended | \$ - | \$ (2) |
| Nine months ended | 8 | (1) |

For the three months ended September 30, 2002, net income increased \$20 million from the comparable period in 2001. The increase was primarily due to asset write-downs of \$24 million recorded in 2001, partly offset by the Argentine expropriation and devaluation losses.

For the nine months ended September 30, 2002, net income was \$8 million, an increase of \$24 million from the comparable period in 2001. The increase was due to asset write-downs of \$24 million recorded in 2001 and the gain of \$12 million on the sale of Gas Transmission's ownership interest in a methanol plant in Equatorial Guinea. These increases were partly offset by the impact of Argentine expropriation and devaluation losses on ongoing operations.

30

CMS Energy Corporation

| JUNE 30 | RESTATE 2002 | RESTATE 2001 |
|--------------------|-----------------|-----------------|
| Three months ended | \$ (4) | \$ (1) |
| Six months ended | 8 | 4 |

For the three months ended June 30, 2002, a loss of \$4 million was incurred, a decrease of \$3 million from the comparable period in 2001. The decrease was primarily due to the impact of Argentine expropriation and devaluation losses on ongoing operations.

For the six months ended June 30, 2002, net income was \$8 million, an increase of \$4 million from the comparable period in 2001. The increase was primarily due to the gain of \$12 million on the sale of CMS Gas Transmission's ownership interest in a methanol plant in Equatorial Guinea, partly offset by the impact of Argentine expropriation and devaluation losses on ongoing operations.

Edgar Filing: CMS ENERGY CORP - Form 10-Q/A

| MARCH 31 | RESTATED 2002 | RESTATED 2001 |
|--------------------|------------------|------------------|
| Three months ended | \$ 12 | \$ 5 |

For the three months ended March 31, 2002, net income was \$12 million, an increase of \$7 million from the comparable period in 2001. The increase was primarily due to the gain of \$12 million on the sale of CMS Gas Transmission's ownership interest in a methanol plant in Equatorial Guinea, partly offset by the impacts of Argentine expropriation and devaluation losses.

MARKETING, SERVICES AND TRADING RESULTS OF OPERATIONS

| SEPTEMBER 30 | RESTATED 2002 | RESTATED 2001 |
|--------------------|------------------|------------------|
| Three months ended | \$ 8 | \$ (7) |
| Nine months ended | 13 | (27) |

For the three months ended September 30, 2002, CMS MST's net income was \$8 million, an increase of \$15 million from its net loss in the comparable 2001 period of \$7 million. This increase was due to mark-to-market income on derivatives used to hedge natural gas retail sales, a decrease in operating expenses due to a significant reduction in personnel, partially offset by the lack of new structured power transactions and decreased natural gas trading margins.

For the nine months ended September 30, 2002, net income was \$13 million, an increase of \$40 million from the comparable period in 2001 resulting from income on derivatives used to hedge natural gas retail sales, elimination of incentive compensation accrual, and reduction in operating expenses partially offset by a reduction in structured power transactions in 2002 and downward pressure on gas trading margins.

For the three months ended September 30, 2002, power sales volumes were 22,653 GWh, an increase of 14,210 GWh (168 percent) and natural gas sales volumes were 136 bcf, a decrease of 56 bcf (29 percent) compared to third quarter 2001. Power volumes were higher in third quarter 2002 due to structured power transactions and lower natural gas volumes in the third quarter compared to 2001 due to significantly decreased trading activities.

For the nine months ended September 30, 2002, power sales volumes were 55,525

Edgar Filing: CMS ENERGY CORP - Form 10-Q/A

GWh, an increase of 39,581 GWh (248 percent) and natural gas volumes were 463 bcf, a decrease of 96 bcf (17 percent) compared to the nine months ended September 2001. Power volumes were higher in 2002 than 2001 due to structured power deals closed in the second half of 2001 and early 2002 as well as increased trading activities; natural gas volumes were reduced due to credit constraints which prevented CMS MST from transacting new deals.

| JUNE 30 | RESTATED 2002 | RESTATED 2001 |
|--------------------|------------------|------------------|
| Three months ended | \$ (20) | \$ (16) |
| Six months ended | 5 | (20) |
| ===== | | |

For the three months ended June 30, 2002, CMS MST's net loss was \$20 million, reflecting \$4 million more losses from the comparable 2001 period. The additional losses were driven by changes in mark-to-market income due to losses on intercompany power tolling options, downward pressure on gas trading margins and the lack of new structured power transactions, partially offset by income on derivatives used to hedge natural gas retail sales, and a significant decrease in other operating expenses resulting from an elimination of the incentive compensation accrual in 2002.

For the six months ended June 30, 2002, net income was \$5 million, an increase of \$25 million from the comparable period in 2001, primarily due to an increase in mark-to-market income on derivatives used to hedge natural gas retail sales and elimination of the incentive compensation accrual.

During the three months ended June 30, 2002, power sales volumes were 18,451 GWh, an increase of 14,437 GWh (360 percent) and natural gas sales volumes were 155 bcf, a decrease of 64 bcf (29 percent) compared to second quarter 2001. Structured power transactions closed in 2001 and early 2002 and increased power trading activities contributed to the increase in power sales volumes; gas sales volumes were significantly impacted by credit constraints due to the inability to transact new deals.

For the six months ended June 30, 2002, power sales volumes were 32,872 GWh, an increase of 25,371 GWh (338 percent). This was due to the structured power transactions closed in 2001 and early 2002 and increased trading activities. Natural gas sales volumes were 327 bcf; a decrease of 40 bcf (11 percent) resulting from significantly decreased trading activities during second quarter due to credit constraints.

| MARCH 31 | RESTATED 2002 | RESTATED 2001 |
|--------------------|------------------|------------------|
| Three months ended | \$ 25 | \$ (4) |
| ===== | | |

CMS Energy Corporation

For the three months ended March 31, 2002, CMS MST's net income was \$25 million, an increase of \$29 million from the comparable 2001 period. Contributing to the increase in net income was a structured power transaction that closed during the first quarter of 2002 and mark-to-market income on derivatives used to hedge natural gas retail sales.

During the three months ended March 31, 2002, power sales volumes were 14,421 GWh, an increase of 10,934 GWh (314 percent), and natural gas sales volumes were 172 bcf, an increase of 24 bcf (16 percent), compared to the first quarter of 2001. The increase in sales volumes was a result of new structured power transactions that closed during 2001 and increased trading activities for natural gas.

OIL AND GAS EXPLORATION AND PRODUCTION RESULTS OF OPERATIONS

In January 2002, CMS Energy completed the sale of its ownership interests in Equatorial Guinea to Marathon Oil Company for approximately \$993 million. Included in the sale were all of CMS Oil and Gas' oil and gas reserves in Equatorial Guinea and CMS Gas Transmission's ownership interest in the related methanol plant. The gain on the CMS Oil and Gas Equatorial Guinea properties of \$497 million (\$310 million, net of tax) is included in discontinued operations.

In September 2002, CMS Energy closed on the sale of the stock of CMS Oil and Gas and the stock of a subsidiary of CMS Oil and Gas that holds property in Venezuela. In October 2002, CMS Energy closed on the sale of CMS Oil and Gas' properties in Columbia. As a result of these closings, CMS Energy has completed its exit from the oil and gas exploration and production business. The proceeds from the combined sales total approximately \$232 million and have been used to retire the remaining balance on a \$150 million Enterprises term loan due in December 2002 and a portion of a \$295.8 million CMS Energy loan which had at that time a due date of March 31, 2003. The combined sales resulted in an after-tax loss of approximately \$82 million. For more information, see Note 2, Discontinued Operations, incorporated by reference herein.

INTERNATIONAL ENERGY DISTRIBUTION RESULTS OF OPERATIONS

In the third quarter of 2001, CMS Energy discontinued the operations of the international energy distribution segment of its business. For more information, see Note 2, Discontinued Operations, incorporated by reference herein.

OTHER RESULTS OF OPERATIONS

TAX LOSS ALLOCATION: The Job Creation and Worker Assistance Act of 2002 provided to corporate taxpayers a 5-year carryback of tax losses incurred in 2001 and 2002. As a result of this legislation, CMS Energy was able to carry back a consolidated 2001 tax loss to tax years 1996 through 1999 and obtain refunds of prior years tax payments totaling \$217 million. The tax loss carryback, however, resulted in a reduction in AMT credit carryforwards that previously had been recorded by CMS Energy as deferred tax assets in the amount of \$41 million. This non-cash reduction in AMT credit carryforwards has been reflected in the tax provision of CMS Energy as of September 30, 2002.

CORPORATE INTEREST AND OTHER: For the three months ended September 30, 2002, Corporate Interest and Other expense was \$115 million, an increase of \$51 million from the comparable period in 2001. The increase resulted from a \$41 million increase in income tax expense attributable to a reduction in AMT credit carryforwards, an increase of Parent net overhead costs of \$17 million for

Edgar Filing: CMS ENERGY CORP - Form 10-Q/A

restructuring, a gain of \$9

33

CMS Energy Corporation

million in a foreign currency exchange transaction in 2001 and an increase of interest and other expense of \$5 million. The increase in the above expenses were partially offset by an increase of \$21 million in the elimination of intercompany losses recorded by CMS MST for mark-to-market accounting transactions with affiliates (corresponding decrease in CMS MST results of operations).

For the nine months ended September 30, 2002, Corporate Interest and Other expense was \$198 million, an increase of \$19 million from the comparable period in 2001. The increase resulted from a \$41 million increase in income tax expense attributable to a reduction in AMT credit carryforwards, an increase of Parent net overhead and other costs of \$22 million, an increase of interest expense net of tax of \$11 million, a gain of \$9 million in a foreign currency exchange transaction in 2001 and a loss of \$8 million on the Fondelec investments in Latin America. The increase in the above expenses were partially offset by an increase of \$73 million in the elimination of intercompany losses recorded by CMS MST for mark-to-market accounting transactions with affiliates (corresponding decrease in CMS MST results of operations).

For the three months ended June 30, 2002, Corporate Interest and Other expense was \$44 million, a decrease of \$8 million from the comparable period in 2001. The decrease resulted from an increase of \$32 million in the elimination of intercompany losses recorded by CMS MST for mark-to-market accounting transactions with affiliates (corresponding decrease in CMS MST results of operations) which was offset by an increase in interest expense net of tax of \$11 million, a loss of \$8 million on the Fondelec investments in Latin America and an increase of Parent net overhead and other costs of \$5 million.

For the six months ended June 30, 2002, Corporate Interest and Other expense was \$83 million, a decrease of \$32 million versus the comparable period in 2001. The decrease resulted from an increase of \$53 million in the elimination of intercompany losses recorded by CMS MST for mark-to-market accounting transactions with affiliates (corresponding decrease in CMS MST results of operations) which was offset by an increase of interest expense net of tax of \$8 million, a loss of \$8 million on the Fondelec investments in Latin America and an increase of Parent net overhead and other costs of \$4 million.

For the three months ended March 31, 2002, Corporate Interest and Other expense was \$39 million, a decrease of \$24 million versus the comparable period in 2001. This decrease resulted from an increase of \$21 million in the elimination of intercompany losses recorded by CMS MST for mark-to-market accounting transactions with affiliates (corresponding decrease in CMS MST results of operations) and a decrease in interest expense of \$4 million.

CRITICAL ACCOUNTING POLICIES

The results of operations, as presented above, are based on the application of accounting principles generally accepted in the United States. The application of these principles often requires management to make certain judgments, assumptions and estimates that may result in different financial presentations. CMS Energy believes that certain accounting principles are critical in terms of understanding its financial statements. These principles include the use of estimates in accounting for contingencies and long-lived assets, equity method investments and long-term obligations, accounting for derivatives and financial instruments, mark-to-market accounting, international operations and foreign

currency and pension and postretirement benefits.

USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Certain accounting principles require subjective and complex judgments used in the preparation of financial statements. Accordingly, a different financial presentation could result depending on the judgment, estimates or assumptions that are used. Such estimates and assumptions include, but are not specifically limited to: depreciation, amortization, interest rates, discount rates, currency exchange rates, future commodity prices, mark-to-market valuations, investment returns, impact of new accounting standards, international economic policy, future costs associated with long-term contractual obligations, future compliance costs associated with environmental regulations and continuing creditworthiness of counterparties. Actual results could materially differ from those estimates.

Periodically, in accordance with SFAS No. 144 and APB Opinion No. 18, long-lived assets and equity method investments of CMS Energy and its subsidiaries are evaluated to determine whether conditions, other than those of a temporary nature, indicate that the carrying value of an asset may not be recoverable. Management bases its evaluation on impairment indicators such as the nature of the assets, future economic benefits, domestic and foreign state and federal regulatory and political environments, historical or future profitability measurements, as well as other external market conditions or factors that may be present. If such indicators are present or other factors exist that indicate that the carrying value of the asset may not be recoverable, CMS Energy determines whether impairment has occurred through the use of an undiscounted cash flow analysis of assets at the lowest level for which identifiable cash flows exist. If impairment, other than a temporary nature, has occurred, CMS Energy recognizes a loss for the difference between the carrying value and the estimated fair value of the asset. The fair value of the asset is measured using discounted cash flow analysis or other valuation techniques. The analysis of each long-lived asset is unique and requires management to use certain estimates and assumptions that are deemed prudent and reasonable for a particular set of circumstances. Of CMS Energy's total assets, valued at \$14 billion at September 30, 2002, approximately 50 percent represent the carrying value of long-lived assets and equity method investments that are subject to this type of analysis. If future market, political or regulatory conditions warrant, CMS Energy and its subsidiaries may be subject to write-downs in future periods. Conversely, if market, political or regulatory conditions improve, accounting standards prohibit the reversal of previous write-downs.

CMS Energy has recently recorded write-downs of non-strategic or under-performing long-lived assets as a result of implementing a new strategic direction. CMS Energy is pursuing the sale of all of these non-strategic and under-performing assets, including some assets that were not determined to be impaired. Upon the sale of these assets, the proceeds realized may be materially different from the remaining carrying value of these assets. Even though these assets have been identified for sale, management cannot predict when, nor make any assurances that, these asset sales will occur, or the amount of cash or the value of consideration to be received.

Similarly, the recording of estimated liabilities for contingent losses, including estimated losses on long-term obligations, within the financial statements is guided by the principles in SFAS No. 5 that require a company to record estimated liabilities in the financial statements when it is probable that a loss will be incurred in the future as a result of a current event, and the amount can be reasonably estimated. Management uses cash flow valuation techniques similar to those described above to estimate contingent losses on long-term contracts.

ACCOUNTING FOR DERIVATIVE AND FINANCIAL INSTRUMENTS

DERIVATIVE INSTRUMENTS: CMS Energy uses the criteria in SFAS No. 133, as amended and interpreted, to determine if certain contracts must be accounted for as derivative instruments. The rules for determining whether a contract meets the criteria for derivative accounting are numerous and complex. As a result, significant judgment is required to determine whether a contract requires derivative accounting, and similar contracts can sometimes be accounted for differently.

The types of contracts CMS Energy currently accounts for as derivative instruments include interest rate swaps, foreign currency exchange contracts, certain electric call options, fixed price weather-based gas supply call options and fixed price gas supply put options. CMS Energy does not account for electric capacity and certain energy contracts, gas supply contracts, coal supply contracts, or purchase orders for numerous supply items as derivatives.

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

In order to value the contracts that are accounted for as derivative instruments, CMS Energy uses a combination of market quoted prices and mathematical models. Option models require various inputs, including forward prices, volatilities, interest rates and exercise periods. Changes in forward prices or volatilities could significantly change the calculated fair value of the call option contracts. The models used by CMS Energy have been tested against market quotes to ensure consistency between model outputs and market quotes. At September 30, 2002, CMS Energy assumed a market-based interest rate of 4.5 percent in calculating the fair value of its electric call options.

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

Edgar Filing: CMS ENERGY CORP - Form 10-Q/A

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

FINANCIAL INSTRUMENTS: CMS Energy accounts for its investments in debt and equity securities in accordance with SFAS No. 115. As such, debt and equity securities can be classified into one of three categories: held-to-maturity, trading, or available-for-sale securities. CMS Energy's investments in equity securities are classified as available-for-sale securities and are reported at fair value with any

36

CMS Energy Corporation

unrealized gains or losses resulting from changes in fair value excluded from earnings and reported in equity as part of other comprehensive income. Unrealized gains or losses resulting from changes in the fair value of Consumers' nuclear decommissioning investments are reported in accumulated depreciation. The fair value of these investments is determined from quoted market prices.

MARK-TO-MARKET ACCOUNTING

CMS MST's trading activities are accounted for under the mark-to-market method of accounting consistent with guidance provided in EITF Issue No. 98-10. Under mark-to-market accounting, energy-trading contracts are reflected at fair market value, net of reserves, with unrealized gains and losses recorded as an asset or liability in the consolidated balance sheets. These assets and liabilities are affected by the timing of settlements related to these contracts; current-period changes from newly originated transactions and the impact of price movements. Changes in fair value are recognized as revenues in the consolidated statements of income in the period in which the changes occur. Market prices used to value outstanding financial instruments reflect management's consideration of, among other things, closing exchange and over-the-counter quotations. In certain contracts, long-term commitments may extend beyond the period in which market quotations for such contracts are available and volumetric obligations may not be defined. Mathematical models are developed to determine various inputs into the fair value calculation including price, anticipated volumetric obligations and other inputs that may be required to adequately address the determination of fair value of the contracts. Realized cash returns on these commitments may vary, either positively or negatively, from the results estimated through application of forecasted pricing curves generated through application of the mathematical model. CMS Energy believes that its mathematical models utilize state-of-the-art technology, pertinent industry data and prudent discounting in order to forecast certain elongated pricing curves. Market prices are adjusted to reflect the potential impact of liquidating the company's position in an orderly manner over a reasonable period of time under present market conditions.

In connection with the market valuation of its energy commodity contracts, CMS Energy maintains reserves for credit risks based on the financial condition of counterparties. The creditworthiness of these counterparties will impact overall exposure to credit risk; however, CMS Energy maintains credit policies that management believes minimize overall credit risk with regard to its

Edgar Filing: CMS ENERGY CORP - Form 10-Q/A

counterparties. Determination of its counterparties' credit quality is based upon a number of factors, including credit ratings, financial condition, and collateral requirements. When trading terms permit, CMS Energy employs standard agreements that allow for netting of positive and negative exposures associated with a single counterparty. Based on these policies, its current exposures and its credit reserves, CMS Energy does not anticipate a material adverse effect on its financial position or results of operations as a result of counterparty nonperformance.

The following tables provide a summary of the fair value of CMS Energy's energy commodity contracts as of September 30, 2002.

 Fair value of contracts outstanding as of June 30, 2002
 Fair value of new contracts when entered into during the period
 Contracts realized or otherwise settled during the period (a)
 Other changes in fair value (b)

Fair value of contracts outstanding as of September 30, 2002
 =====

37

CMS Energy Corporation

- a) Reflects value of contracts, included in June 30, 2002 values, that expired during the third quarter of 2002.
- b) Reflects changes in price and net increase/decrease in size of forward positions, as well as changes to mark-to-market reserve accounts.

 Fair Value of Contracts at September 30, 2002

| Source of Fair Value | Total | | Maturity (in years) | |
|--|--------------|-------------|---------------------|-------------|
| | Fair Value | Less than 1 | 1 to 3 | 4 to 5 |
| Prices actively quoted | \$ 7 | \$ 7 | \$ - | \$ - |
| Prices provided by other external sources | 23 | 7 | 16 | - |
| Prices based on models & other valuation methods | 99 | 13 | 54 | 22 |
| Total | \$129 | \$27 | \$70 | \$22 |

=====

INTERNATIONAL OPERATIONS AND FOREIGN CURRENCY

CMS Energy, through its subsidiaries and affiliates, has acquired investments in energy-related projects throughout the world. As a result of a change in business strategy, CMS Energy has begun divesting its non-strategic or under-performing foreign investments.

Edgar Filing: CMS ENERGY CORP - Form 10-Q/A

BALANCE SHEET: CMS Energy's subsidiaries and affiliates whose functional currency is other than the U.S. Dollar translate their assets and liabilities into U.S. Dollars at the exchange rates in effect at the end of the fiscal period. The revenue and expense accounts of such subsidiaries and affiliates are translated into U.S. Dollars at the average exchange rate during the period. The gains or losses that result from this process, and gains and losses on intercompany foreign currency transactions that are long-term in nature that CMS Energy does not intend to settle in the foreseeable future, are reflected as a component of stockholders' equity in the consolidated balance sheets as "Foreign Currency Translation" in accordance with the accounting guidance provided in SFAS No. 52. As of September 30, 2002, the cumulative Foreign Currency Translation decreased stockholders' equity by \$667 million.

INCOME STATEMENT: For subsidiaries operating in highly inflationary economies or that meet the U.S. functional currency criteria outlined in SFAS No. 52, the U.S. Dollar is deemed to be the functional currency. Gains and losses that arise from exchange rate fluctuations on transactions denominated in a currency other than the U.S. Dollar, except those that are hedged, are included in determining net income.

Argentina: In January 2002, the Republic of Argentina enacted the Public Emergency and Foreign Exchange System Reform Act. This law repealed the fixed exchange rate of one U.S. Dollar to one Argentina Peso, converted all Dollar-denominated utility tariffs and energy contract obligations into Pesos at the same one-to-one exchange rate, and directed the President of Argentina to renegotiate such tariffs.

In February 2002, the Republic of Argentina enacted additional measures that required all monetary obligations (including current debt and future contract payment obligations) denominated in foreign currencies to be converted into Pesos. These February measures also authorize the Argentine judiciary essentially to rewrite private contracts denominated in Dollars or other foreign currencies if the parties cannot agree on how to share equitably the impact of the conversion of their contract payment obligations into Pesos. In April 2002, based on a consideration of these environmental factors, CMS Energy evaluated

CMS Energy Corporation

its Argentine investments for impairment as required under SFAS No. 144 and APB Opinion No. 18. These impairment models contain certain assumptions regarding anticipated future exchange rates and operating performance of the investments. Exchange rates used in the models assume that the rate will decrease from current levels to approximately 3.00 Pesos per U.S. Dollar over the remaining life of these investments. Based on the results of these models, CMS Energy determined that these investments were not impaired.

Effective April 30, 2002, CMS Energy adopted the Argentine Peso as the functional currency for most of its Argentine investments. CMS had previously used the U.S. Dollar as the functional currency for its Argentine investments. As a result, on April 30, 2002, CMS Energy translated the assets and liabilities of its Argentine entities into U.S. Dollars, in accordance with SFAS No. 52, using an exchange rate of 3.45 Pesos per U.S. Dollar, and recorded an initial charge to the Foreign Currency Translation component of Common Stockholders' Equity of approximately \$400 million.

For the nine months ended September 30, 2002, CMS Energy recorded losses of \$40 million reflecting the negative impact of the actions of the Argentine

Edgar Filing: CMS ENERGY CORP - Form 10-Q/A

government. These losses represent changes in the value of Peso-denominated monetary assets (such as receivables) and liabilities of Argentina-based subsidiaries and lower net project earnings resulting from the conversion to Pesos of utility tariffs and energy contract obligations that were previously calculated in Dollars.

While CMS Energy's management cannot predict the most likely future, average, or end of period 2002 Peso to U.S. Dollar exchange rates, it does expect that these non-cash charges substantially reduce the risk of further material balance sheet impacts when combined with anticipated proceeds from international arbitration currently in progress, political risk insurance, and the eventual sale of these assets. As a result of the change in functional currency, and the ongoing translation of revenue and expense accounts of these investments into U.S. Dollars, an additional \$6 million, assuming exchange rates ranging from 3.00 to 4.00 Pesos per U.S. Dollar, may adversely affect 2002 earnings for CMS Energy. At September 30, 2002, the net foreign currency loss due to the unfavorable exchange rate of the Argentine Peso recorded in the Foreign Currency Translation component of Common Stockholder's Equity using an exchange rate of 3.665 Pesos per U.S. Dollar was approximately \$400 million.

Australia: In 2000, an impairment loss of \$329 million (\$268 million after-tax) was realized on the carrying amount of the investment in Loy Yang. This loss does not include \$168 million cumulative net foreign currency translation losses due to unfavorable changes in the exchange rates, which, in accordance with SFAS No. 52, will not be realized until there has been a sale, full liquidation, or other disposition of CMS Energy's investment in Loy Yang, all of which are currently being pursued.

HEDGING STRATEGY: CMS Energy uses forward exchange and option contracts to hedge certain receivables, payables, long-term debt and equity value relating to foreign investments. The purpose of CMS Energy's foreign currency hedging activities is to protect the company from risk that U.S. Dollar net cash flows resulting from sales to foreign customers and purchases from foreign suppliers and the repayment of non-U.S. Dollar borrowings, as well as the equity reported on the company's balance sheet, may be adversely affected by changes in exchange rates. These contracts do not subject CMS Energy to risk from exchange rate movements because gains and losses on such contracts are inversely correlated with the losses and gains, respectively, on the assets and liabilities being hedged. Foreign currency adjustments for other CMS Energy international investments were immaterial.

ACCOUNTING FOR PENSION AND OPEB

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

Edgar Filing: CMS ENERGY CORP - Form 10-Q/A

Pension and OPEB plan assets, net of contributions, have reduced in value from the previous year due to the downturn in the equities market, and a decrease in the price of CMS Energy Common Stock. As a result, CMS Energy expects to see an increase in pension and OPEB expense levels over the next several years unless market performance of plan assets improves. CMS Energy anticipates pension expense and OPEB expense to rise in 2002 by approximately \$10 million and \$21 million, respectively, over 2001 expenses. For pension expense, this increase is due to a downturn in the value of pension assets during the past two years, forecasted increases in pay and added service, decline in the interest rate used to value the liability of the plan, and expiration of the transition gain amortization. For OPEB expense, the increase is due to the trend of rising health care costs, the market return on plan assets being below expected levels and a lower discount rate, based on recent economic conditions, used to compute the benefit obligation. Under the OPEB plans' assumptions, health care costs increase at a slower rate from current levels through 2009; however, CMS Energy cannot predict the impact that future health care costs and interest rates or market returns will have on pension and OPEB expense in the future.

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

In January 2002, CMS Energy contributed \$85 million to the plan's trust accounts. This amount was comprised of \$64 million of pension-related benefits and \$21 million of postretirement health care and life insurance benefits. In the second and third quarters of 2002, CMS Energy made additional contributions for postretirement health care and life insurance benefits in the amount of \$21 million and \$20 million, respectively. CMS Energy expects to make an additional contribution to the Pension Plan of approximately \$219 million in the third quarter of 2003.

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

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

performance exceeded targeted levels. Effective September 1, 2002, the employer's match was suspended until January 1, 2005, and the incentive match was permanently eliminated. Amounts charged to expense for the employer's match and incentive match during 2001 were \$15 million and \$11 million, respectively.

NEW ACCOUNTING STANDARDS

In addition to the identified critical accounting policies discussed above,

Edgar Filing: CMS ENERGY CORP - Form 10-Q/A

future results will be affected by new accounting standards that recently have been issued.

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

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

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

EITF ISSUE NO. 02-3, RECOGNITION AND REPORTING OF GAINS AND LOSSES ON ENERGY TRADING CONTRACTS UNDER EITF ISSUES NO. 98-10 AND 00-17: In September 2002, the EITF reaffirmed the consensus originally reached in June 2002 that requires all gains and losses, including mark-to-market gains and losses and physical settlements, related to energy trading activities within the scope of EITF Issue No. 98-10 be presented as a net amount in the income statement. This consensus is applicable to financial statement periods ending after July 15, 2002 and requires the reclassification of comparable reporting periods.

At the October 25, 2002 meeting, the EITF reached a consensus to rescind EITF Issue No. 98-10, Accounting for Contracts Involved in Energy Trading and Risk Management Activities. As a result, only energy contracts that meet the definition of a derivative in SFAS No. 133 will be carried at fair value. Energy trading contracts that do not meet the definition of a derivative must be

Edgar Filing: CMS ENERGY CORP - Form 10-Q/A

accounted for as an executory contract (i.e., on an accrual basis). The consensus rescinding EITF Issue No. 98-10 must be applied to all contracts that existed as of October 25, 2002 and must be recognized as a cumulative effect of a change in accounting principle in accordance with APB Opinion No. 20, Accounting Changes, effective the first day of the first interim or annual period beginning after December 15, 2002. The consensus also must be applied immediately to all new contracts entered into after October 25, 2002. As a result of these recent changes, CMS Energy will evaluate its existing energy contracts to determine if any changes in the method of reporting the results of these contracts will be required effective January 1, 2003.

For a discussion of new accounting standards effective January 1, 2002, see Note 1, Corporate Structure and Basis of Presentation.

CAPITAL RESOURCES AND LIQUIDITY

CASH POSITION, INVESTING AND FINANCING

CMS Energy's primary ongoing source of cash is dividends and other distributions from subsidiaries. During the first nine months of 2002, Consumers paid \$255 million in common dividends and other capital distributions and Enterprises paid \$749 million in common dividends and other capital distributions to CMS Energy. CMS Energy's consolidated cash requirements are met by its operating and investing activities.

OPERATING ACTIVITIES: CMS Energy's consolidated net cash provided by operating activities is derived mainly from the processing, storage, transportation and sale of natural gas and the generation, distribution and sale of electricity. CMS Energy uses cash derived from its operating activities primarily to maintain its energy businesses, to maintain and expand electric and gas systems of Consumers, to pay interest on and retire portions of its long-term debt.

For the first three months of 2002, consolidated cash from operations after interest charges totaled \$246 million compared to \$255 million for the first three months of 2001. The \$9 million decrease in cash from operations resulted primarily from a decrease in cash earnings, a significant decrease in deferred income taxes and investment tax credit and a smaller decrease in accounts receivable and accrued revenues. These uses of cash were partially offset by a larger decrease in inventories; an increase in accounts payable and accrued expenses and changes in other assets and liabilities.

For the first six months of 2002 and 2001, consolidated cash from operations after interest charges totaled \$412 million and \$279 million, respectively. The \$133 million increase in cash from operations resulted primarily from a decrease in inventories, an increase in accounts payable and accrued expenses and change in other assets and liabilities. These sources of cash were partially offset by a decrease in cash earnings, smaller decreases in accounts receivable and accrued revenues and decreases in deferred income taxes and investment tax credit.

For the first nine months of 2002 and 2001, consolidated cash from operations after interest charges totaled \$333 million and \$181 million, respectively. The \$152 million increase in cash from operations resulted primarily from a smaller increase in inventories and a smaller decrease in accounts payable and accrued expenses. These sources of cash were partially offset by a decrease in cash earnings, smaller decreases in

Edgar Filing: CMS ENERGY CORP - Form 10-Q/A

CMS Energy Corporation

accounts receivable and accrued revenues, decreases in deferred income taxes and investment tax credit and changes in other assets and liabilities.

INVESTING ACTIVITIES: For the first three months of 2002, CMS Energy's consolidated net cash provided by investing activities totaled \$647 million, while net cash used in investing activities totaled \$283 million for the first three months of 2001. The \$930 million increase in cash reflects increased net proceeds from the sale of assets (\$855 million) and a reduction in capital expenditures and investments in partnerships and unconsolidated subsidiaries (\$118 million). CMS Energy's expenditures in the first three months of 2002 for its utility and diversified energy businesses, including investments and other items, were \$164 million and \$30 million, respectively, compared to \$195 million and \$107 million, respectively, during the comparable period in 2001.

For the first six months of 2002, CMS Energy's consolidated net cash provided by investing activities totaled \$855 million, while net cash used in investing activities totaled \$617 million for the first six months of 2001. The \$1,472 million increase in cash reflects increased net proceeds from asset sales (\$1,164 million) and a reduction in capital expenditures and investments in partnerships and unconsolidated subsidiaries (\$315 million). CMS Energy's expenditures in the first six months of 2002 for its utility and diversified energy businesses, including investments and other items, were \$316 million and \$113 million, respectively, compared to \$368 million and \$356 million, respectively, during the comparable period in 2001.

For the first nine months of 2002, CMS Energy's consolidated net cash provided by investing activities totaled \$884 million, while net cash used in investing activities totaled \$959 million for the first nine months of 2001. The \$1,843 million increase in cash reflects increased net proceeds from the sale of assets (\$1,411 million) and a reduction in capital expenditures and investments in partnerships and unconsolidated subsidiaries (\$426 million). CMS Energy's expenditures in the first nine months of 2002 for its utility and diversified energy businesses, including investments and other items, were \$461 million and \$187 million, respectively, compared to \$532 million and \$518 million, respectively, during the comparable period in 2001.

FINANCING ACTIVITIES: For the first three months of 2002, CMS Energy's net cash used in financing activities totaled \$891 million, while net cash provided by financing activities totaled \$17 million for the first three months of 2001. The decrease of \$908 million resulted primarily from a decrease in proceeds from notes, bonds and other long-term debt (\$144 million), a decrease in proceeds from the issuance of common stock (\$274 million), an increase in the retirement of bonds and other long-term debt (\$441 million), and an increase in the retirement of Trust Preferred Securities (\$30 million).

For the first six months of 2002, CMS Energy's net cash used in financing activities totaled \$1,172 million, while net cash provided by financing activities totaled \$330 million for the first six months of 2001. The decrease of \$1,502 million resulted primarily from an increase in the retirement of bonds and other long-term debt (\$831 million), an increase in the retirement of Trust Preferred Securities (\$30 million), a decrease in proceeds from Trust Preferred Securities (\$125 million), a decrease in proceeds from notes, bonds and other long-term debt (\$180 million), and a decrease in the issuance of common stock (\$268 million).

For the first nine months of 2002, CMS Energy's net cash used in financing activities totaled \$994 million, while net cash provided by financing activities totaled \$770 million for the first nine months of 2001. The decrease of \$1,764 million resulted primarily from a decrease in proceeds from notes, bonds and other long-term debt (\$1,045 million), a decrease in proceeds from Trust

Edgar Filing: CMS ENERGY CORP - Form 10-Q/A

Preferred Securities (\$125 million), an increase in the retirement of bonds and other long-term debt (\$403 million), and an increase in

43

CMS Energy Corporation

the retirement of Trust Preferred Securities (\$331 million).

In the first nine months of 2002, CMS Energy declared and paid \$124 million in cash dividends to holders of CMS Energy Common Stock. In October 2002, the Board of Directors declared a quarterly dividend of \$0.18 per share on CMS Energy Common Stock, payable in November 2002. The quarterly dividend is consistent with the requirements of the new credit facilities described below.

The following table summarizes securities issued during the first nine months of 2002:

| | Month Issued | Maturity | Distribution/ Interest Rate | Amount (In Millions) | |
|--------------------|--------------|----------|--------------------------------|-------------------------|---------|
| CMS ENERGY: | | | | | |
| GTNs Series F | January | (1) | 7.33% | \$ 12 | General |
| Common Stock | (2) | n/a | 11 million shares | 350 | Repa |
| | | | | ----- | |
| | | | | \$362 | |
| | | | | ----- | |
| CONSUMERS: | | | | | |
| Senior Notes | March | 2005 | 6.00% | \$300 | |
| | | | | ----- | |
| Total | | | | \$662 | |
| | | | | ===== | |

(1) GTNs are issued with varying maturity dates. The interest rate shown herein is a weighted average interest rate.

(2) In July 2002, 8.8 million shares of Common Stock were issued in conjunction with the conversion of the Adjustable Convertible Trust Securities (CMS Energy Trust II). Through May 10, 2002, 1.3 million shares were issued in conjunction with CMS Energy's Continuous Stock Offering Program, activated in February 2002, for which 2 million shares are registered. No shares have been issued under this program since that date. Finally, approximately 1 million shares were issued from time to time in conjunction with the stock purchase plan and various employee savings and stock incentive plans.

OTHER INVESTING AND FINANCING MATTERS: At September 30, 2002, the book value per share of CMS Energy Common Stock was \$12.69.

At November 1, 2002, CMS Energy had an aggregate \$1.3 billion in securities registered for future issuance.

In May 2002, CMS Energy registered \$300,000,000 Series G GTNs. The notes will be issued from time to time with the proceeds being used for general corporate purposes. As of November 1, 2002, no Series G GTNs had been issued.

Edgar Filing: CMS ENERGY CORP - Form 10-Q/A

On July 1, 2002, the 7,250,000 units of 8.75% Adjustable Convertible Trust Securities (CMS Energy Trust II) were converted to 8,787,725 newly issued shares of CMS Energy Common Stock.

On July 12, 2002, CMS Energy and its subsidiaries reached agreement with its lenders on five credit facilities (facilities) totaling approximately \$1.3 billion of credit for CMS Energy, Enterprises and Consumers. The agreements were executed by various combinations of up to 21 lenders and by CMS Energy and are as follows: a \$295.8 million revolving credit facility by CMS Energy, maturing March 31,

44

CMS Energy Corporation

2003; a \$300 million revolving credit facility by CMS Energy, maturing December 15, 2003; a \$150 million short-term loan by Enterprises, maturing December 13, 2002; a \$250 million revolving credit facility by Consumers, maturing July 11, 2003; and a \$300 million term loan by Consumers, maturing July 11, 2003 with a one-year extension at Consumers' option.

The facilities are secured credits with mandatory prepayment of borrowings under certain of the facilities with proceeds from asset sales and capital market issuances. The CMS Energy and Enterprises facilities grant the applicable bank groups either first or second liens on the capital stock of Enterprises and its major direct and indirect domestic subsidiaries, including Panhandle Eastern Pipe Line (but excluding subsidiaries of Panhandle Eastern Pipe Line). The Consumers facilities grant the applicable bank groups security through first mortgage bonds. Bank and legal fees associated with restructuring the facilities were approximately \$12 million.

The facilities essentially replace or restructure previously existing credit facilities or lines at CMS Energy or Consumers, without substantially changing credit commitments. The three CMS Energy and Enterprises facilities aggregating \$745.8 million represent a restructuring of a prior CMS Energy \$300 million three-year revolving credit facility maturing in June 2004 and a prior CMS Energy \$450 million revolving credit facility originally maturing June 2002, but previously extended through July 12, 2002. The two Consumers facilities aggregating \$550 million replace a \$300 million revolving credit facility that matured July 14, 2002, as well as various credit lines aggregating \$200 million. The prior credit facilities and lines were unsecured.

Pursuant to restrictive covenants in the CMS Energy \$295.8 million facility, CMS Energy is limited to quarterly dividend payments of \$0.1825 per share and must receive \$250 million in net cash proceeds from the planned issuance of equity or equity-linked securities by December 31, 2002 in order to continue to pay a dividend thereafter. Further cost-cutting steps and sales of non-strategic assets are expected to eliminate the need for CMS Energy to access the capital markets for the remainder of 2002. Asset sale proceeds are expected to be used to repay the balance of CMS Energy's \$295.8 million facility, but management can make no assurances that such payment will be made or that dividends will be declared by the Board of Directors.

The CMS Energy \$300 million facility does not have the foregoing restrictive covenant, but does include a limitation on cash dividends if CMS Energy's level of Cash Dividend Income (as defined by the agreement) to Interest Expense falls below 1.05 to 1.00. As a result of these dividend restrictions, CMS Energy's Board of Directors cut the CMS Energy Common Stock dividend by approximately 50 percent, to an annual rate of 72 cents per share during the third quarter of

Edgar Filing: CMS ENERGY CORP - Form 10-Q/A

2002. Also pursuant to restrictive covenants in its facilities, Consumers is limited to common stock dividend payments that will not exceed \$300 million in any calendar year. In 2001, Consumers paid \$190 million in common stock dividends to CMS Energy, and declared \$183 million and paid \$154 million for the nine months ended September 30, 2002.

The CMS Energy credit facilities have an interest rate of LIBOR plus 300 basis points. The Consumers' \$250 million credit facility has an interest rate of LIBOR plus 200 basis points (although the rate may fluctuate depending on the rating of Consumers First Mortgage Bonds) and the interest rate on the \$300 million term loan is LIBOR plus 450 basis points, which may fluctuate depending on the rating of Consumers' First Mortgage Bonds.

45

CMS Energy Corporation

In September 2002, Consumers' exercised its extension option on the \$300 million term loan to move the maturity date to July 11, 2004. Also in September 2002, CMS Energy retired the \$150 million short-term loan by Enterprises using proceeds from the sale of CMS Oil and Gas and other assets. In October 2002, Consumers simultaneously entered into a new Term Loan Agreement collateralized by First Mortgage Bonds and a new Gas Inventory Term Loan Agreement collateralized by Consumers' natural gas in storage. These agreements contain complementary collateral packages that provide Consumers, as additional First Mortgage Bonds become available, borrowing capacity of up to \$225 million. Consumers drew \$220 million of the capacity upon execution of the Agreements and is expected to be in a position to draw the full \$225 million by mid-November of 2002. The interest rate under the Agreements is currently LIBOR plus 300 basis points, but will increase by 100 basis points for any period after December 1, 2002 during which the banks thereunder have not yet received, among other deliveries, certified restated financial statements for CMS Energy's 2000 and 2001 fiscal years. The bank and legal fees associated with the Agreement were \$2 million. The first net amortization payment under these Agreements currently is scheduled to occur at the end of 2002 with monthly amortization scheduled until full repayment is completed in mid-April of 2003. This financing should eliminate the need for Consumers to access the capital markets for the remainder of 2002.

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

| Required Ratio | Limitation | Ratio at |
|---|----------------------------|----------|
| <hr style="border-top: 1px dashed black;"/> | | |
| CMS ENERGY: | | |
| Consolidated Leverage Ratio (a) | not more than 5.75 to 1.00 | |
| Cash Dividend Coverage Ratio (a) | not less than 1.25 to 1.00 | |
| Dividend Coverage Ratio | not less than 1.15 to 1.00 | |
| Restricted Payment Ratio (a) | not less than 1.05 to 1.00 | |
| CONSUMERS: | | |
| Debt to Capital Ratio (a) | not more than 0.65 to 1.00 | |
| Interest Coverage Ratio (a) | not less than 2.00 to 1.00 | |
| <hr style="border-top: 1px dashed black;"/> | | |

Edgar Filing: CMS ENERGY CORP - Form 10-Q/A

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

In 1994, CMS Energy executed an indenture (the "Indenture") with J.P.Morgan Chase Bank pursuant to CMS Energy's general term notes program. The Indenture, through supplements, contains certain provisions that can trigger a limitation on CMS Energy's consolidated indebtedness. The limitation can be activated when CMS Energy's consolidated leverage ratio, as defined in the Indenture (essentially the ratio of consolidated debt to consolidated capital), exceeds 0.75 to 1.0. Upon activation of the limitation, CMS Energy will not and will not permit certain material subsidiaries, excluding Consumers and its subsidiaries, to become liable for new indebtedness. However, CMS Energy and the material subsidiaries may incur revolving indebtedness to banks of up to \$1 billion in the aggregate and refinance existing debt outstanding at CMS Energy and at the material subsidiaries. At September 30, 2002, CMS Energy's consolidated leverage ratio was 0.75 to 1.0. CMS Energy expects that the aggregate effect of non-cash charges to equity and the reconsolidation of debt on the balance sheet anticipated to occur in the fourth quarter of 2002 would result in a year-end debt ratio in excess of 75 percent. This debt ratio may be significantly reduced if CMS Energy decides to proceed with its sale of Panhandle, its sale of CMS Field Services, other asset sales or other options such as the securitization of additional assets at Consumers.

46

CMS Energy Corporation

CREDIT RATINGS: In July 2002, the credit ratings of the publicly traded securities of each of CMS Energy, Consumers and Panhandle (but not Consumers Funding LLC) were downgraded by the major rating agencies. The ratings downgrade for all three companies' securities was largely a function of the uncertainties associated with CMS Energy's financial condition and liquidity, restatement and re-audit of 2000 and 2001 financial statements, and lawsuits, and directly affects and limits CMS Energy's access to the capital markets.

As a result of certain of these downgrades, rights were triggered in several contractual arrangements between CMS Energy subsidiaries and third parties. More specifically, a loan to Panhandle made in connection with the December 2001 LNG off balance sheet monetization transaction is subject to repayment demand by the unaffiliated equity partner in the LNG Holdings joint venture. At September 30, 2002, Panhandle's remaining balance on the \$75 million note payable to LNG Holdings was approximately \$66 million. Dekatherm Investor Trust has agreed not to make demand for payment before November 22, 2002 in return for a fee and an agreement for Panhandle to acquire Dekatherm Investor Trust's interest in LNG Holdings. When Panhandle acquires Dekatherm Investor Trust's interest, it will then own 100 percent of LNG Holdings and will not demand payment on the note payable to LNG Holdings.

In addition, the construction lenders for each of the Guardian and Centennial pipeline projects, each partially owned by Panhandle, requested acceptable credit support for Panhandle's guarantee of its pro rata portion of those construction loans, which aggregate \$110 million including anticipated future draws. On September 27, 2002 Panhandle's Centennial partners provided credit support of \$25 million each in the form of guarantees to the lender to cover Panhandle's obligation of \$50 million of loan guarantees. The partners will be paid credit fees by Panhandle on the outstanding balance of the guarantees for any periods for which they are in effect. This additional credit support does not remove Panhandle from its original \$50 million obligation. In October 2002, Panhandle provided a letter of credit to the lenders, which constitutes

Edgar Filing: CMS ENERGY CORP - Form 10-Q/A

acceptable credit support under the Guardian financing agreement. This letter of credit was cash collateralized by Panhandle with approximately \$63 million. As of September 30, 2002, Panhandle has also provided \$16 million of equity contributions to Guardian.

In October 2002, Panhandle provided a letter of credit to the lenders, which constitutes acceptable credit support under the Guardian financing agreement. This letter of credit was cash collateralized by Panhandle with approximately \$63 million. As of September 30, 2002, Panhandle has also provided \$16 million of equity contributions to Guardian.

47

CMS Energy Corporation

Further, one of the issuers of a joint and several surety bond in the approximate amount of \$187 million supporting a CMS MST gas supply contract has demanded acceptable collateral for the full amount of such bond. This issuer has commenced litigation against Enterprises and CMS MST in Michigan federal district court and is seeking to require Enterprises and CMS MST to provide acceptable collateral and to prevent them from disposing of or transferring any corporate assets outside the ordinary course of business before the Court has an opportunity to fully adjudicate the issuer's claim. Enterprises and CMS MST continue to work with the issuer to find mutually satisfactory arrangements. The second issuer of the \$187 million surety bond has similar rights in connection with surety bonds supporting two other CMS MST gas supply contracts, aggregating approximately \$112 million. That surety bond issuer has entered into discussions with CMS MST about the possible posting of acceptable collateral for all three additional surety bonds; however, to date no legal action has commenced and no hearing date has been set by the court. CMS Energy has reached a settlement in principle that would provide the surety bond issuers with collateral and resolve one of the issuer's litigation. However, the settlement is subject to final documentation as well as approval by the banks that are party to the CMS Energy secured credit lines.

CMS Energy plans to continue to pursue the sale of targeted assets throughout 2002. Even though assets have been identified for sale, management cannot predict when, nor make assurances regarding the value of the consideration to be received or whether these sales will occur.

The following information on CMS Energy's contractual obligations, off-balance sheet financings and commercial commitments is provided to collect information in a single location so that a picture of liquidity and capital resources is readily available.

CONTRACTUAL OBLIGATIONS: Contractual obligations include CMS Energy's long-term debt, notes payable, lease obligations, sales of accounts receivable and other unconditional purchase obligations, that represent normal business operating contracts used to assure adequate supply of and minimize exposure to market price fluctuations. Consumers has long-term power purchase agreements with various generating plants including the MCV Facility. These contracts require monthly capacity payments based on the plants' availability or deliverability. These payments are approximately \$45 million per month for year 2002, which includes \$33 million related to the MCV Facility. If a plant were not available to deliver electricity to Consumers, then Consumers would not be obligated to make the capacity payment until the plant could deliver.

48

Edgar Filing: CMS ENERGY CORP - Form 10-Q/A

CMS Energy Corporation

Contractual Obligations

| September 30 | Total | Payments Due (Restated) | | | | |
|------------------------------------|----------|-------------------------|--------|---------|--------|------|
| | | 2002 | 2003 | 2004 | 2005 | 2006 |
| On-balance sheet: | | | | | | |
| Long-term debt | \$ 6,237 | \$ 158 | \$ 562 | \$1,424 | \$ 706 | |
| Notes payable | 235 | - | 235 | - | - | |
| Capital lease obligations (a) | 138 | 50 | 21 | 19 | 18 | |
| Off-balance sheet: | | | | | | |
| Headquarters building lease (a) | 20 | 7 | 13 | - | - | |
| Operating leases | 83 | 5 | 12 | 9 | 8 | |
| Non-recourse debt of FMLP | 276 | 65 | 8 | 54 | 41 | |
| Sale of accounts receivable | 325 | 325 | - | - | - | |
| Unconditional purchase Obligations | 18,049 | 956 | 1,175 | 929 | 860 | |

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

OFF-BALANCE SHEET ARRANGEMENTS: CMS Energy, through its subsidiary companies, has equity investments in partnerships and joint ventures in which they have a minority ownership interest. As of September 30, 2002, CMS Energy's proportionate share of unconsolidated debt associated with these investments was \$2.8 billion, which includes the operating leases and non-recourse debt of FMLP shown in the table above. This unconsolidated debt is non-recourse to CMS Energy and is not included in the amount of long-term debt that appears on CMS Energy's Consolidated Balance Sheets.

COMMERCIAL COMMITMENTS: As of September 30, 2002, CMS Energy, Enterprises, and their subsidiaries have guaranteed payment of obligations through guarantees, indemnities and letters of credit, of unconsolidated affiliates and related parties approximating \$1.5 billion. Included in this amount, Enterprises, in the ordinary course of its business, has guaranteed contracts of CMS MST that contain certain schedule and performance requirements. As of September 30, 2002, the actual amount of financial exposure covered by these guarantees and indemnities was \$473 million. Management monitors and approves these obligations and believes it is unlikely that CMS Energy would be required to perform or otherwise incur any material losses associated with these guarantees.

Commercial Commitments

| September 30 | Total | Commitment Expiration | | | | |
|---------------------------|-------|-----------------------|------|------|------|------|
| | | 2002 | 2003 | 2004 | 2005 | 2006 |
| Off-balance sheet: | | | | | | |

Edgar Filing: CMS ENERGY CORP - Form 10-Q/A

| | | | | | |
|-------------------|--------|-------|-----|----|----|
| Guarantees | \$ 995 | \$ 20 | - | - | - |
| Indemnities | 267 | - | 5 | - | 36 |
| Letters of Credit | 240 | 28 | 191 | 18 | - |

For further information, see Note 6, Short-Term and Long-Term Financings, and Capitalization, incorporated by reference herein.

49

CMS Energy Corporation

CAPITAL EXPENDITURES

CMS Energy estimates that capital expenditures, including new lease commitments and investments in new business developments through partnerships and unconsolidated subsidiaries, will total \$2.1 billion during 2002 through 2004. These estimates are prepared for planning purposes and are subject to revision. CMS Energy expects to satisfy a substantial portion of the capital expenditures with cash from operations. As of September 2002, Consumers had \$250 million in credit facilities and, through its wholly owned subsidiary Consumers Receivable Funding, a \$325 million trade receivable sale program in place as anticipated sources of funds for general corporate purposes and currently expected capital expenditures.

CMS Energy estimates capital expenditures by business segment over the next three years as follows:

| Years Ending December 31 | 2002 | 2003 |
|--|----------|----------|
| Consumers electric operations (a) (b) | \$ 474 | \$352 |
| Consumers gas operations (a) | 207 | 151 |
| Natural gas transmission | 150 | - |
| Independent power production | 50 | 10 |
| Oil and gas exploration and production | 40 | - |
| Marketing, services and trading | 10 | - |
| Other | 15 | - |
| | \$946(c) | \$513(d) |

- a) These amounts include an attributed portion of Consumers' anticipated capital expenditures for plant and equipment common to both the electric and gas utility businesses.
- b) These amounts include estimates for capital expenditures that may be required by recent revisions to the Clean Air Act's national air quality standards. For further information see Note 5, Uncertainties -- Electric Environmental Matters.
- c) This amount include Panhandle's estimated capital expenditures of \$124 million in 2002, which includes expenditures associated with the Trunkline LNG terminal expansion, for which an application was filed with the FERC in December 2001, estimated at \$8 million in 2002.
- d) These amounts exclude Panhandle's estimated capital expenditures of \$112

Edgar Filing: CMS ENERGY CORP - Form 10-Q/A

million in 2003 and \$124 million in 2004, which include expenditures associated with the Trunkline LNG terminal expansion, estimated at \$33 million in 2003 and \$66 million in 2004. CMS Energy is exploring the sale of Panhandle. For further information, see Outlook section of the MD&A.

For further explanation of CMS Energy's planned investments for the years 2002 through 2004, see the Outlook section below.

MARKET RISK INFORMATION

CMS Energy is exposed to market risks including, but not limited to, changes in interest rates, currency exchange rates, commodity prices and equity security prices. CMS Energy's derivative activities are subject to the direction of the Executive Oversight Committee, which is comprised of certain members of CMS Energy's senior management, and its Risk Committee, which is comprised of CMS Energy business unit managers and chaired by the CMS Chief Risk Officer. The purpose of the risk management policy is to measure and limit CMS Energy's overall energy commodity risk by implementing an enterprise-wide

50

CMS Energy Corporation

policy across all CMS Energy business units. This allows CMS Energy to maximize the use of hedges among its business units before utilizing derivatives with external parties. The role of the Risk Committee is to review the corporate commodity position and ensure that net corporate exposures are within the economic risk tolerance levels established by the Board of Directors. Management employs established policies and procedures to manage its risks associated with market fluctuations, including the use of various derivative instruments such as futures, swaps, options and forward contracts. When management uses these derivative instruments, it intends that an opposite movement in the value of the hedged item would offset any losses incurred on the derivative instruments.

CMS Energy has performed sensitivity analyses to assess the potential loss in fair value, cash flows and earnings based upon hypothetical 10 percent increases and decreases in market exposures. Management does not believe that sensitivity analyses alone provide an accurate or reliable method for monitoring and controlling risks; therefore, CMS Energy and its subsidiaries rely on the experience and judgment of senior management and traders to revise strategies and adjust positions, as they deem necessary. Losses in excess of the amounts determined in the sensitivity analyses could occur if market rates or prices exceed the 10 percent shift used for the analyses.

COMMODITY PRICE RISK: CMS Energy is exposed to market fluctuations in the price of natural gas, oil, electricity, coal, natural gas liquids and other commodities. CMS Energy employs established policies and procedures to manage these risks using various commodity derivatives, including futures contracts, options and swaps (which require a net cash payment for the difference between a fixed and variable price), for non-trading purposes. The prices of these energy commodities can fluctuate because of, among other things, changes in the supply of and demand for those commodities. To minimize adverse price changes, CMS Energy also hedges certain inventory and purchases and sales contracts. Based on a sensitivity analysis, CMS Energy estimates that if energy commodity prices average 10 percent higher or lower, pretax operating income for the subsequent nine months would increase or decrease by \$1 million. These hypothetical 10 percent shifts in quoted commodity prices would not have had a material impact on CMS Energy's consolidated financial position or cash flows as of September 30, 2002. The analysis does not quantify short-term exposure to hypothetically adverse price fluctuations in inventories or for commodity positions related to

Edgar Filing: CMS ENERGY CORP - Form 10-Q/A

trading activities.

Consumers enters into electric call options, gas fuel for generation call options and swap contracts, fixed price gas supply contracts containing embedded put options, fixed priced weather-based gas supply call options and fixed priced gas supply put options. The electric call options are used to protect against risk due to fluctuations in the market price of electricity and to ensure a reliable source of capacity to meet customers' electric needs. The gas fuel for generation call options and swap contracts are used to protect generation activities against risk due to fluctuations in the market price of natural gas. The gas supply contracts containing embedded put options, the weather-based gas supply call options, and the gas supply put options are used to purchase reasonably priced gas supply.

As of September 30, 2002, the fair value based on quoted future market prices of electricity-related call option and swap contracts was \$8 million. At September 30, 2002, assuming a hypothetical 10 percent adverse change in market prices, the potential reduction in fair value associated with these contracts would be \$2 million. As of September 30, 2002, Consumers had an asset of \$30 million, related to premiums incurred for electric call option contracts. Consumers' maximum exposure associated with the call option contracts is limited to the premiums incurred. As of September 30, 2002, the fair value based on quoted future market prices of gas supply-related call and put option contracts was \$1 million. At September 30,

51

CMS Energy Corporation

2002, assuming a hypothetical 10 percent adverse change in market prices, the potential reduction in fair value associated with these contracts would be \$0.3 million.

Consumers is also planning to purchase nitrogen oxide emission credits in the years 2005 through 2008 to supplement its environmental compliance plan. The cost of these credits based on today's market is estimated to be \$6 million per year, however, the market for nitrogen oxide emission credits is volatile and the price could change significantly. Based on these estimated costs, a hypothetical 10 percent adverse change in the market price would have a result of increasing the cost of the credits by \$2 million.

INTEREST RATE RISK: CMS Energy is exposed to interest rate risk resulting from the issuance of fixed-rate and variable-rate debt, including interest rate risk associated with Trust Preferred Securities, and from interest rate swaps. CMS Energy uses a combination of fixed-rate and variable-rate debt, as well as interest rate swaps to manage and mitigate interest rate risk exposure when deemed appropriate, based upon market conditions. CMS Energy employs these strategies to provide a balance between risk and the lowest cost of capital. At September 30, 2002, the carrying amounts of long-term debt and Trust Preferred Securities were \$5.6 billion and \$0.9 billion, respectively, with corresponding fair values of \$5.2 billion and \$0.7 billion, respectively. Based on a sensitivity analysis at September 30, 2002, CMS Energy estimates that if market interest rates average 10 percent higher or lower, earnings before income taxes for the subsequent 12 months would decrease or increase, respectively, by approximately \$7 million. In addition, based on a 10 percent adverse shift in market interest rates, CMS Energy would have an exposure of approximately \$365 million to the fair value of its long-term debt and Trust Preferred Securities if it had to refinance all of its long-term fixed-rate debt and Trust Preferred Securities. CMS Energy does not intend to refinance its entire fixed-rate debt and Trust Preferred Securities in the near term and believes that any adverse

Edgar Filing: CMS ENERGY CORP - Form 10-Q/A

change in interest rates would not have a material effect on CMS Energy's consolidated financial position as of September 30, 2002.

At September 30, 2002, the fair value of CMS Energy's floating to fixed interest rate swaps with a notional amount of \$294 million was \$9 million, which represents the amount CMS Energy would pay to settle. The swaps mature at various times through 2006 and are designated as cash flow hedges for accounting purposes.

CURRENCY EXCHANGE RISK: CMS Energy is exposed to currency exchange risk arising from investments in foreign operations as well as various international projects in which CMS Energy has an equity interest and which have debt denominated in U.S. Dollars. CMS Energy typically uses forward exchange contracts and other risk mitigating instruments to hedge currency exchange rates. The impact of the hedges on the investments in foreign operations is reflected in other comprehensive income as a component of foreign currency translation adjustment. For the first nine months of 2002, the mark-to-market adjustment for hedging was approximately zero of the total net foreign currency translation adjustment of \$434 million of which approximately \$400 million was related to the Argentine currency translation adjustment. Based on a sensitivity analysis at September 30, 2002, a 10 percent adverse shift in currency exchange rates would not have a material effect on CMS Energy's consolidated financial position or results of operations. At September 30, 2002, the estimated fair value of the foreign exchange hedges was immaterial.

EQUITY SECURITY PRICE RISK: CMS Energy and certain of its subsidiaries have equity investments in companies in which they hold less than a 20 percent interest. As of September 30, 2002, a hypothetical 10 percent adverse shift in equity securities prices would not have a material effect on CMS Energy's consolidated financial position, results of operations or cash flows.

For a discussion of accounting policies related to derivative transactions, see Note 8, Risk Management Activities and Financial Instruments, incorporated by reference herein.

OUTLOOK

LIQUIDITY AND CAPITAL RESOURCES

CMS Energy's liquidity and capital requirements are generally a function of its results of operations, capital expenditures, contractual obligations, working capital needs and collateral requirements. CMS Energy has historically met its consolidated cash needs through its operating and investing activities and, as needed, through access to bank financing and the capital markets. As discussed above, for the remainder of 2002 and during 2003, CMS Energy has contractual obligations and planned capital expenditures that would require substantial amounts of cash. CMS Energy and its subsidiaries also have approximately \$1.6 billion of publicly issued and credit facility debt maturing in 2003, including the CMS Energy credit facilities described above. In addition, CMS Energy may also become subject to liquidity demands pursuant to commercial commitments under guarantees, indemnities and letters of credit as indicated above.

CMS Energy is addressing its near-to-mid-term liquidity and capital requirements through a financial improvement plan, which involves the sale of non-strategic and under-performing assets, reduced capital expenditures, cost reductions and other measures. As noted elsewhere in this MD&A, CMS Energy has improved its

Edgar Filing: CMS ENERGY CORP - Form 10-Q/A

liquidity through asset sales, with a total of approximately \$2.7 billion in cash proceeds from such sales over the past two years. CMS Energy believes that further targeted asset sales, together with further reductions in operating expenses and capital expenditures, will also contribute to improved liquidity. CMS Energy believes that, assuming the successful implementation of its financial improvement plan, its current level of cash and borrowing capacity, along with anticipated cash flows from operating and investing activities, will be sufficient to meet its liquidity needs through 2003, including the approximately \$1.6 billion in 2003 debt maturities.

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

CMS Energy's January 15, 1994 indenture restricts CMS Energy from incurring additional indebtedness when the debt ratio is in excess of 75 percent. CMS Energy expects that the aggregate effect of non-cash charges to equity and the reconsolidation of debt on the balance sheet anticipated to occur in the fourth quarter of 2002 would result in a year-end debt ratio in excess of 75 percent. In this event, CMS Energy and certain of its subsidiaries other than Consumers will be restricted from incurring new indebtedness until this condition is remedied. This restriction will not prevent CMS Energy from refinancing existing indebtedness or incurring up to \$1 billion in bank financing. This debt ratio could be significantly reduced if CMS Energy decides to proceed with its sale of Panhandle, its sale of CMS Field Services, other asset sales or other options such as the securitization of additional assets at Consumers.

It should be noted that CMS Energy has historically met its liquidity needs through a combination of operating and investing activities, including through access to bank financing and the capital markets. As a result of the impact of the re-audit and restatement, ratings downgrades and related changes in its financial situation, CMS Energy's access to bank financing and the capital markets and its ability to incur additional indebtedness may be restricted. There can be no assurance that the financial improvement plan will be successful, or that the necessary bank waivers will be obtained and the debt ratio lowered. A failure to

53

CMS Energy Corporation

achieve any of these goals could have a material adverse effect on CMS Energy's liquidity and operations. In such event, it would be required to consider the full range of strategic measures available to companies in similar circumstances.

CORPORATE OUTLOOK

CMS Energy announced in October 2001 significant changes in its business strategy in order to strengthen its balance sheet, provide more transparent and predictable future earnings, and lower its business risk by focusing its future business growth primarily in North America. Specifically, CMS Energy announced its plans to sell or optimize non-strategic and under-performing international assets and discontinue its international energy distribution business. CMS Energy also announced its plans to discontinue all new development outside North America, which includes closing all non-U.S. development offices, except for certain prior international commitments.

CMS Energy will continue to focus geographically on key growth areas where it

Edgar Filing: CMS ENERGY CORP - Form 10-Q/A

already has significant investments and opportunities. CMS Energy's focus will be on North America, and on certain existing international operations and prior commitments in the Middle East.

Consistent with this "back-to-basics" strategy, CMS Energy is actively pursuing the sale of non-strategic and under-performing assets in order to improve cash flow and the balance sheet and has received approximately \$2.7 billion of cash from asset sales, securitization proceeds and proceeds from LNG monetization out of its \$2.9 billion asset sales and balance sheet improvement program. Upon the sale of additional non-strategic and under-performing assets, the proceeds realized may be materially different than the book value of those assets. Even though these assets have been identified for sale, management cannot predict when, nor make any assurances that, these asset sales will occur. CMS Energy anticipates, however, that the sales, if any, will result in additional cash proceeds that will be used to retire existing debt of CMS Energy, Consumers and/or Panhandle.

In June 2002, CMS Energy announced its plans to sell CMS MST's performance contracting subsidiary, CMS Viron. CMS MST has eliminated its speculative trading business and reduced its workforce by approximately 25 percent.

In July 2002, CMS Energy began to undertake a series of initiatives to further sharpen its business focus and reduce operating costs. These include relocating the corporate headquarters from Dearborn, Michigan to Jackson, Michigan, which will result in lower operating and information technology costs starting in 2003, changes to CMS Energy's employee benefit plans, and adjustments to the CEO's compensation package, which will be based largely on the financial performance of CMS Energy.

In August 2002, CMS Energy began exploring the sale of Panhandle and CMS Field Services business units as part of its ongoing effort to strengthen its balance sheet, improve credit ratings and enhance financial flexibility. The Panhandle units to be considered for sale are Panhandle Eastern Pipe Line Company, Trunkline Gas Company, Sea Robin, Pan Gas Storage and Panhandle's interests in LNG Holdings, Guardian and Centennial. CMS Energy has begun assessing the market's interest in purchasing this pipeline and field services businesses and it is reviewing the financial, legal and regulatory issues associated with the possible sale.

In September 2002, CMS Energy closed on the sale of the stock of CMS Oil and Gas and the stock of a subsidiary of CMS Oil and Gas that holds property in Venezuela. In October 2002, CMS Energy closed on

the sale of CMS Oil and Gas's properties in Colombia. As a result of these closings, CMS Energy has completed its exit from the oil and gas exploration and production business. The proceeds from the combined sales total approximately \$232 million and have been used to retire the remaining balance on a \$150 million Enterprises term loan due in December 2002 and a portion of a \$295.8 million CMS Energy loan due March 2003. The combined sales will result in an after-tax loss of approximately \$82 million, which is included in discontinued operations at September 30, 2002.

In October 2002, CMS Land executed a settlement agreement abandoning its 50 percent ownership interest in Bay Harbor Company, LLC, a real estate development company located in the northwestern region of Michigan's lower peninsula. The settlement agreement requires CMS Land to pay \$16 million to Bay Harbor in

Edgar Filing: CMS ENERGY CORP - Form 10-Q/A

consideration for certain indemnities and past liabilities assumed by Bay Harbor. CMS Land's investment in Bay Harbor at September 30, 2002 was \$9 million.

DIVERSIFIED ENERGY OUTLOOK

NATURAL GAS TRANSMISSION OUTLOOK: Panhandle has a one-third interest in Guardian Pipeline, L.L.C., which is currently constructing a 141-mile, 36-inch pipeline from Illinois to southeastern Wisconsin for the transportation of natural gas beginning late 2002. Upon completion of the project, Trunkline will operate and maintain the pipeline. Panhandle also has a one-third interest in the Centennial Pipeline LLC, which operates a 720-mile, 26-inch pipeline extending from the U.S. Gulf Coast to Illinois for the transportation of interstate refined petroleum products. The pipeline began commercial service in April 2002.

In April 2001, FERC approved Trunkline's rate settlement without modification. The settlement resulted in Trunkline reducing its maximum rates in May 2001. The reduction is expected to reduce revenues by approximately \$2 million annually.

In October 2001, Trunkline LNG, in which Panhandle owns an interest through its equity interest in LNG Holdings, announced the planned expansion of the Lake Charles, Louisiana facility to approximately 1.2 bcf per day of sendout capacity, up from its current sendout capacity of 630 million cubic feet per day. The terminal's storage capacity will also be expanded to 9 bcf from its current storage capacity of 6.3 bcf. The Commission Staff's Environmental Assessment determined that the Trunkline LNG expansion facilities do not constitute a major federal action significantly affecting the environment and recommended certain compliance and mitigation measures. Comments on the Environmental Assessment were filed on August 30, 2002. On August 27, 2002 the FERC issued a "Preliminary Determination on Non-Environmental Issues" recommending approval of the planned expansion project. The application for a certificate of public convenience and necessity of the expansion is still pending final FERC action. The expanded facility is currently expected to be in operation by January 2006 pending final FERC approvals. The expansion expenditures are currently expected to be funded by Panhandle loans or equity contributions to LNG Holdings, which would be sourced by capital markets, operating cash flows, or other funding.

In October 2001, CMS Energy and Sempra Energy announced an agreement to jointly develop a major new LNG receiving terminal to bring much-needed natural gas supplies into northwestern Mexico and southern California. Since the October 2001 announcement, CMS Energy has adjusted its role in the development of the terminal since CMS Energy's top priority is to reduce debt and improve the balance sheet, which will require restraint in capital spending. As a result, Panhandle will not be an equity partner in the project, but is negotiating to participate as the LNG plant operator and will also provide technical support during the development of the project, which is currently estimated to commence commercial operations in 2007.

The Job Creation and Worker Assistance Act of 2002 provided to corporate taxpayers a 5-year carryback of tax losses incurred in 2001 and 2002. As a result of this legislation, CMS Energy was able to carry back a consolidated 2001 tax loss to tax years 1996 through 1999 and obtain refunds of prior years tax payments totaling \$217 million. The tax loss carryback, however, resulted in a reduction in AMT credit carryforwards that previously had been recorded by CMS Energy as deferred tax assets in the amount of \$41 million. This non-cash

Edgar Filing: CMS ENERGY CORP - Form 10-Q/A

reduction in AMT credit carryforwards has been reflected in the tax provision of CMS Energy as of September 30, 2002.

CMS Energy has completed the goodwill impairment testing at Panhandle which resulted in a \$601 million pretax write-down (\$369 million after-tax) in accordance with SFAS No.142, reflected retroactively to the first quarter of 2002, as a cumulative effect of change in accounting for goodwill, shown in discontinued operations. For further information, see Note 4, Goodwill.

In August of 2002, the FERC issued a NOPR concerning the management of funds from a FERC-regulated subsidiary by a non-FERC regulated parent. The proposed rule would establish limits on the amount of funds that could be swept from a regulated subsidiary to a non-regulated parent under cash management programs. The proposed rule would require written cash management arrangements that would specify the duties and restrictions of the participants, the methods of calculating interest and allocating interest income and expenses, and the restrictions on deposits or borrowings by money pool members. These cash management agreements would also require participants to provide documentation of certain transactions. In the NOPR, the FERC proposed that to participate in a cash management or money pool arrangement, FERC-regulated entities would be required to maintain a minimum proprietary capital balance (stockholder's equity) of 30 percent and both the FERC-regulated entity and its parent would be required to maintain investment grade credit ratings.

INDEPENDENT POWER PRODUCTION OUTLOOK: CMS Energy's independent power production subsidiary plans to complete the restructuring of its operations during 2002 and into 2003 by narrowing the scope of its existing operations and commitments from four regions to two regions: the U.S. and the Middle East/North Africa. In addition, its plans include selling designated assets and investments that are under-performing, non-region focused and non-synergistic with other CMS Energy business units. The independent power production business unit will continue to optimize the operations and management of its remaining portfolio of assets in order to contribute to CMS Energy's earnings and to maintain its reputation for solid performance in the construction and operation of power plants. CMS Energy is actively pursuing the sale, full liquidation, or other disposition of several of its designated assets and investments, but management cannot predict when, nor make any assurances that, these asset and investment sales will occur.

MARKETING, SERVICES AND TRADING OUTLOOK: Dynamic changes in the energy trading markets over the past year have resulted in a deterioration of credit quality, loss of market liquidity and a heightened sensitivity to earnings volatility. Management cannot predict what effect these events may have on the liquidity of the trading markets in the short-term, but credit constraints continue to severely limit CMS MST's ability to actively manage and optimize its open positions. These changes have forced a significant change in CMS MST's business strategy. CMS MST will continue to streamline its portfolio to reduce outstanding credit guarantees as well as its non-core businesses. A sale of CMS MST's wholesale structured power and gas business is expected to be complete by the first quarter of 2003. The sale of the company's non-core retail offices and its energy conservation unit, CMS Viron, are expected to be complete by the first quarter of 2003, however, management cannot make any assurances as to when these asset sales will actually occur.

In September 2002, CMS MST sold its 50 percent equity interest in Enline Energy Solutions LLC at book value. The proceeds received were immaterial.

Edgar Filing: CMS ENERGY CORP - Form 10-Q/A

UNCERTAINTIES: The results of operations and financial position of CMS Energy's diversified energy businesses may be affected by a number of trends or uncertainties that have, or CMS Energy reasonably expects could have, a material impact on income from continuing operations, cash flows as well as balance sheet and credit improvement. Such trends and uncertainties include: 1) the ability to sell or optimize assets or businesses in accordance with its financial plan; 2) the international monetary fluctuations, particularly in Argentina, as well as Brazil and Australia; 3) the changes in foreign laws, governmental and regulatory policies that could significantly reduce the tariffs charged and revenues recognized by certain foreign investments; 4) the imposition of stamp taxes on certain South American contracts that could significantly increase project expenses; 5) the impact of any future rate cases or FERC actions or orders on regulated businesses and the effects of changing regulatory and accounting related matters resulting from current events; 6) the increased competition in the market for transmission of natural gas to the Midwest causing pressure on prices charged by Panhandle; 7) the impact of ratings downgrades on CMS Energy's liquidity, costs of operating, current limited access to capital markets, and cost of capital; and 8) actual amount of goodwill impairment and related impact on earnings and balance sheet which could negatively impact CMS Energy's borrowing capacity.

OTHER OUTLOOK

GAS INDEX PRICING REPORTING: On November 4, 2002, CMS Energy announced that it is conducting an internal review of the natural gas trade information provided by CMS MST and CMS Field Services to energy industry publications that compile and report index prices. A preliminary analysis indicates that some employees provided inaccurate information in the voluntary reports. CMS Energy and its subsidiaries no longer provide natural gas trade information to energy industry publications. CMS Energy has notified the appropriate regulatory and governmental agencies of this review. On November 5, 2002, CMS Energy received an information request from the Commodity Futures Trading Commission pursuant to a prior subpoena relating to round-trip trading. The Commodity Futures Trading Commission requested certain information regarding the employees involved in providing the inaccurate natural gas trade data to industry publications as well as details of the information provided. CMS Energy has produced documents and information responsive to the November 5, 2002 request.

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

SECURITIES CLASS ACTION LAWSUITS: Eighteen separate civil lawsuits have been filed in federal court in Michigan in connection with round-trip trading, alleging (i) violation of Section 10(b) and Rule 10b-5 of the Securities Exchange Act of 1934 ("Exchange Act") and (ii) violation of Section 20(a) of the Exchange Act. All suits name Messrs. McCormick and Wright and CMS Energy as defendants. Consumers Energy, Mr. Joos and Ms. Pallas are named as defendants on certain of the suits. The cases will be consolidated into a single lawsuit. These complaints generally seek unspecified damages based on allegations that the defendants violated United

Edgar Filing: CMS ENERGY CORP - Form 10-Q/A

CMS Energy Corporation

States securities laws and regulations by making allegedly false and misleading statements about the Company's business and financial condition. The Company intends to vigorously defend against these actions. CMS Energy cannot predict the outcome of this litigation.

DEMAND FOR ACTIONS AGAINST OFFICERS AND DIRECTORS: The Board of Directors of CMS Energy received a demand, on behalf of a shareholder of CMS Energy common stock, that it commence civil actions (i) to remedy alleged breaches of fiduciary duties by CMS Energy officers and directors in connection with round-trip trading at CMS Energy, and (ii) to recover damages sustained by CMS Energy as a result of alleged insider trades alleged to have been made by certain current and former officers of CMS Energy and its subsidiaries. If the Board elects not to commence such actions, the shareholder has stated that he will initiate a derivative suit, bringing such claims on behalf of CMS Energy. CMS Energy is seeking to elect two new members to its Board of Directors to serve as an independent investigation committee to determine whether it is in the best interest of CMS Energy to bring the action demanded by the shareholder. Counsel for the shareholder has agreed to extend the time for CMS Energy to respond to the demand. CMS Energy cannot predict the outcome of this litigation.

ERISA CLAIMS: On July 11, 2002 and July 18, 2002, two Consumers employees filed separate alleged class action lawsuits on behalf of the participants and beneficiaries of the CMS Employees' Savings and Incentive Plan in the United States District Court for the Eastern District of Michigan. CMS Energy, Consumers and CMS MST are defendants in one action, and CMS Energy, Consumers, and other alleged fiduciaries are defendants in the other. The complaints allege various counts arising under the ERISA. The two cases will be consolidated into a single lawsuit and a single consolidated amended complaint will be filed. CMS Energy intends to vigorously defend against these actions. CMS Energy cannot predict the outcome of this litigation.

TERRORIST ATTACKS: Since the September 11, 2001 terrorist attacks in the United States, CMS Energy has increased security at substantially all facilities and infrastructure, and will continue to evaluate security on an ongoing basis. CMS Energy may be required to comply with federal and state regulatory security measures promulgated in the future. As a result, CMS Energy anticipates that increased operating costs related to security after September 11, 2001 could be significant. It is not certain that any additional costs will be recovered in Consumers' or Panhandle's rates.

OTHER: Rouge Steel Company, with whom DIG has contracted to sell steam for industrial use and purchase blast furnace gas as fuel at prices significantly less than the cost of natural gas, is considering altering certain of its operational processes as early as mid-2004. These alterations could have an adverse operational and financial impact on DIG by significantly reducing Rouge Steel Company's demands for steam from DIG and its ability to provide DIG with economical blast furnace gas. However, these alterations may result in additional electric sales to Rouge Steel Company. CMS Energy is currently assessing these potential operational and financial impacts and DIG is evaluating alternatives to its current contractual arrangements with Rouge Steel Company, but CMS Energy cannot predict the ultimate outcome of these matters at this time.

CONSUMERS' ELECTRIC UTILITY BUSINESS OUTLOOK

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

based primarily on a steadily

CMS Energy Corporation

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

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

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

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

Edgar Filing: CMS ENERGY CORP - Form 10-Q/A

MPSC is uncertain at this time.

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

59

CMS Energy Corporation

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

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

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

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

Industrial Contracts: In response to industry restructuring efforts, Consumers

Edgar Filing: CMS ENERGY CORP - Form 10-Q/A

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

Code of Conduct: In December 2000, as a result of the passage of the Customer Choice Act, the MPSC issued a new code of conduct that applies to electric utilities and alternative electric suppliers. The code of conduct seeks to prevent cross-subsidization, information sharing, and preferential treatment between a utility's regulated and unregulated services. The new code of conduct is broadly written, and as a result, could affect Consumers' retail gas business, the marketing of unregulated services and equipment to Michigan customers, and internal transfer pricing between Consumers' departments and affiliates. In

60

CMS Energy Corporation

October 2001, the new code of conduct was reaffirmed without substantial modification. Consumers appealed the MPSC orders related to the code of conduct and sought a stay of the orders until the appeal was complete; however, the request for a stay was denied. Consumers filed a compliance plan in accordance with the code of conduct. It also sought waivers to the code of conduct in order to continue utility activities that provide approximately \$50 million in annual revenues. In October 2002, the MPSC denied waivers for three programs that provide approximately \$32 million in revenues. The waivers denied included all waivers associated with the appliance service plan program that has been offered by Consumers for many years. Consumers has filed a renewed motion for a stay of the effectiveness of the Code of Conduct and an appeal of the waiver denials with the Michigan Court of Appeals. On November 8, 2002, the Michigan Court of Appeals denied Consumers' request for a stay. Consumers is continuing to explore its options, which may include seeking an appeal of the Michigan Court of Appeals' ruling. The full impact of the new code of conduct on Consumers' business will remain uncertain until the appellate courts issue definitive rulings. Recently, in an appeal involving affiliate-pricing guidelines, the Michigan Court of Appeals struck the guidelines down because of a procedurally defective manner of enactment by the MPSC. A similar procedure was used by the MPSC in enacting the new code of conduct.

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

Transmission: In 1999, the FERC issued Order No. 2000, strongly encouraging electric utilities to transfer operating control of their electric transmission system to an RTO, or sell the facilities to an independent company. In addition, in June 2000, the Michigan legislature passed Michigan's Customer Choice Act, which also requires utilities to divest or transfer the operating authority of transmission facilities to an independent company. Consumers chose to offer its electric transmission system for sale rather than own and invest in an asset it

Edgar Filing: CMS ENERGY CORP - Form 10-Q/A

could not control. In May 2002, Consumers sold its electric transmission system for approximately \$290 million in cash to MTH, a non-affiliated limited partnership whose general partner is a subsidiary of Trans-Elect, Inc.

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

Under the agreement with MTH, and subject to certain additional RTO surcharges, contract transmission rates charged to Consumers will be fixed at current levels through December 31, 2005, and subject to FERC ratemaking thereafter. MTH will complete the capital program to expand the transmission system's

61

CMS Energy Corporation

capability to import electricity into Michigan, as required by the Customer Choice Act, and Consumers will continue to maintain the system under a five-year contract with MTH. Effective April 30, 2002, Consumers and METC withdrew from the Alliance RTO. For further information, see Note 5, Uncertainties, "Electric Rate Matters -- Transmission."

In July 2002, the FERC issued a 600-page notice of proposed rulemaking on standard market design for electric bulk power markets and transmission. Its stated purpose is to remedy undue discrimination in the use of the interstate transmission system and give the nation the benefits of a competitive bulk power system. The proposal is subject to public comment until November 15, 2002 and January 10, 2003 for certain standard market design issues. Consumers is currently studying the effects of the proposed rulemaking and intends to file comments with the FERC. The proposed rulemaking is primarily designed to correct perceived problems in the electric transmission industry. Consumers sold its electric transmission system in 2002, but is a transmission customer. The financial impact to Consumers is uncertain, but the final standard market design rules could significantly increase delivered power costs to Consumers and the retail electric customers it serves.

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

Edgar Filing: CMS ENERGY CORP - Form 10-Q/A

however, that Consumers believes the results of these proceedings could also significantly increase the delivered power costs to Consumers and the retail electric customers it serves.

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

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

Wholesale Market Pricing: FERC authorizes Consumers to sell electricity at wholesale market prices. In authorizing sales at market prices, the FERC considers the seller's level of "market power," due to the seller's dominance of generation resources and surplus generation resources in adjacent wholesale markets. To continue its authorization to sell at market prices, Consumers filed a traditional market

dominance analysis and indicated its compliance therewith in October 2001. In November 2001, the FERC issued an order modifying the traditional method of determining market power. In September 2002, a Consumers' affiliate, CMS MST, was required by the FERC to file an updated market power study to determine if CMS MST or any of its affiliates, including Consumers, had market power. The study, using FERC's modified method, found that neither CMS MST nor its affiliates possess market power.

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

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

Edgar Filing: CMS ENERGY CORP - Form 10-Q/A

For further information and material changes relating to the rate matters and restructuring of the electric utility industry, see Note 1, Corporate Structure and Basis of Presentation, and Note 5, Uncertainties, "Electric Rate Matters -- Electric Restructuring" and "Electric Rate Matters -- Electric Proceedings."

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

CONSUMERS' GAS UTILITY BUSINESS OUTLOOK

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

GAS RATE CASE: In June 2001, Consumers filed an application with the MPSC seeking a \$140 million distribution service rate increase. Contemporaneously with this filing, Consumers requested partial and immediate relief in the annual amount of \$33 million. In October 2001, Consumers revised its filing to reflect lower operating costs and requested a \$133 million annual distribution service rate increase. In December 2001, the MPSC authorized a \$15 million annual interim increase in distribution service revenues. In February 2002, Consumers revised its filing to reflect lower estimated gas inventory prices and revised depreciation expense and requested a \$105 million distribution service rate increase. On November 7, 2002, the MPSC issued a final order approving a \$56 million annual distribution service rate increase, which includes the \$15 million interim increase, with an 11.4 percent authorized return on equity, for service effective November 8, 2002. See Note 5, Uncertainties "Gas Rate Matters -- Gas Rate Case" for further information.

UNBUNDLING STUDY: In July 2001, the MPSC directed gas utilities under its jurisdiction to prepare and file an unbundled cost of service study. The purpose

Edgar Filing: CMS ENERGY CORP - Form 10-Q/A

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

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

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

CONSUMERS' OTHER OUTLOOK

TAX LOSS ALLOCATION: The Job Creation and Worker Assistance Act of 2002 provided to corporate taxpayers a 5-year carryback of tax losses incurred in 2001 and 2002. As a result of this legislation, CMS Energy was able to carry back a consolidated 2001 tax loss to tax years 1996 through 1999 and obtain refunds of prior

CMS Energy Corporation

years tax payments totaling \$217 million. The tax loss carryback, however, resulted in a reduction in AMT credit carryforwards that previously had been recorded by CMS Energy as deferred tax assets in the amount of \$41 million. This non-cash reduction in AMT credit carryforwards has been reflected in the tax provision of CMS Energy as of September 30, 2002.

ENERGY-RELATED SERVICES: Consumers offers a variety of energy-related services to retail customers that focus on appliance maintenance, home safety, commodity choice, and assistance to customers purchasing heating, ventilation and air conditioning equipment. Consumers continues to look for additional growth

Edgar Filing: CMS ENERGY CORP - Form 10-Q/A

opportunities in providing energy-related services to its customers. The ability to offer all or some of these services and other utility related revenue-generating services, which provide approximately \$50 million in annual revenues, may be restricted by the new code of conduct issued by the MPSC, as discussed above in Electric Business Outlook, "Competition and Regulatory Restructuring -- Code of Conduct."

SUBSEQUENT EVENTS

Subsequent to November 14, 2002, the date of filing CMS Energy's Form 10-Q for the third quarter 2002, a number of material events have occurred. These material events have been disclosed in CMS Energy's Form 10-K/A Amendment No. 2 for the fiscal year ended December 31, 2002, filed with the SEC on July 1, 2003, CMS Energy's Form 10-Q for the quarterly period ended March 31, 2003, filed with the SEC on May 14, 2003, and CMS Energy's Form 8-K filed with the SEC on June 24, 2003, each of which is incorporated by reference herein. In addition to the events disclosed in the above referenced documents, see below for a summary of events that have occurred subsequent to July 1, 2003, the date of filing CMS Energy's Form 10-K/A Amendment No. 2 with the SEC.

DISCLOSURE CONTROLS

CMS Energy's CEO and CFO are responsible for establishing and maintaining CMS Energy's disclosure controls and procedures. Management, under the direction of CMS Energy's principal executive and financial officers, has evaluated the effectiveness of CMS Energy's disclosure controls and procedures as of a date within 90 days of the filing of this quarterly report on Form 10-Q/A. Based on these evaluations, CMS Energy's CEO and CFO have concluded that CMS Energy's disclosure controls and procedures are effective to ensure that material information was presented to them and properly disclosed. There have been no significant changes in CMS Energy's internal controls or in other factors that could significantly affect internal controls subsequent to such evaluation.

LIQUIDITY AND CAPITAL RESOURCES

CMS ENERGY PARENT LEVEL LIQUIDITY

In July 2003, CMS Energy paid down \$150 million principal amount of CMS Energy's 8.375% Reset Put Securities due 2013. As a result, CMS Energy recorded a charge of approximately \$19 million after-tax related to the accelerated amortization of debt issuance costs and the premium paid associated with the discharge of these securities.

In July, 2003, CMS Energy issued \$150 million of 3.375% convertible senior notes due 2023 and \$300 million of 7.75% senior notes due 2010. The securities, offered in a private placement under Rule 144A of the Securities Act of 1933, were purchased at closing by certain financial institutions as initial purchasers.

CMS Energy has granted the initial purchasers an option to purchase up to an additional \$50 million of the convertible senior notes for a period of 45 days after closing. Closing on the sales of the notes occurred on July 16, 2003 for the convertible senior notes and July 17, 2003 for the senior notes.

CMS Energy may redeem all or part of the senior notes at any time, for a price equal to 100 percent of the principal amount of the senior notes to be redeemed

Edgar Filing: CMS ENERGY CORP - Form 10-Q/A

plus any accrued and unpaid interest, and additional amounts, if any, to the redemption date. CMS Energy may redeem all or part of the convertible senior notes on or after July 15, 2008, for a price equal to 100 percent of the principal amount of the convertible senior notes to be redeemed plus any accrued and unpaid interest, and additional amounts owed, if any, to the redemption date.

Holders of the convertible senior notes will have the right to require CMS Energy to repurchase all or any part of their convertible senior notes at a repurchase price equal to 100 percent of the principal amount of the convertible senior notes, plus accrued and unpaid interest and additional amounts, if any, on July 15, 2008, July 15, 2013 and July 15, 2018.

Holders of the convertible senior notes may convert their notes prior to maturity into shares of CMS Energy Common Stock under certain circumstances at a conversion price of \$10.671 per share (subject to adjustment in certain events). The senior notes and convertible senior notes, as well as the underlying CMS Energy Common Stock issuable upon conversion, have not been registered under the Securities Act of 1933, although CMS Energy is contractually committed to register the replacement senior notes and convertible senior notes, as well as the CMS Energy Common Stock.

The approximately \$433 million of net proceeds from these offerings will be applied to retire a portion of debt outstanding under CMS Energy's Second Amended and Restated Senior Credit Agreement and to redeem a portion of CMS Energy's 6.75% Senior Notes due January 2004. If exercised, the proceeds from the initial purchasers' option for the additional \$50 million convertible senior notes would be used to refinance existing indebtedness.

CORPORATE OUTLOOK

In July 2003, CMS Energy completed the sale of CMS Field Services to Cantera Resources Inc. for approximately \$112.6 million in cash and a \$50 million face value note of Cantera Resources Inc. The note is payable to CMS Energy for up to \$50 million subject to the financial performance of the Fort Union and Bighorn natural gas gathering systems from 2005 through 2009. The net sales proceeds of approximately \$100.4 million were used to reduce debt.

Effective June 30, 2003, CMS Energy completed the sale of CMS Viron to Chevron Energy Solutions as part of its ongoing asset sale program.

CONSUMERS' ELECTRIC UTILITY BUSINESS OUTLOOK

Securitization: In June 2003, the MPSC issued a financing order authorizing the issuance of \$554 million of Securitization bonds. The order approved Consumers' request to securitize costs associated with federal Clean Air Act expenditures, retail open access implementation costs and expenses associated with the issuance of the securitization bonds. The order also directed that the securitization charges be designed such that retail open access customers would pay a significantly smaller charge than would full

service customers. On July 1, 2003, Consumers filed a petition for rehearing and clarification of certain portions of the order with the MPSC, including the portion dealing with the design of the securitization charges. Depending upon the results and timing of the rehearing and if there are no court appeals and no delays in the offering process, Consumers anticipates, but cannot assure, that

Edgar Filing: CMS ENERGY CORP - Form 10-Q/A

securitization bonds could be issued during the first quarter of 2004.

CONSUMERS' GAS UTILITY BUSINESS OUTLOOK

In July 2003, the MPSC approved a settlement agreement authorizing Consumers to increase its GCR factor for the remainder of their current GCR plan year and to implement a quarterly ceiling price adjustment mechanism. This order will increase the likelihood that Consumers will recover the higher costs associated with its gas purchases in a more timely manner.

ENTERPRISES' OUTLOOK

An affiliate of CMS Generation owns a 49.6 percent interest in the Loy Yang Power Partnership ("LYPP"), which owns the 2,000 megawatts Loy Yang coal-fired power project in Victoria, Australia. Due to unfavorable power prices in the Australian market, the LYPP is not generating cash flow sufficient to meet its operating and debt-service obligations. LYPP currently has A\$500 million of term bank debt that, pursuant to prior extensions from the lenders, was scheduled to mature on July 11, 2003. A further extension was received such that this debt now is scheduled to mature on November 11, 2003. The partners in LYPP (including affiliates of CMS Generation, NRG Energy Inc. and Horizon Energy Australia Investments) have been exploring the possible sale of the project (or control of the project) or a restructuring of the finances of LYPP.

In July 2003, a conditional share sale agreement was executed by the LYPP partners and partners of the Great Energy Alliance Corporation ("GEAC") to sell the project to GEAC for about A\$3.5 billion (approximately \$2.4 billion in U.S. dollars), including A\$165 million (approximately \$111 million in U.S. dollars) for the project equity. The Australian Gas Light Company, the Tokyo Electric Power Company, Inc. and a group of financial investors led by the Commonwealth Bank of Australia formed GEAC earlier this year to explore the possible acquisition of Loy Yang. The conditions to completion of the sale to GEAC include consents from LYPP's lenders to a restructuring of the project's debt, satisfactory resolution of regulatory issues and approvals, rulings on tax and stamp duty obligations, and approvals from the investors in Horizon Energy Australia Investments and the creditors committee of NRG Energy Inc. It should be noted in particular that the Australian federal antitrust regulator has indicated its concern with the potential anticompetitive effects of this transaction. Closing is targeted for early September 2003, however, given the regulatory uncertainties, the parties to the share sale agreement have agreed to extend the date for resolution of the regulatory conditions to closing to not later than November 2, 2003, assuming satisfactory interim resolution of other closing conditions. The share sale agreement provides GEAC a period of exclusivity while the conditions of the purchase are satisfied. The signing of the share sale agreement allows GEAC to begin discussions with LYPP's lenders to pursue a debt restructuring. The proceeds to CMS Energy for its equity share of LYPP are estimated to be approximately \$55 million. However, the ultimate net proceeds to CMS Energy for its equity share in LYPP may be subject to reduction based on the ultimate resolution of many of the factors described above as conditions to completion of the sale, as well as closing adjustments and transaction costs.

CMS Energy cannot predict whether this sale to GEAC will be consummated or, if not, whether any of the other initiatives will be successful, and it is possible that CMS Generation may lose all or a substantial part of its equity investment in the LYPP. CMS Energy has previously written off its equity investment in the

Edgar Filing: CMS ENERGY CORP - Form 10-Q/A

LYPP, and further write-offs would be limited to cumulative net foreign currency translation losses. The amount of such cumulative net foreign currency translation losses is \$119 million at June 30, 2003. Any such write-off would flow through CMS Energy's income statement but would not result in a reduction in shareholders' equity or cause CMS Energy to be in noncompliance with its financing agreements.

In July 2003, CMS Energy and The National Power Company, through their joint venture Jubail Energy Company (JEC), closed a \$170 million limited recourse project financing for construction of a co-generation plant designed to produce up to 250 MW and 510 tons of industrial steam per hour. The plant will be located within the Saudi Petrochemical Company's (SADAF) complex at the Jubail Industrial City in Saudi Arabia. CMS Energy owns 25 percent of JEC, which has entered into a long-term contract with SADAF for the entire output of the plant. The plant is expected to be in operation in 2005 and will be the first independent power plant in Saudi Arabia.

NEW ACCOUNTING STANDARD

SFAS NO. 150, ACCOUNTING FOR CERTAIN FINANCIAL INSTRUMENTS WITH CHARACTERISTICS OF BOTH LIABILITIES AND EQUITY: Issued by the FASB in May 2003, this statement establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. The statement requires an issuer to classify financial instruments within its scope as liabilities. Those instruments were previously classified as mezzanine equity. SFAS No. 150 is effective July 1, 2003.

CMS Energy has determined that Consumers Power Company Financing I, Consumers Energy Company Financing II, Consumers Energy Company Financing III, Consumers Energy Company Financing IV, and CMS Energy Trust I securities fall under the scope of SFAS No. 150. These securities have fixed redemption dates and amounts and qualify as mandatorily redeemable preferred securities under SFAS No. 150. Beginning July 1, 2003, these securities will be reclassified from the mezzanine equity section to the liability section of CMS Energy's consolidated balance sheet at fair value.

CMS Energy has determined that CMS Energy Trust Securities III have both equity and liability characteristics. The securities include both a future stock purchase contract and a preferred security. CMS Energy is continuing to evaluate the overall effect of SFAS No. 150.

68

CMS ENERGY CORPORATION
Consolidated Statements of Income
(Unaudited)
(As Restated, See Note 10)

| September 30 | THREE MONTHS ENDED | | NI |
|--------------------------|--------------------|--------|----|
| | 2002 | 2001 | |
| In Millions, Except Per | | | |
| OPERATING REVENUE | | | |
| Electric utility | \$ 774 | \$ 738 | 2 |

Edgar Filing: CMS ENERGY CORP - Form 10-Q/A

| | | | |
|---|-------|-------|---|
| Gas utility | 134 | 150 | 1 |
| Natural gas transmission | 13 | 20 | |
| Independent power production | 91 | 97 | |
| Marketing, services and trading | 1,557 | 910 | 3 |
| Other | 10 | (17) | |
| | ----- | ----- | |
| | 2,579 | 1,898 | 6 |
| ----- | | | |
| OPERATING EXPENSES | | | |
| Operation | | | |
| Fuel for electric generation | 87 | 67 | |
| Purchased and interchange power - Marketing, services and trading | 1,067 | 349 | 1 |
| Purchased and interchange power | 157 | 222 | |
| Purchased power - related parties | 143 | 155 | |
| Cost of gas sold - Marketing, services and trading | 429 | 524 | 1 |
| Cost of gas sold | 71 | 92 | |
| Other | 249 | 211 | |
| | ----- | ----- | |
| | 2,203 | 1,620 | 5 |
| Maintenance | 49 | 46 | |
| Depreciation, depletion and amortization | 89 | 89 | |
| General taxes | 46 | 44 | |
| Reduced asset valuations | - | 228 | |
| | ----- | ----- | |
| | 2,387 | 2,027 | 6 |
| ----- | | | |
| OPERATING INCOME (LOSS) | | | |
| Electric utility | 175 | 69 | |
| Gas utility | (14) | (1) | |
| Natural gas transmission | (3) | (31) | |
| Independent power production | 38 | (124) | |
| Marketing, services and trading | 15 | (8) | |
| Other | (19) | (34) | |
| | ----- | ----- | |
| | 192 | (129) | |
| ----- | | | |
| OTHER INCOME (DEDUCTIONS) | | | |
| Accretion expense | (8) | (10) | |
| Gain (loss) on asset sales, net | 13 | - | |
| Other, net | (3) | 14 | |
| | ----- | ----- | |
| | 2 | 4 | |
| ----- | | | |
| EARNINGS (LOSS) BEFORE INTEREST AND TAXES | | | |
| | 194 | (125) | |
| ----- | | | |
| FIXED CHARGES | | | |
| Interest on long-term debt | 109 | 96 | |
| Other interest | 5 | 18 | |
| Capitalized interest | (5) | (5) | |
| Preferred dividends | - | - | |
| Preferred securities distributions | 18 | 25 | |
| | ----- | ----- | |
| | 127 | 134 | |
| ----- | | | |
| INCOME (LOSS) BEFORE INCOME TAXES AND MINORITY INTERESTS | | | |
| | 67 | (259) | |
| ----- | | | |
| INCOME TAXES (BENEFITS) | | | |
| | 55 | (84) | |
| ----- | | | |
| MINORITY INTERESTS | | | |
| | - | 1 | |
| ----- | | | |
| INCOME (LOSS) FROM CONTINUING OPERATIONS | | | |
| | 12 | (176) | |

Edgar Filing: CMS ENERGY CORP - Form 10-Q/A

| | | | |
|--|-------|----------|----|
| INCOME (LOSS) FROM DISCONTINUED OPERATIONS, NET OF TAX BENEFIT OF \$7 AND \$101 IN 2002, AND TAX BENEFIT OF \$25 AND TAX EXPENSE OF \$14 IN 2001, RESPECTIVELY | 24 | (202) | |
| <hr/> | | | |
| INCOME (LOSS) BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE | 36 | (378) | |
| CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING FOR DERIVATIVE INSTRUMENTS, NET OF TAX EXPENSE OF \$1, \$-, \$10 AND \$6, RESPECTIVELY | 1 | - | |
| <hr/> | | | |
| CONSOLIDATED NET INCOME (LOSS) | \$ 37 | \$ (378) | \$ |
| <hr/> | | | |

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

69

SEPTEMBER 30

In Million

CMS ENERGY

| |
|---|
| NET INCOME (LOSS) |
| Net Income (Loss) Available to Common Stock |
| |
| BASIC EARNINGS PER AVERAGE COMMON SHARE |
| Income (Loss) from Continuing Operations |
| Income (Loss) from Discontinued Operations |
| Income from Cumulative Effect of Change in Accounting |
| |
| Net Income (Loss) Attributable to Common Stock |
| |
| DILUTED EARNINGS PER AVERAGE COMMON SHARE |
| Income (Loss) from Continuing Operations |
| Income (Loss) from Discontinued Operations |
| Income from Cumulative Effect of Change in Accounting |
| |
| Net Income (Loss) Attributable to Common Stock |
| |
| DIVIDENDS DECLARED PER COMMON SHARE |

Edgar Filing: CMS ENERGY CORP - Form 10-Q/A

SEPTEMBER 30

In Millions, Except

CMS ENERGY

NET INCOME (LOSS)

Net Income (Loss) Available to Common Stock

BASIC EARNINGS PER AVERAGE COMMON SHARE

Income (Loss) from Continuing Operations

Income (Loss) from Discontinued Operations

Income from Cumulative Effect of Change in Accounting

Net Income (Loss) Attributable to Common Stock

DILUTED EARNINGS PER AVERAGE COMMON SHARE

Income (Loss) from Continuing Operations

Loss from Discontinued Operations

Income from Cumulative Effect of Change in Accounting

Net Income (Loss) Attributable to Common Stock

DIVIDENDS DECLARED PER COMMON SHARE

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

70

CMS Energy Corporation

CMS ENERGY CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)
(AS RESTATED, SEE NOTE 10)

SEPTEMBER 30

CASH FLOWS FROM OPERATING ACTIVITIES

Consolidated net income (loss)

Adjustments to reconcile net income to net cash
provided by operating activities

Depreciation, depletion and amortization (includes nuclear
decommissioning of \$5 and \$5, respectively)

Reduced asset valuations

Edgar Filing: CMS ENERGY CORP - Form 10-Q/A

Discontinued operations (Note 2)
Capital lease and debt discount amortization
Accretion expense
Deferred income taxes and investment tax credit
Undistributed earnings from related parties
(Gain) loss on the sale of assets
Cumulative effect of an accounting change
Changes in other assets and liabilities:
Decrease in accounts receivable and accrued revenues
Increase in inventories
Decrease in accounts payable and accrued expenses
Changes in other assets and liabilities

Net cash provided by operating activities

CASH FLOWS FROM INVESTING ACTIVITIES

Capital expenditures (excludes assets placed under capital lease)
Investments in partnerships and unconsolidated subsidiaries
Cost to retire property, net
Investment in Electric Restructuring Implementation Plan
Investments in nuclear decommissioning trust funds
Proceeds from nuclear decommissioning trust funds
Proceeds from sale of assets
Other

Net cash provided by (used in) investing activities

CASH FLOWS FROM FINANCING ACTIVITIES

Proceeds from notes, bonds, and other long-term debt
Proceeds from trust preferred securities
Issuance of common stock
Retirement of bonds and other long-term debt
Retirement of trust preferred securities
Repurchase of common stock
Payment of common stock dividends
Decrease in notes payable, net
Payment of capital lease obligations
Other financing

Net cash provided by (used in) financing activities

NET INCREASE (DECREASE) IN CASH AND TEMPORARY CASH INVESTMENTS

CASH AND TEMPORARY CASH INVESTMENTS, BEGINNING OF PERIOD

CASH AND TEMPORARY CASH INVESTMENTS, END OF PERIOD

Edgar Filing: CMS ENERGY CORP - Form 10-Q/A

SEPTEMBER 30

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

CASH TRANSACTIONS

- Interest paid (net of amounts capitalized)
- Income taxes paid (net of refunds)
- Pension and OPEB cash contributions

NON-CASH TRANSACTIONS

- Nuclear fuel placed under capital lease
- Other assets placed under capital lease

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

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

72

CMS ENERGY CORPORATION
 CONSOLIDATED BALANCE SHEETS
 (AS RESTATED, SEE NOTE 10)

ASSETS

SEPTEMBER 30, 2008
 (UNAUDITED)

PLANT AND PROPERTY (AT COST)

- Electric utility \$ 7,000,000
- Gas utility 2,000,000
- Natural gas transmission
- Independent power production
- Other

Less accumulated depreciation, depletion and amortization 11,000,000

Construction work-in-progress 5,000,000

INVESTMENTS

- Independent power production
- Natural gas transmission
- Midland Cogeneration Venture Limited Partnership
- First Midland Limited Partnership
- Other

Edgar Filing: CMS ENERGY CORP - Form 10-Q/A

CURRENT ASSETS

Cash and temporary cash investments at cost, which approximates market
 Accounts receivable, notes receivable and accrued revenue, less
 allowances of \$5, \$5 and \$6, respectively
 Accounts receivable - Marketing, services and trading,
 less allowances of \$9, \$9 and \$10, respectively
 Accounts receivable and notes receivable - related parties
 Inventories at average cost
 Gas in underground storage
 Materials and supplies
 Generating plant fuel stock
 Assets held for sale
 Price risk management assets
 Prepayments and other

1,

2,

NON-CURRENT ASSETS

Regulatory Assets
 Securitized costs
 Postretirement benefits
 Abandoned Midland Project
 Other
 Assets held for sale
 Price risk management assets
 Nuclear decommissioning trust funds
 Notes receivable - related party
 Notes receivable
 Other

2,

4,

TOTAL ASSETS

\$14,

73

STOCKHOLDERS' INVESTMENT AND LIABILITIES

(AS RESTATED, SEE NOTE 1)

| | September 30 | December 31 |
|--|--------------|-------------|
| | 2002 | 2001 |
| | (Unaudited) | |

CAPITALIZATION

Common stockholders' equity
 Common stock, authorized 250.0 shares; outstanding 144.1 shares,
 133.0 shares and 132.6 shares, respectively
 Other paid-in-capital

| | | | | |
|--|----|-------|----|-------|
| | \$ | 1 | \$ | 1 |
| | | 3,619 | | 3,257 |

76

Edgar Filing: CMS ENERGY CORP - Form 10-Q/A

| | | |
|---|-----------|-----------|
| Other comprehensive loss | (721) | (269) |
| Retained deficit | (1,070) | (951) |
| | ----- | ----- |
| Preferred stock of subsidiary | \$ 1,829 | \$ 2,038 |
| Company-obligated convertible Trust Preferred Securities of subsidiaries (a) | 44 | 44 |
| Company-obligated mandatorily redeemable preferred securities of Consumers' subsidiaries (a) | 393 | 694 |
| Long-term debt | 490 | 520 |
| Non-current portion of capital leases | 5,648 | 5,840 |
| | 110 | 71 |
| | ----- | ----- |
| | 8,514 | 9,207 |
| | ----- | ----- |
| MINORITY INTERESTS | 12 | 24 |
| | ----- | ----- |
| CURRENT LIABILITIES | | |
| Current portion of long-term debt and capital leases | 601 | 1,016 |
| Notes payable | 235 | 416 |
| Accounts payable | 308 | 359 |
| Accounts payable - Marketing, services and trading | 170 | 236 |
| Accrued interest | 114 | 135 |
| Accrued taxes | 259 | 111 |
| Accounts payable - related parties | 56 | 54 |
| Liabilities held for sale | 317 | 639 |
| Price risk management liabilities | 180 | 367 |
| Current portion of purchase power contracts | 29 | 24 |
| Current portion of gas supply contract obligations | 24 | 22 |
| Deferred income taxes | 11 | 49 |
| Other | 243 | 243 |
| | ----- | ----- |
| | 2,547 | 3,671 |
| | ----- | ----- |
| NON-CURRENT LIABILITIES | | |
| Postretirement benefits | 306 | 356 |
| Deferred income taxes | 570 | 824 |
| Deferred investment tax credit | 92 | 102 |
| Regulatory liabilities for income taxes, net | 282 | 276 |
| Liabilities held for sale | 1,321 | 1,376 |
| Price risk management liabilities | 178 | 287 |
| Gas supply contract obligations | 246 | 266 |
| Power purchase agreement - MCV Partnership | 30 | 52 |
| Other | 299 | 334 |
| | ----- | ----- |
| | 3,324 | 3,873 |
| | ----- | ----- |
| COMMITMENTS AND CONTINGENCIES (Notes 1 and 5) | | |
| TOTAL STOCKHOLDERS' INVESTMENT AND LIABILITIES | \$ 14,397 | \$ 16,775 |
| ===== | | |

(a) FOR FURTHER DISCUSSION, SEE NOTE 6 OF THE CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

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

CMS ENERGY CORPORATION
 CONSOLIDATED STATEMENTS OF COMMON STOCKHOLDERS' EQUITY
 (UNAUDITED)
 (AS RESTATED, SEE NOTE 10)

| SEPTEMBER 30 | THREE MONTHS 2002 |
|---|----------------------|
| <hr/> | |
| COMMON STOCK | |
| At beginning and end of period | \$ 1 |
| <hr/> | |
| OTHER PAID-IN CAPITAL | |
| At beginning of period | 3,317 |
| Common stock repurchased | - |
| Common stock reacquired | (1) |
| Common stock issued | 303 |
| At end of period | 3,619 |
| <hr/> | |
| OTHER COMPREHENSIVE INCOME (LOSS) | |
| Investments | |
| At beginning of period | (7) |
| Unrealized gain (loss) on investments (a) | 1 |
| At end of period | (6) |
| | |
| Derivative Instruments (c) | |
| At beginning of period (b) | (29) |
| Unrealized gain (loss) on derivative instruments (a) | (21) |
| Reclassification adjustments included in consolidated net income (loss) (a) | 2 |
| At end of period | (48) |
| <hr/> | |
| FOREIGN CURRENCY TRANSLATION | |
| At beginning of period | (650) |
| Change in foreign currency translation (a) | (17) |
| At end of period | (667) |
| <hr/> | |
| RETAINED EARNINGS (DEFICIT) | |
| At beginning of period | (1,080) |
| Consolidated net income (loss) (a) | 37 |
| Common stock dividends declared | (27) |

Edgar Filing: CMS ENERGY CORP - Form 10-Q/A

| | |
|--|----------|
| At end of period | (1,070) |
| <hr/> | |
| TOTAL COMMON STOCKHOLDERS' EQUITY | \$ 1,829 |
| <hr/> | |
| (a) Disclosure of Comprehensive Income (Loss): | |
| Investments | |
| Unrealized gain (loss) on investments, net of tax of \$(1), \$1, \$- and \$1, respectively | \$ 1 |
| Derivative Instruments | |
| Unrealized loss on derivative instruments, net of tax of \$3, \$2, \$2 and \$13, respectively | (21) |
| Reclassification adjustments included in consolidated net income (loss), net of tax of \$(2), \$-, \$(3) and \$4, respectively | 2 |
| Foreign currency translation, net | (17) |
| Consolidated net income (loss) | 37 |
| <hr/> | |
| Total Consolidated Comprehensive Income (Loss) | \$ 2 |
| <hr/> | |
| (b) Nine months ended September 30, 2001 is the cumulative effect of change in accounting principle, net of \$(8) tax (Note 1). | |
| (c) Included in these amounts is CMS Energy's proportionate share of the effects of derivative accounting related to its equity investment in the MCV Partnership and Taweelah as follows: | |
| MCV Partnership: | |
| At the beginning of the period | \$ 1 |
| Cumulative effect of change in accounting for derivative instruments | - |
| Unrealized gain (loss) on derivative instruments | 1 |
| Reclassification adjustments included in net income | 2 |
| <hr/> | |
| At the end of the period | \$ 4 |
| <hr/> | |
| Taweelah: | |
| At the beginning of the period | \$ - |
| Unrealized gain (loss) on derivative instruments | (24) |
| <hr/> | |
| At the end of the period | \$ (24) |
| <hr/> | |

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

Edgar Filing: CMS ENERGY CORP - Form 10-Q/A

September 30, 2002 and 2001 have been restated, as discussed in Note 10, Restatement, pursuant to audit adjustments resulting from the re-audit of the consolidated financial statements for the years 2001 and 2000, as well as, completion of its restatement of the consolidated financial statements for the quarters of 2002 and 2001.

Except for the addition of Notes 10, 11, 12 and 13 the following notes to the consolidated financial statements have generally only been modified for the effects of the restatement. This document should be read in conjunction with CMS Energy's Form 10-K/A Amendment No. 2 for the fiscal year ended December 31, 2002, CMS Energy's Form 10-Q for the quarterly period ended March 31, 2003 and CMS Energy's Form 8-K, each of which is incorporated by reference herein, and were filed with the SEC on July 1, 2003, May 14, 2003 and June 24, 2003, respectively.

MODIFIED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

In May 2002, as a result of certain financial reporting issues surrounding round-trip trading transactions at CMS MST, CMS Energy announced that it would restate its consolidated financial statements for 2000 and 2001 to eliminate the effects of round-trip energy trades and form a Special Committee to investigate these trades. Following this announcement, CMS Energy received formal notification from Arthur Andersen that it had terminated its relationship with CMS Energy and affiliates. Arthur Andersen notified CMS Energy that due to the investigation, Arthur Andersen's historical opinions on CMS Energy's financial statements for the periods being restated could not be relied upon. Arthur Andersen also notified CMS Energy that it would be unable to give an opinion on CMS Energy's restated financial statements when they were completed. As a result, Ernst & Young began the process of re-auditing CMS Energy's consolidated financial statements for each of the fiscal years ended December 31, 2001 and December 31, 2000. Although Arthur Andersen's notification did not apply to separate, audited financial statements of Consumers and Panhandle for the applicable years, the re-audit did include audit work at Consumers and Panhandle for these years.

In connection with Ernst & Young's re-audit of the financial statements for the fiscal years ended December 31, 2001 and December 31, 2000, CMS Energy has made, in consultation with Ernst & Young, certain adjustments (in addition to the round-trip trades) to its consolidated financial statements for the fiscal years ended December 31, 2001 and December 31, 2000, which affect the results of the quarterly periods within 2001 and 2002. Therefore, the consolidated financial statements for the quarters of 2001, the years ended December 31, 2001 and 2000, and the quarters of 2002 have been restated from amounts previously reported. At

CMS Energy Corporation

the time it adopted the accounting treatment for these items, CMS Energy believed that such accounting was appropriate under accounting principles generally accepted in the United States.

A summary of the principal effects of the restatement on CMS Energy's

Edgar Filing: CMS ENERGY CORP - Form 10-Q/A

consolidated financial statements for the quarterly periods ended March 31, June 30, and September 30, 2002 and are contained in Note 10, Restatement, and unaudited restated financial statements for the first and second quarters of 2002, with comparable restated periods for 2001, are contained in Note 12, Restated Financial Statements for First and Second Quarters, in the notes to the consolidated financial statements.

These interim Consolidated Financial Statements have been prepared by CMS Energy in accordance with SEC rules and regulations, and reflect all normal recurring adjustments, which in the opinion of management, are necessary for the fair presentation of the results of the interim periods presented. In accordance with SEC rules and regulations, certain information and footnote disclosures normally included in full year financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted. Certain prior year amounts have been reclassified to conform to the presentation in the current year. The Condensed Notes to Consolidated Financial Statements and the related Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements and Notes to Consolidated Financial Statements contained in CMS Energy's Form 10-K for the year ended December 31, 2001. Due to the seasonal nature of CMS Energy's operations, the results as presented for this interim period are not necessarily indicative of results to be achieved for the fiscal year.

1: CORPORATE STRUCTURE AND BASIS OF PRESENTATION

CMS Energy is the parent holding company of Consumers and Enterprises. Consumers is a combination electric and gas utility company serving Michigan's Lower Peninsula. Enterprises, through subsidiaries, including Panhandle and its subsidiaries, is engaged in several domestic and international diversified energy businesses including: natural gas transmission, storage and processing; independent power production; and energy marketing, services and trading.

PRINCIPLES OF CONSOLIDATION: The consolidated financial statements include the accounts of CMS Energy, Consumers and Enterprises and their majority-owned subsidiaries. Investments in affiliated companies where CMS Energy has the ability to exercise significant influence, but not control, are accounted for using the equity method. For the three and nine months ended September 30, 2002, undistributed equity earnings were \$14 million and \$71 million, respectively compared to \$40 million and \$37 million for the three and nine months ended September 30, 2001. Intercompany transactions and balances have been eliminated.

USE OF ESTIMATES: The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could materially differ from those estimates.

The recording of estimated liabilities for contingent losses within the financial statements is guided by the principles in SFAS No. 5. SFAS No. 5 requires a company to record estimated liabilities in the financial statements when it is probable that a loss will be paid in the future as a result of a current event, and that

Edgar Filing: CMS ENERGY CORP - Form 10-Q/A

CMS Energy Corporation

amount can be reasonably estimated. CMS Energy has used this accounting principle to record estimated liabilities discussed in Note 5, Uncertainties.

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

In March 1999, Consumers received MPSC electric restructuring orders and, as a result, discontinued application of SFAS No. 71 for the electric supply portion of its business. Discontinuation of SFAS No. 71 for the electric supply portion of Consumers' business resulted in Consumers reducing the carrying value of its Palisades plant-related assets by approximately \$535 million and establishing a regulatory asset for a corresponding amount. According to current accounting standards, Consumers can continue to carry its electric supply-related regulatory assets if legislation or an MPSC rate order allows the collection of cash flows to recover these regulatory assets from its regulated distribution customers. As of September 30, 2002, Consumers had a net investment in electric supply facilities of \$1.426 billion included in electric plant and property. See Note 5, Uncertainties, "Consumers Electric Rate Matters -- Electric Restructuring."

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

CMS Energy believes that the majority of its contracts, power purchase agreements and gas transportation contracts qualify for the normal purchases and sales exception of SFAS No. 133 and are not subject to the accounting rules for derivative instruments. CMS Energy uses derivative instruments that require derivative accounting, to limit its exposures to electricity and gas commodity price risk. The interest rate and foreign currency exchange contracts met the requirements for hedge accounting under SFAS No. 133 and CMS Energy recorded the changes in the fair value of these contracts in other comprehensive income.

The financial statement impact of recording the SFAS No. 133 transition adjustment on January 1, 2001 is as follows:

| | In Millions |
|--|-------------|
| Fair value of derivative assets | \$35 |
| Fair value of derivative liabilities | 14 |
| Increase in accumulated other comprehensive income, net of tax | 7 |

Consumers believes that certain of its electric capacity and energy contracts do not qualify as derivatives due to the lack of an active energy market in the state of Michigan and the transportation cost to deliver the power under the contracts to the closest active energy market at the Cinergy hub in Ohio. If a

Edgar Filing: CMS ENERGY CORP - Form 10-Q/A

market develops in the future, Consumers may be required to account for these contracts as derivatives. The mark-to-market impact in earnings related to these contracts, particularly related to the purchase power agreement with the MCV, could be material to the financial statements.

78

CMS Energy Corporation

On January 1, 2001, upon initial adoption of the standard including adjustments for subsequent guidance, CMS Energy recorded a \$7 million, net of tax, cumulative effect adjustment as an increase in accumulated other comprehensive income. This adjustment relates to the difference between the fair value and recorded book value of contracts related to gas call options, gas fuel for generation swap contracts, and interest rate swap contracts that qualified for hedge accounting prior to the initial adoption of SFAS No. 133 and Consumers' proportionate share of the effects of adopting SFAS No. 133 related to its equity investment in the MCV Partnership. Based on the pretax initial transition adjustment of \$21 million recorded in accumulated other comprehensive income at January 1, 2001, Consumers reclassified to earnings \$12 million as a reduction to the cost of gas, \$1 million as a reduction to the cost of power supply, \$2 million as an increase in interest expense and \$8 million as an increase in other revenues for the twelve months ended December 31, 2001. CMS Energy recorded \$12 million as an increase in interest expense during 2001, which includes the \$2 million of additional interest expense at Consumers. The difference between the initial transition adjustment and the amounts reclassified to earnings represents an unrealized loss in the fair value of the derivative instruments since January 1, 2001, resulting in a decrease of other comprehensive income.

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

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

For further discussion of derivative activities, see Note 5, Uncertainties, "Other Consumers' Electric Utility Uncertainties -- Derivative Activities" and "Other Consumers' Gas Utility Uncertainties -- Derivative Activities".

FOREIGN CURRENCY TRANSLATION: CMS Energy's subsidiaries and affiliates whose functional currency is other than the U.S. Dollar translate their assets and liabilities into U.S. Dollars at the current exchange rates in effect at the end of the fiscal period. The revenue and expense accounts of such subsidiaries and

Edgar Filing: CMS ENERGY CORP - Form 10-Q/A

affiliates are translated into U.S. Dollars at the average exchange rates that prevailed during the period. The gains or losses that result from this process, and gains and losses on intercompany foreign currency transactions that are long-term in nature, and which CMS Energy does not intend to settle in the foreseeable future, are shown in the stockholders' equity section of the balance sheet. For subsidiaries operating in highly inflationary economies, the U.S. Dollar is considered to be the functional currency, and transaction gains and losses are included in determining net income. Gains and losses that arise from exchange rate

79

CMS Energy Corporation

fluctuations on transactions denominated in a currency other than the functional currency, except those that are hedged, are included in determining net income.

RECLASSIFICATIONS: CMS Energy has reclassified certain prior year amounts for comparative purposes. For the three and nine months ended September 30, 2002 and 2001, CMS Energy reclassified a portion of cost of gas sold in 2001 to other operating expenses, reclassified various operations to discontinued operations, and reclassified the gain on the sale of CMS Oil and Gas' Equatorial Guinea properties to discontinued operations. These reclassifications did not affect consolidated net income for the years presented.

RESTRUCTURING AND OTHER COSTS: CMS Energy began a series of initiatives in the aftermath of CMS Energy's round-trip trading disclosure and the sharp drop of the company's stock price. Significant expenses associated with these initiatives have been incurred and are considered restructuring and other costs. These actions include: termination of five officers, 18 CMS Field Services employees and 37 CMS MST trading group employees, renegotiating a number of debt agreements, responding to many investigation and litigation matters, re-audit of the 2000 and 2001 financial statements and plans to relocate the corporate headquarters to Jackson, Michigan.

Restructuring and other costs for the year-to-date September 30, 2002, which are reported in operating expenses (\$41 million) and fixed charges (\$12 million) includes:

- o Involuntary termination benefits of \$17 million for officers and employees.
- o Consulting and restructuring fees of \$12 million to assist CMS Energy to arrange credit facilities related to the July 2002 debt renegotiations.
- o The \$12 million of expense associated with responding to and/or defending against investigations and lawsuits related to round-trip trading. These expenses could total \$21 million for attorneys' fees and costs. Potential insurance proceeds may total \$12 million, reducing these expenses to \$9 million.
- o Expenses for future rentals of \$7 million have been accrued in connection with relocating the corporate headquarters to Jackson, Michigan. The relocation is expected to be complete by June 2003.
- o Other expenses, including the cost of re-auditing 2000 and 2001 total \$5 million.

Of the above \$53 million, \$12 million has been paid for consulting and restructuring fees and \$10 million has been paid for severance and benefits as of September 30, 2002.

Additional restructuring and other costs are expected in the fourth quarter of

Edgar Filing: CMS ENERGY CORP - Form 10-Q/A

2002 of approximately \$5 million related to relocating the corporate headquarters, terminating approximately 30 employees, and additional legal expenses for litigation issues. In the first half of 2003, restructuring and other costs related to relocating employees and other headquarters expenses are expected to be \$2 million. The relocation is expected to occur between March and June 2003.

TAX LOSS ALLOCATION: The Job Creation and Worker Assistance Act of 2002 provided to corporate taxpayers a 5-year carryback of tax losses incurred in 2001 and 2002. As a result of this legislation, CMS Energy was able to carry back a consolidated 2001 tax loss to tax years 1996 through 1999 and obtain refunds of prior years tax payments totaling \$217 million. The tax loss carryback, however, resulted in a

80

CMS Energy Corporation

reduction in AMT credit carryforwards that previously had been recorded by CMS Energy as deferred tax assets in the amount of \$41 million. This non-cash reduction in AMT credit carryforwards has been reflected in the tax provision of CMS Energy as of September 30, 2002.

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

EITF ISSUE NO. 02-3, "RECOGNITION AND REPORTING OF GAINS AND LOSSES ON ENERGY TRADING CONTRACTS UNDER EITF ISSUES NO. 98-10 AND 00-17": In September 2002, the EITF reaffirmed the consensus originally reached in June 2002 that requires all gains and losses, including mark-to-market gains and losses and physical settlements, related to energy trading activities within the scope of EITF Issue No. 98-10 be presented as a net amount in the income statement. This consensus is applicable to financial statement periods ending after July 15, 2002 and requires the reclassification of comparable reporting periods.

At the October 25, 2002 meeting, the EITF reached a consensus to rescind EITF Issue No. 98-10, Accounting for Contracts Involved in Energy Trading and Risk Management Activities. As a result, only energy contracts that meet the definition of a derivative in SFAS No. 133 will be carried at fair value. Energy trading contracts that do not meet the definition of a derivative must be

Edgar Filing: CMS ENERGY CORP - Form 10-Q/A

accounted for as an executory contract (i.e., on an accrual basis). The consensus rescinding EITF Issue No. 98-10 must be applied to all contracts that existed as of October 25, 2002 and must be recognized as a cumulative effect of a change in accounting principle in accordance with APB Opinion No. 20, Accounting Changes, effective the first day of the first interim or annual period beginning after December 15, 2002. The consensus also must be applied immediately to all new contracts entered into after October 25, 2002. As a result of these recent changes, CMS Energy will evaluate its existing energy contracts to determine if any changes in the method of reporting the results of these contracts will be required effective January 1, 2003.

SFAS NO. 142, GOODWILL AND OTHER INTANGIBLE ASSETS: SFAS No. 142, issued in July 2001, requires that goodwill and other intangible assets no longer be amortized to earnings, but instead be reviewed for impairment on an annual basis. Goodwill represents the excess of the fair value of the net assets of acquired companies and was amortized using the straight-line method, up to a forty-year life, through December 31, 2001. Effective January 1, 2002, CMS Energy adopted SFAS No. 142 (see Note 4, Goodwill).

81

CMS Energy Corporation

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

2: DISCONTINUED OPERATIONS

In accordance with SFAS No. 144, discontinued operations include components of entities or entire entities that, through disposal transactions, will be eliminated from the ongoing operations of CMS Energy. The assets and liabilities of these entities were measured at the lower of the carrying value or the fair value less cost to sell as required by SFAS No. 144. A description of the entities included in discontinued operations is as follows:

In September 2002, CMS Energy closed on the sale of the stock of CMS Oil and Gas and the stock of a subsidiary of CMS Oil and Gas that holds property in Venezuela. In October 2002, CMS Energy closed on the sale of CMS Oil and Gas' properties in Colombia. As a result of these closings, CMS Energy has completed its exit from the oil and gas exploration and production business. The proceeds from the combined sales total approximately \$232 million and have been used to retire the remaining balance on a \$150 million Enterprises term loan due in December 2002 and a portion of a \$295.8 million CMS Energy loan due March 2003. The combined sales resulted in a loss of approximately \$126 million (\$82 million, net of tax), which is included in discontinued operations at September 30, 2002.

Edgar Filing: CMS ENERGY CORP - Form 10-Q/A

In June 2002, CMS Energy announced its plan to sell CMS MST's energy performance contracting subsidiary, CMS Viron. CMS Viron enables building owners to improve their facilities with equipment upgrades and retrofits and finance the work with guaranteed energy and operational savings. CMS Viron's strongest markets are in the mid Atlantic, Midwest and California. CMS MST, upon announcing its intention to put CMS Viron up for sale, was required to measure the assets and liabilities of CMS Viron at the lower of the carrying value or the fair value less cost to sell in accordance with SFAS No. 144. After evaluating all of the relevant facts and circumstances including third-party bid data and liquidation analysis, an impairment charge of \$6 million, net of tax, was reflected as an estimated loss on discontinued operations in accordance with the provisions of SFAS No. 144. CMS Energy is actively seeking a buyer for the assets of CMS Viron and although the timing of this sale is difficult to predict, nor can it be assured, management expects the sale to occur in 2003.

In June 2002, CMS Energy abandoned the Zirconium Recovery Project, which was initiated in January 2000. The purpose of the project was to extract and sell uranium and zirconium from a pile of caldesite ore held by the Defense Logistic Agency of the U.S. Department of Defense. After evaluating future cost and risk, CMS Energy decided to abandon this project and recorded a \$47 million loss (\$31 million, net of tax)

82

CMS Energy Corporation

in discontinued operations.

In May 2002, CMS Energy closed on the sale of CMS Oil and Gas' coalbed methane holdings in the Powder River Basin to XTO Energy. The Powder River properties were included in discontinued operations for the first four months of 2002, including a gain on the sale of \$17 million (\$11 million net of tax).

In January 2002, CMS Energy completed the sale of its ownership interests in Equatorial Guinea to Marathon Oil Company for approximately \$993 million. Included in the sale were all of CMS Oil and Gas' oil and gas reserves in Equatorial Guinea and CMS Gas Transmission's ownership interest in the related methanol plant. The gain on the Equatorial Guinea properties of \$497 million (\$310 million, net of tax) is included in discontinued operations.

In September 2001, CMS Energy discontinued the operations of the International Energy Distribution segment. CMS Energy is actively seeking a buyer for the assets of CMS Electric and Gas, and although the timing of this sale is difficult to predict, nor can it be assured, management expects the sale to occur in 2003.

The summary of balance sheet information below represents those entities that, as of September 30, 2002, are still in the disposal process, including Panhandle, CMS Viron, Field Services, and International Energy Distribution. The assets and liabilities of the discontinued operations are shown as separate components in the consolidated balance sheets of CMS Energy.

| | |
|--------------|------------------|
| September 30 | Restated 2002 |
|--------------|------------------|

Edgar Filing: CMS ENERGY CORP - Form 10-Q/A

ASSETS

| | |
|--|----------|
| Cash | \$ 60 |
| Accounts receivable, net | 139 |
| Materials and supplies | 86 |
| Other | 53 |
| <hr/> | |
| Total Current Assets Held For Sale | \$ 338 |
| <hr/> | |
| Property, plant and equipment, net | \$ 1,958 |
| Unconsolidated investments | 104 |
| Goodwill | 136 |
| Other | 51 |
| <hr/> | |
| Total Non-Current Assets Held For Sale | \$ 2,249 |
| <hr/> | |

83

CMS Energy Corporation

| | |
|---|------------------|
| September 30 | Restated 2002 |
| <hr/> | |
| LIABILITIES | |
| Accounts payable | \$ 95 |
| Current portion of long-term debt | 3 |
| Accrued taxes | 16 |
| Other current liabilities | 203 |
| <hr/> | |
| Total Current Liabilities Held For Sale | \$ 317 |
| <hr/> | |
| Long-term debt | \$1,155 |
| Minority interest | 91 |
| Other non-current liabilities | 75 |
| <hr/> | |
| Total Non-Current Liabilities Held For Sale | \$1,321 |
| <hr/> | |

Revenues from such operations were \$653 million and \$1,121 million for the nine months ended September 30, 2002 and 2001, respectively. In accordance with SFAS No. 144, the net income (loss) of the operations is included in the consolidated statements of income under "discontinued operations". The income (loss) related to discontinued operations includes a reduction in asset values, a provision for anticipated closing costs, and a portion of CMS Energy's interest expense. Interest expense of \$55 million and \$73 million for the nine months ended September 30, 2002 and 2001, respectively, has been allocated to discontinued operations based on the ratio of total capital of each discontinued operation to that of CMS Energy. See the table below for income statement components of the discontinued operations.

Edgar Filing: CMS ENERGY CORP - Form 10-Q/A

| Nine months ended September 30 | Restated 2002 |
|---|------------------|
| Discontinued operations: | |
| Income (loss) from discontinued operations, net of taxes of \$34 and \$30 | \$ (27) |
| Loss on disposal of discontinued operations, net of tax benefit of \$68 and \$16 | (127) |
| Total | \$ (154) |

3: ASSET DISPOSITIONS

During 2002, CMS Energy continued to implement its financial improvement plan and on-going asset sales program that was initiated in late 2001. The asset sales program encompasses the sale of all non-strategic and under-performing assets. The impacts of these sales are included in "Gain (loss) on asset sales, net" on the Consolidated Statements of Income.

In January 2002, CMS Energy completed the sale of its ownership interests in Equatorial Guinea to Marathon Oil Company for approximately \$993 million. Proceeds from this transaction were used primarily to retire existing debt. Included in the sale were all of CMS Oil and Gas' oil and gas reserves in Equatorial Guinea and CMS Gas Transmission's ownership interest in the related methanol plant. The pretax gain on the sale was \$516 million (\$322 million, net of tax). The gain on the Equatorial Guinea properties of \$497 million (\$310 million, net of tax) is

included in "Income (Loss) From Discontinued Operations" and the gain on the methanol plant of \$19 million (\$12 million, net of tax) is included in "Gain (loss) on asset sales, net" on the Consolidated Statements of Income.

In April 2002, CMS Energy sold its equity ownership interest in Toledo Power Company electric generating facility in the Philippines for \$10 million. Proceeds from the sale were used to repay debt. The pretax loss of \$11 million (\$5 million, net of tax) is included in "Gain (loss) on asset sales, net" on the Consolidated Statements of Income.

In May 2002, Consumers closed on the sale of its electric transmission system to a limited partnership whose general partner is Washington D.C.-based Trans-Elect. Also in May 2002, Consumers sold its reactor top equipment. These sales totaled approximately \$295 million. The pretax gains on these sales, which totaled \$38 million (\$31 million, net of tax) are included in "Gain (loss) on asset sale, net" on the Consolidated Statements of Income.

Edgar Filing: CMS ENERGY CORP - Form 10-Q/A

In August 2002, CMS Energy sold its equity ownership interest in The National Power Supply Company electric generating facility in Thailand for \$48 million. The pretax gain of \$15 million (\$30 million, net of tax benefit) is included in "Gain (loss) on asset sales, net" on the Consolidated Statements of Income.

In October 2002, CMS Land executed a settlement agreement abandoning its 50% ownership interest in Bay Harbor Company, LLC, a real estate development company located in the northwestern region of Michigan's lower peninsula. The settlement agreement requires CMS Land to pay \$16 million to Bay Harbor in consideration for certain indemnities and past liabilities assumed by Bay Harbor. CMS Land's investment in Bay Harbor at September 30, 2002 was \$9 million.

Also in October 2002, CMS Generation completed the sale of its ownership interest in the 200 MW Vasavi Power Plant, located in Tamil Nada, India for \$34 million. CMS Generation's investment in the Vasavi Power Plant at September 30, 2002 was \$59 million.

4: GOODWILL

CMS GAS TRANSMISSION: Effective January 1, 2002, SFAS No. 142 disallowed the continued amortization of goodwill and required the testing of goodwill for potential impairment. In accordance with SFAS No. 142, Panhandle completed the first step of the goodwill impairment testing which indicated a significant impairment of Panhandle's goodwill existed as of January 1, 2002. The actual amount of impairment was determined in a second step by comparing the fair value of goodwill, as determined by independent appraisers, to book value, using a combination of the income approach based on discounted cash flows and the market approach using public guideline companies and market transactions. As a result of this second step appraisal, Panhandle recorded a write-off of goodwill in the amount of \$601 million (\$369 million, net of tax).

CMS MST: During the third quarter of 1999, CMS MST purchased a 100 percent interest in Viron Energy Services. CMS MST consolidated the activity of CMS Viron and recorded goodwill as a result of the purchase price allocation. Based on the quantitative and qualitative analysis, CMS MST recorded a loss of \$15 million (\$10 million, net of tax) for goodwill impairment effective January 1, 2002.

CMS Energy Corporation

In 2002, CMS Energy discontinued the operations of Panhandle. As a result, the goodwill impairment of \$369 million after tax is reflected in discontinued operations. Also in 2002, CMS Energy discontinued the operations of CMS Viron. As a result, the goodwill impairment of \$10 million after tax is reflected in discontinued operations.

Accumulated amortization of goodwill at September 30, 2002 and 2001 was \$66 million and \$62 million, respectively. Additionally, the following table represents pro forma net income for the nine months ended September 30, 2002 and 2001, exclusive of amortization expense.

Restated
2002

Edgar Filing: CMS ENERGY CORP - Form 10-Q/A

| | | In Milli |
|---|----|----------|
| Reported Net Income (Loss)..... | \$ | 5 |
| Add: goodwill amortization expense, net of tax of \$ -- and \$5, respectively..... | | -- |
| Adjusted Net Income (Loss)..... | \$ | 5 |
| Adjusted Net Income (Loss) Per Share..... | \$ | 0.04 |

5: UNCERTAINTIES

ROUND-TRIP TRADES: During the period of May 2000 through January 2002, CMS MST engaged in simultaneous, prearranged commodity trading transactions in which energy commodities were sold and repurchased at the same price. These transactions, which had no impact on previously reported consolidated net income, earnings per share or cash flows, had the effect of increasing operating revenues, operating expenses, accounts receivable, accounts payable and reported trading volumes. After internally concluding that cessation of these trades was in CMS Energy's best interest, these so called round-trip trades were halted in January 2002.

CMS Energy accounted for these trades in gross revenue and expense through the third quarter of 2001, but subsequently concluded that these round-trip trades should have been reflected on a net basis. In the fourth quarter of 2001, CMS Energy ceased recording these trades in either revenues or expenses. CMS Energy's 2001 Form 10-K, filed in March 2002, restated revenue and expense for the first three quarters of 2001 to eliminate \$4.2 billion of previously reported revenue and expense. The 2001 Form 10-K did include \$5 million of revenue and expense for 2001 from such trades, which remained uncorrected. At the time of the initial restatement, CMS Energy inadvertently failed to restate 2000 for round-trip trades.

CMS Energy is cooperating with an SEC investigation regarding round-trip trading and the Company's financial statements, accounting practices and controls. CMS Energy is also cooperating with inquiries by the Commodity Futures Trading Commission, the FERC, and the United States Department of Justice regarding these transactions. CMS Energy has also received subpoenas from the U.S. Attorney's Office for the Southern District of New York and from the U.S. Attorney's Office in Houston regarding investigations of these trades and has received a number of shareholder class action lawsuits. In addition, CMS Energy's Board of Directors established the Special Committee of independent directors to investigate matters surrounding round-trip trading and the Special Committee retained outside counsel to assist in the investigation.

On October 31, 2002, the Special Committee reported the results of its investigation to the Board of Directors. The Special Committee discovered no new information inconsistent with the information previously reported by CMS Energy and as reported above. The investigation also concluded that the round-trip trades were undertaken to raise CMS MST's profile as an energy marketer, with the goal of enhancing CMS MST's ability to promote its services to new customers. The Special Committee found no apparent effort to manipulate the price of CMS Energy Common Stock or to affect energy prices.

Edgar Filing: CMS ENERGY CORP - Form 10-Q/A

The Special Committee also made recommendations designed to prevent any reoccurrence of this practice, some of which have already been implemented, including the termination of the speculative trading business and revisions to CMS Energy's risk management policy. The Board of Directors adopted, and CMS Energy has begun implementing, the remaining recommendations of the Special Committee.

CONSUMERS' ELECTRIC UTILITY CONTINGENCIES

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

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

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

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

Consumers is a potentially responsible party at several contaminated sites administered under Superfund. Superfund liability is joint and several. Along with Consumers, many other creditworthy, potentially

responsible parties with substantial assets cooperate with respect to the individual sites. Based upon past negotiations, Consumers estimates that its

Edgar Filing: CMS ENERGY CORP - Form 10-Q/A

share of the total liability for the known Superfund sites will be between \$1 million and \$9 million. As of September 30, 2002, Consumers had accrued the minimum amount of the range for its estimated Superfund liability.

In October 1998, during routine maintenance activities, Consumers identified PCB as a component in certain paint, grout and sealant materials at the Ludington Pumped Storage facility. Consumers removed and replaced part of the PCB material. In April 2000, Consumers proposed a plan to deal with the remaining materials and is awaiting a response from the EPA.

CONSUMERS' ELECTRIC RATE MATTERS

ELECTRIC RESTRUCTURING: In June 2000, the Michigan Legislature passed electric utility restructuring legislation known as the Customer Choice Act. This act: 1) permits all customers to choose their electric generation supplier beginning January 1, 2002; 2) cut residential electric rates by five percent; 3) freezes all electric rates through December 31, 2003, and establishes a rate cap for residential customers through at least December 31, 2005, and a rate cap for small commercial and industrial customers through at least December 31, 2004; 4) allows for the use of low-cost Securitization bonds to refinance qualified costs, as defined by the act; 5) establishes a market power supply test that may require transferring control of generation resources in excess of that required to serve firm retail sales requirements (a requirement Consumers believes itself to be in compliance with at this time); 6) requires Michigan utilities to join a FERC-approved RTO or divest their interest in transmission facilities to an independent transmission owner; (Consumers has sold its interest in its transmission facilities to an independent transmission owner, see "Transmission" below) 7); requires Consumers, Detroit Edison and American Electric Power to jointly expand their available transmission capability by at least 2,000 MW; 8) allows deferred recovery of an annual return of and on capital expenditures in excess of depreciation levels incurred during and before the rate freeze/cap period; and 9) allows recovery of "net" Stranded Costs and implementation costs incurred as a result of the passage of the act. In July 2002, the MPSC issued an order approving the plan to achieve the increased transmission capacity. Once the increased transmission capacity projects identified in the plan are completed, verification of compliance is required to be sent to the MPSC. Upon submittal of verification of compliance, Consumers expects to be deemed in compliance with the MPSC statute. Consumers is highly confident that it will meet the conditions of items 5 and 7 above, prior to the earliest rate cap termination dates specified in the act. Failure to do so, however, could result in an extension of the rate caps to as late as December 31, 2013.

In 1998, Consumers submitted a plan for electric retail open access to the MPSC. In March 1999, the MPSC issued orders generally supporting the plan. The Customer Choice Act states that the MPSC orders issued before June 2000 are in compliance with this act and enforceable by the MPSC. Those MPSC orders: 1) allow electric customers to choose their supplier; 2) authorize recovery of "net" Stranded Costs and implementation costs; and 3) confirm any voluntary commitments of electric utilities. In September 2000, as required by the MPSC, Consumers once again filed tariffs governing its retail open access program and made revisions to comply with the Customer Choice Act. In December 2001, the MPSC approved revised retail open access tariffs. The revised tariffs establish the rates, terms, and conditions under which retail customers will be permitted to choose an alternative electric supplier. The tariffs, effective January 1, 2002, did not require significant modifications in the existing retail open access program. The tariff terms allow retail open access customers, upon as little as 30 days notice to Consumers, to return to Consumers'

generation service at current tariff rates. If any class of customers' (residential, commercial, or industrial) retail open access load reaches 10 percent of Consumers' total load for that class of customers, then returning retail open access customers for that class must give 60 days notice to return to Consumers' generation service at current tariff rates. However, Consumers may not have sufficient, reasonably priced, capacity to meet the additional demand of returning retail open access customers, and may be forced to purchase electricity on the spot market at higher prices than it could recover from its customers.

SECURITIZATION: In October 2000 and January 2001, the MPSC issued orders authorizing Consumers to issue Securitization bonds. Securitization typically involves issuing asset-backed bonds with a higher credit rating than conventional utility corporate financing. The orders authorized Consumers to securitize approximately \$469 million in qualified costs, which were primarily regulatory assets plus recovery of the Securitization expenses. Securitization resulted in lower interest costs and a longer amortization period for the securitized assets, and offset the majority of the impact of the required residential rate reduction (approximately \$22 million in 2000 and \$49 million annually thereafter). The orders directed Consumers to apply any cost savings in excess of the five percent residential rate reduction to rate reductions for non-residential customers and reductions in Stranded Costs for retail open access customers after the bonds are sold. Excess savings are approximately \$12 million annually.

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

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

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

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

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

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

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

POWER SUPPLY COSTS: During periods when electric demand is high, the cost of purchasing electricity on the spot market can be substantial. To reduce Consumers' exposure to the fluctuating cost of electricity, and to ensure adequate supply to meet demand, Consumers intends to maintain sufficient

Edgar Filing: CMS ENERGY CORP - Form 10-Q/A

generation and to purchase electricity from others to create a power supply reserve, also called a reserve margin. The reserve margin provides additional power supply capability above Consumers' anticipated peak power supply

90

CMS Energy Corporation

demands. It also allows Consumers to provide reliable service to its electric service customers and to protect itself against unscheduled plant outages and unanticipated demand. Traditionally, Consumers has planned for a reserve margin of approximately 15 percent. However, in light of the addition of new in-state generating capacity, additional transmission import capability, and FERC's standard market design notice of proposed rulemaking, which calls for a minimum reserve margin of 12 percent, Consumers is currently evaluating the appropriate reserve margin for 2003 and beyond. The ultimate use of the reserve margin needed will depend primarily on summer weather conditions, the level of retail open access requirements being served by others during the summer, and any unscheduled plant outages. As of November 2002, alternative electric suppliers are providing 446 MW of generation supply to customers.

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

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

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

Edgar Filing: CMS ENERGY CORP - Form 10-Q/A

According to the MPSC, "net" Stranded Costs are to be recovered from retail open access customers through a Stranded Cost transition charge. Even though the MPSC set Consumers' Stranded Cost transition charge at zero for calendar year 2000, those costs for 2000 will be subject to further review in the context of the MPSC's subsequent determinations of "net" Stranded Costs for 2001 and later years. The MPSC authorized Consumers to use deferred accounting to recognize the future recovery of costs determined to be stranded. In April 2002, Consumers made "net" Stranded Cost filings with the MPSC for

CMS Energy Corporation

\$22 million and \$43 million for 2000 and 2001, respectively. In the same filing, Consumers estimated that it would experience "net" Stranded Costs of \$126 million for 2002. After a series of appeals and hearings, Consumers in its hearing brief, filed in August 2002, revised its request for Stranded Costs to \$7 million and \$4 million for 2000 and 2001, respectively, and an estimated \$73 million for 2002. The single largest reason for the difference in the filing was the exclusion of all costs associated with expenditures required by the Clean Air Act. Consumers, in a separate filing, requested regulatory asset accounting treatment for its Clean Air Act expenditures through 2003. The outcome of these proceedings before the MPSC is uncertain at this time.

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

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

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

Edgar Filing: CMS ENERGY CORP - Form 10-Q/A

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

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

92

CMS Energy Corporation

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

OTHER CONSUMERS' ELECTRIC UTILITY UNCERTAINTIES

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

Summarized Statements of Income for CMS Midland and CMS Holdings

| September 30 | 2002 |
|-------------------------|------|
| Pretax operating income | \$63 |
| Income taxes and other | 21 |
| Net Income | \$42 |

Summarized Statements of Income for the MCV Partnership

| September 30 | 2002 |
|---|-------|
| Operating revenue | \$451 |
| Operating expenses | 318 |
| Operating income | 133 |
| Other expense, net | 86 |
| Income before cumulative effect of accounting change | 47 |
| Cumulative effect of change in method of accounting for derivative option contracts | 58 |
| Net Income | \$105 |

Power Supply Purchases from the MCV Partnership - Consumers' annual obligation to purchase capacity from the MCV Partnership is 1,240 MW through the termination of the PPA in 2025. The PPA requires Consumers to pay, based on the MCV Facility's availability, a levelized average capacity charge of 3.77 cents per kWh, a fixed energy charge, and a variable energy charge based primarily on Consumers' average cost of coal consumed for all kWh delivered. Since January 1, 1993, the MPSC has permitted Consumers to recover capacity charges averaging 3.62 cents per kWh for 915 MW, plus a substantial portion of the fixed and variable energy charges. Since January 1, 1996, the MPSC has also permitted Consumers to recover capacity charges for the remaining 325 MW of contract capacity with an initial average charge of 2.86 cents per kWh increasing periodically to an eventual 3.62 cents per kWh by 2004 and thereafter. However, due to the current freeze of Consumers' retail rates that the Customer Choice Act requires, the capacity charge for the 325 MW is now frozen at 3.17 cents per kWh. After September 2007, the PPA's terms obligate Consumers to pay the MCV Partnership only those capacity and energy charges that the MPSC has authorized for recovery from electric customers.

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

Edgar Filing: CMS ENERGY CORP - Form 10-Q/A

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

94

CMS Energy Corporation

| | 2002 | 2003 | 2004 | 200 |
|---|------|------|------|-----|
| Estimated cash underrecoveries at 98.5%, net of tax | \$38 | \$37 | \$36 | \$3 |

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

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

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

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

The following table reflects the audit adjustments associated with the MCV PPA

Edgar Filing: CMS ENERGY CORP - Form 10-Q/A

accounting and the related net income effects for the periods ended December 31, 2001 and December 31, 2000:

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

CMS Energy Corporation

In February 1998, the MCV Partnership appealed the January 1998 and February 1998 MPSC orders related to electric utility restructuring. At the same time, MCV Partnership filed suit in the United States District Court in Grand Rapids seeking a declaration that the MPSC's failure to provide Consumers and MCV Partnership a certain source of recovery of capacity payments after 2007 deprived MCV Partnership of its rights under the Public Utilities Regulatory Policies Act of 1978. In July 1999, the District Court granted MCV Partnership's motion for summary judgment. The Court permanently prohibited enforcement of the restructuring orders in any manner that denies any utility the ability to recover amounts paid to qualifying facilities such as the MCV Facility or that precludes the MCV Partnership from recovering the avoided cost rate. The MPSC appealed the Court's order to the 6th Circuit Court of Appeals in Cincinnati. In June 2001, the 6th Circuit overturned the lower court's order and dismissed the case against the MPSC. The appellate court determined that the case was premature and concluded that the qualifying facilities needed to wait until 2008 for an actual factual record to develop before bringing claims against the MPSC in federal court. The MCV Partnership has requested rehearing of the appellate court's order.

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

For nuclear fuel used after April 6, 1983, Consumers charges disposal costs to nuclear fuel expense, recovers these costs through electric rates, and then

Edgar Filing: CMS ENERGY CORP - Form 10-Q/A

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

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

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

CMS Energy Corporation

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

The amount of spent nuclear fuel discharged from the reactor to date exceeds Palisades' temporary on-site storage pool capacity. Consequently, Consumers is using NRC-approved steel and concrete vaults, commonly known as "dry casks", for temporary on-site storage. As of September 30, 2002, Consumers had loaded 18 dry casks with spent nuclear fuel at Palisades. Palisades will need to load additional dry casks by the fall of 2004 in order to continue operation. Palisades currently has three empty storage-only dry casks on-site, with storage pad capacity for up to seven additional loaded dry casks. Consumers anticipates that licensed transportable dry casks for additional storage, along with more storage pad capacity, will be available prior to 2004.

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

Edgar Filing: CMS ENERGY CORP - Form 10-Q/A

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

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

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

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

Consumers maintains insurance against property damage, debris removal, personal injury liability and other risks that are present at its nuclear facilities. Consumers also maintains coverage for replacement power supply costs during certain prolonged accidental outages at Palisades. Insurance would not cover such costs during the first 12 weeks of any outage, but would cover most of such costs during the next 52 weeks of the outage, followed by reduced coverage to 80 percent for 110 additional weeks. The June 2001 through January 2002 Palisades outage, however, was not an insured event. If certain covered losses occur at its own or other nuclear plants similarly insured, Consumers could be required to pay maximum assessments of \$25.8 million in any one year to NEIL; \$88 million per occurrence under the nuclear liability secondary financial protection program, limited to \$10 million per occurrence in any year; and \$6 million if nuclear workers claim bodily injury from radiation exposure. Consumers considers the possibility of these assessments to be remote. NEIL limits its coverage from multiple acts of terrorism during a twelve-month period to a maximum aggregate of \$3.24 billion, allocated among the claimants, plus recoverable reinsurance, indemnity and other sources, which could affect the amount of loss coverage for Consumers should multiple acts of terrorism occur. The Price Anderson Act is currently in the process of reauthorization by the U. S. Congress. It is possible that the Price Anderson Act will not be reauthorized or changes may be made that significantly affect the insurance provisions for nuclear plants.

DERIVATIVE ACTIVITIES: Consumers' electric business uses purchased electric call

Edgar Filing: CMS ENERGY CORP - Form 10-Q/A

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

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

CMS Energy Corporation

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

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

Consumers' electric business also uses gas swap contracts to protect against price risk due to the fluctuations in the market price of gas used as fuel for generation of electricity. These gas swaps are financial contracts that will be used to offset increases in the price of probable forecasted gas purchases.

Edgar Filing: CMS ENERGY CORP - Form 10-Q/A

These contracts do not qualify for hedge accounting. Therefore, Consumers records any change in the fair value of these contracts directly in earnings as part of power supply costs, which could cause earnings volatility. As of September 30, 2002, a mark-to-market gain of \$1 million has been recorded for 2002, which represents the fair value of these contracts at September 30, 2002. These contracts expire in December 2002.

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

CONSUMERS' GAS UTILITY CONTINGENCIES

GAS ENVIRONMENTAL MATTERS: Under the Michigan Natural Resources and Environmental Protection Act, Consumers expects that it will ultimately incur investigation and remedial action costs at a number of sites. These include 23 former manufactured gas plant facilities, which were operated by Consumers for some part of their operating lives, including sites in which it has a partial or no current ownership interest. Consumers has completed initial investigations at the 23 sites. For sites where Consumers has received site-wide study plan approvals, it will continue to implement these plans. It will also work toward closure of environmental issues at sites as studies are completed. Consumers has estimated its costs related to further investigation and remedial action for all 23 sites using the Gas Research Institute-Manufactured Gas Plant Probabilistic Cost Model. The estimated total costs are between \$82 million and \$113 million; these estimates are based on discounted 2001 costs and follow EPA recommended use of discount rates between 3 and 7 percent for

CMS Energy Corporation

this type of activity. Consumers expects to recover a significant portion of these costs through insurance proceeds and through MPSC approved rates charged to its customers. As of September 30, 2002, Consumers has an accrued liability of \$51 million, net of \$31 million of expenditures incurred to date, and a regulatory asset of \$70 million. Any significant change in assumptions, such as an increase in the number of sites, different remediation techniques, nature and extent of contamination, and legal and regulatory requirements, could affect Consumers' estimate of remedial action costs.

The MPSC, in its November 7, 2002, gas distribution rate order, authorized Consumers to continue to recover approximately \$1 million of manufactured gas plant facilities environmental clean-up costs annually. Consumers defers and amortizes, over a period of 10 years, manufactured gas plant facilities environmental clean-up costs above the amount currently being recovered in

Edgar Filing: CMS ENERGY CORP - Form 10-Q/A

rates. Additional rate recognition of amortization expense cannot begin until after a prudency review in a gas rate case. The annual amount that the MPSC authorized Consumers to recover in rates will continue to be offset by \$2 million to reflect amounts recovered from all other sources.

CONSUMERS' GAS UTILITY RATE MATTERS

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

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

GAS RATE CASE: In June 2001, Consumers filed an application with the MPSC seeking a \$140 million distribution service rate increase. Consumers requested a 12.25 percent authorized return on equity. Contemporaneously with this filing, Consumers requested partial and immediate relief in the annual amount of \$33 million. The relief was primarily for higher carrying costs on more expensive natural gas inventory than is currently included in rates. In October 2001, Consumers revised its filing to reflect lower operating costs and requested a \$133 million annual distribution service rate increase. In December 2001, the MPSC

authorized a \$15 million annual interim increase in distribution service rate revenues. The order authorized Consumers to apply the interim increase on its gas sales customers' bills for service effective December 21, 2001. In February 2002, Consumers revised its filing to reflect lower estimated gas inventory prices and revised depreciation expense and requested an annual \$105 million distribution service rate increase. On November 7, 2002, the MPSC issued a final order approving a \$56 million annual distribution service rate increase, which includes the \$15 million interim increase, with an 11.4 percent authorized

Edgar Filing: CMS ENERGY CORP - Form 10-Q/A

return on equity, effective for service November 8, 2002.

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

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

OTHER CONSUMERS' GAS UTILITY UNCERTAINTIES

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

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

PANHANDLE MATTERS

REGULATORY MATTERS: In conjunction with a FERC order issued in September 1997, FERC required certain natural gas producers to refund previously collected Kansas ad-valorem taxes to interstate natural gas pipelines, including Panhandle Eastern Pipe Line. FERC ordered the pipelines to refund these amounts to their customers. In June 2001, Panhandle Eastern Pipe Line filed a proposed settlement with the FERC which was supported by most of the customers and affected producers. In October 2001, the FERC approved that settlement. The settlement provided for a resolution of the Kansas ad valorem tax matter on the Panhandle

Edgar Filing: CMS ENERGY CORP - Form 10-Q/A

Eastern Pipe Line system for a majority of refund amounts. Certain producers and the state of Missouri elected to not participate in the settlement. At September 30, 2002 and December 31, 2001, accounts receivable included \$8 million due from natural gas producers, and other current liabilities included \$12 million and \$11 million, respectively, for related obligations. Remaining amounts collected but not refunded are subject to refund pending resolution of issues remaining in the FERC docket and Kansas intrastate proceeding.

In July 2001, Panhandle Eastern Pipe Line filed a settlement with customers on Order 637 matters to resolve issues including capacity release and imbalance penalties, among others. On October 12, 2001 and December 19, 2001 FERC issued orders approving the settlement, with modifications. The settlement changes became final effective February 1, 2002, resulting in a non-recurring gain associated with previously collected penalties of \$4 million in Other revenue and a \$2 million reversal of related interest expense. Prospectively, penalties will be credited to customers.

In August 2001, an offer of settlement of Trunkline LNG rates sponsored jointly by Trunkline LNG, BG LNG Services and Duke LNG Sales was filed with the FERC and was approved on October 11, 2001. The settlement was placed into effect on January 1, 2002. As part of the settlement, Trunkline LNG reduced its maximum rates.

In December 2001, Trunkline LNG, now partially owned by Panhandle, filed with the FERC a certificate application to expand the Lake Charles facility to approximately 1.2 billion cubic feet per day of sendout capacity versus the current capacity of 630 million cubic feet per day. The BG Group has contract rights for all of this additional capacity. Storage capacity will also be expanded to 9 billion cubic feet, from its current capacity of 6.3 billion cubic feet. On August 27, 2002 the FERC issued a "Preliminary Determination on Non-Environmental Issues" recommending approval of the planned expansion project. The FERC's July 2002 Environmental Assessment determined that the Trunkline LNG expansion facilities do not constitute a major federal action significantly affecting the environment and recommended certain compliance and mitigation measures. Comments on the Environmental Assessment were filed on August 30, 2002. The application for a certificate of public convenience and necessity of the expansion is still pending final FERC action. The expansion expenditures are currently expected to be funded by Panhandle loans or equity contributions to LNG Holdings.

Panhandle has sought refunds from the State of Kansas concerning certain corporate income tax issues for the years 1981 through 1984. On January 25, 2002 the Kansas Supreme Court entered an order affirming a previous Board of Tax Court finding that Panhandle was entitled to refunds which with interest total approximately \$26 million. Pursuant to the provisions of the purchase agreement between CMS Energy and a subsidiary of Duke Energy, Duke retains the benefits of any tax refunds or liabilities for periods prior to the date of the sale of Panhandle to CMS Energy.

In February 2002, Trunkline Gas filed a settlement with customers on Order 637 matters to resolve issues including capacity release and imbalance penalties, among others. On July 5, 2002 FERC issued an order approving the settlement, with modifications. On October 18, 2002 Trunkline Gas filed tariff sheets with the FERC to implement the Order 637 changes which will become effective November 1, 2002.

Edgar Filing: CMS ENERGY CORP - Form 10-Q/A

ENVIRONMENTAL MATTERS: Panhandle is subject to federal, state and local regulations regarding air and water quality, hazardous and solid waste disposal and other environmental matters. Panhandle has identified environmental contamination at certain sites on its systems and has undertaken cleanup programs at these sites. The contamination resulted from the past use of lubricants containing PCBs in compressed air systems and the prior use of wastewater collection facilities and other on-site disposal areas. Panhandle communicated with the EPA and appropriate state regulatory agencies on these matters. Under the terms of the sale of Panhandle to CMS Energy, a subsidiary of Duke Energy is obligated to complete the Panhandle cleanup programs at certain agreed-upon sites and to indemnify against certain future environmental litigation and claims. Duke Energy's cleanup activities have been completed on all but one of the agreed-upon sites. Should additional information be requested regarding sites where compliance information has been submitted, Panhandle would be obligated to respond to these requests.

As part of the cleanup program resulting from contamination due to the use of lubricants containing PCBs in compressed air systems, Panhandle Eastern Pipe Line and Trunkline have identified PCB levels above acceptable levels inside the auxiliary building that houses the air compressor equipment at one of its compressor station sites. Panhandle has developed and is implementing an EPA-approved process to remediate this PCB contamination. Panhandle is also implementing a plan to assess the interior of auxiliary buildings at other compressor stations with similar histories of PCB containing lubricants and will remediate as required. The results of this assessment and remediation will be managed in accordance with federal, state and local regulations.

At some locations, PCBs have been identified in paint that was applied many years ago. In accordance with EPA regulations, Panhandle is implementing a program to remediate sites where such issues have been identified during painting activities. If PCBs are identified above acceptable levels, the paint is removed and disposed of in an EPA-approved manner. Approximately 15 percent of the paint projects in the last few years have required this special procedure.

The Illinois EPA notified Panhandle Eastern Pipe Line and Trunkline, together with other non-affiliated parties, of contamination at former waste oil disposal sites in Illinois. Panhandle and 21 other non-affiliated parties are conducting an investigation of one of the sites. Final reports are expected in the fourth quarter of 2002. Panhandle Eastern Pipe Line's and Trunkline's share for the costs of assessment and remediation of the sites, based on the volume of waste sent to the facilities, is approximately 17 percent.

Panhandle expects these cleanup programs to continue for several years and has estimated its share of remaining cleanup costs not indemnified by Duke Energy to be approximately \$21 million. Such costs have been accrued for and are reflected in Panhandle's Consolidated Balance Sheet in Other Non-current Liabilities.

AIR QUALITY CONTROL: In 1998, the EPA issued a final rule on regional ozone control that requires revised SIPS for 22 states, including five states in which Panhandle operates. This EPA ruling was challenged in court by various states, industry and other interests, including the INGAA, an industry group to which Panhandle belongs. In March 2000, the court upheld most aspects of the EPA's rule, but agreed with INGAA's position and remanded to the EPA the sections of the rule that affected Panhandle. Based on EPA guidance to these states for

Edgar Filing: CMS ENERGY CORP - Form 10-Q/A

development of SIPs, Panhandle expects future compliance costs to range from \$15 million to \$20 million for capital improvements to be incurred from 2004 through 2007.

As a result of the 1990 Clean Air Act Amendments, the EPA must issue MACT rules controlling hazardous air pollutants from internal combustion engines and turbines. These rules are expected in early 2003. Beginning in 2002, the Texas Natural Resource Conservation Commission enacted the Houston/Galveston SIP regulations requiring reductions in nitrogen oxide emissions in an eight county area surrounding Houston. Trunkline's Cypress Compressor Station is affected and may require the installation of emission controls. In 2003, the new regulations will also require all "grand fathered" facilities to enter into the new source permit program which may require the installation of emission controls at five additional facilities. The company expects future capital costs for these programs to range from \$14 million to \$29 million.

In 1997, the Illinois Environmental Protection Agency initiated an enforcement proceeding relating to alleged air quality permit violations at Panhandle's Glenarm Compressor Station. On November 15, 2001 the Illinois Pollution Control Board approved an order imposing a penalty of \$850 thousand, plus fees and cost reimbursements of \$116 thousand. Under terms of the sale of Panhandle to CMS Energy, a subsidiary of Duke Energy was obligated to indemnify Panhandle against this environmental penalty. The state issued a permit in February of 2002 requiring the installation of certain capital improvements at the facility at a cost of approximately \$3 million. It is expected that the capital improvements will occur in 2002 and 2003.

OTHER UNCERTAINTIES

CREDIT RATING: In July 2002, the credit ratings of the publicly traded securities of each of CMS Energy, Consumers and Panhandle (but not Consumers Funding LLC) were downgraded by the major rating agencies. The ratings downgrade for all three companies' securities is largely a function of the uncertainties associated with CMS Energy's financial condition and liquidity pending resolution of the round-trip trading investigations and lawsuits, financial statement restatement and re-audit, and directly affects and limits CMS Energy's access to the capital markets.

As a result of certain of these downgrades, rights were triggered in several contractual arrangements between CMS Energy subsidiaries and third parties. More specifically, a loan to Panhandle made in connection with the December 2001 LNG off-balance sheet monetization transaction is subject to repayment demand by the unaffiliated equity partner in the LNG Holdings joint venture. At September 30, 2002, Panhandle's remaining balance on the \$75 million note payable to LNG Holdings was approximately \$66 million. Dekatherm Investor Trust has agreed not to make demand for payment before November 22, 2002 in return for a fee and an agreement for Panhandle to acquire Dekatherm Investor Trust's interest in LNG Holdings. When Panhandle acquires Dekatherm Investor Trust's interest, it will then own 100 percent of LNG Holdings and will not demand payment on the note payable to LNG Holdings.

In addition, the construction lenders for each of the Guardian and Centennial pipeline projects, each partially owned by Panhandle, requested acceptable credit support for Panhandle's guarantee of its pro rata portion of those construction loans, which aggregate \$110 million including anticipated future draws. On September 27, 2002 Panhandle's Centennial partners provided credit support of \$25 million each in the form of guarantees to the lender to cover

Edgar Filing: CMS ENERGY CORP - Form 10-Q/A

Panhandle's obligation of \$50 million of loan guarantees. The partners will be paid credit fees by Panhandle on the outstanding balance of the guarantees for any periods for which they are in effect. This additional credit support does not remove Panhandle from its original \$50 million obligation. In October 2002, Panhandle provided a letter of credit to the lenders which constitutes acceptable credit support under the Guardian financing agreement. This letter of credit was cash collateralized by Panhandle with approximately \$63 million. As of September 30, 2002, Panhandle has also provided \$16 million of equity contributions to Guardian.

Further, one of the issuers of a joint and several surety bond in the approximate amount of \$187 million supporting a CMS MST gas supply contract has demanded acceptable collateral for the full amount of such bond. This issuer has commenced litigation against Enterprises and CMS MST in Michigan federal district court and is seeking to require Enterprises and CMS MST to provide acceptable collateral and to prevent them from disposing of or transferring any corporate assets outside the ordinary course of business before the Court has an opportunity to fully adjudicate the issuer's claim. Enterprises and CMS MST continue to work with the issuer to find mutually satisfactory arrangements. The second issuer of the \$187 million bond has similar rights in conjunction with surety bonds supporting two other CMS MST gas supply contracts, aggregating approximately \$112 million. That surety bond issuer has entered discussions with CMS MST about the possible posting of acceptable collateral for all three additional surety bonds. CMS Energy has reached a settlement in principle that would provide the issuers with acceptable collateral and resolve one part of the issuer's litigation. However, the settlement is subject to final documentation as well as approval by the banks that are party to the CMS Energy secured credit facilities.

GAS INDEX PRICING REPORTING: On November 4, 2002, CMS Energy announced that it is conducting an internal review of the natural gas trade information provided by CMS MST and CMS Field Services to energy industry publications that compile and report index prices. A preliminary analysis indicates that some employees provided inaccurate information in the voluntary reports. CMS Energy and its subsidiaries no longer provide natural gas trade information to energy industry publications. CMS Energy has notified the appropriate regulatory and governmental agencies of this review. On November 5, 2002, CMS Energy received an information request from the Commodity Futures Trading Commission pursuant to a prior subpoena relating to round-trip trading. The Commodity Futures Trading Commission requested certain information regarding the employees involved in providing the inaccurate natural gas trade data to industry publications as well as details of the information provided. CMS Energy has produced documents and information responsive to the November 5, 2002 request.

105

CMS Energy Corporation

SECURITIES CLASS ACTION LAWSUITS: Eighteen separate civil lawsuits have been filed in federal court in Michigan in connection with round-trip trading, alleging (i) violation of Section 10(b) and Rule 10b-5 of the Securities Exchange Act of 1934 ("Exchange Act") and (ii) violation of Section 20(a) of the Exchange Act. (See Exhibit 99(d) for case names, dates instituted and principal parties). All suits name Messrs. McCormick and Wright and CMS Energy as defendants. Consumers Energy, Mr. Joos and Ms. Pallas are named as defendants on certain of the suits. The cases will be consolidated into a single lawsuit. These complaints generally seek unspecified damages based on allegations that the defendants violated United States securities laws and regulations by making allegedly false and misleading statements about the Company's business and financial condition. The Company intends to vigorously defend against these actions. CMS Energy cannot predict the outcome of this litigation.

Edgar Filing: CMS ENERGY CORP - Form 10-Q/A

DEMAND FOR ACTIONS AGAINST OFFICERS AND DIRECTORS: The Board of Directors received a demand, on behalf of a shareholder of CMS Energy Common Stock, that it commence civil actions (i) to remedy alleged breaches of fiduciary duties by CMS Energy officers and directors in connection with round-trip trading at CMS Energy, and (ii) to recover damages sustained by CMS Energy as a result of alleged insider trades alleged to have been made by certain current and former officers of CMS Energy and its subsidiaries. If the Board elects not to commence such actions, the shareholder has stated that he will initiate a derivative suit, bringing such claims on behalf of CMS Energy. CMS Energy is seeking to elect two new members to its Board of Directors to serve as an independent litigation committee to determine whether it is in the best interest of CMS Energy to bring the action demanded by the shareholder. Counsel for the shareholder has agreed to extend the time for CMS Energy to respond to the demand. CMS Energy cannot predict the outcome of this litigation.

ERISA CLAIMS: On July 11, 2002 and July 18, 2002, two Consumers employees filed separate alleged class action lawsuits on behalf of the participants and beneficiaries of the CMS Employees' Savings and Incentive Plan in the United States District Court for the Eastern District of Michigan. CMS Energy, Consumers and CMS MST are defendants in one action, and CMS Energy, Consumers, and other alleged fiduciaries are defendants in the other. The complaints allege various counts arising under the ERISA. The two cases will be consolidated into a single lawsuit and a single consolidated amended complaint will be filed. CMS Energy intends to vigorously defend against these actions. CMS Energy cannot predict the outcome of this litigation.

CMS GENERATION-OXFORD TIRE RECYCLING: In 1999, the California Regional Water Control Board of the State of California named CMS Generation as a potentially responsible party for the cleanup of the waste from a fire that occurred in September 1999 at the Filbin tire pile. The tire pile was maintained as fuel for an adjacent power plant owned by Modesto Energy Limited Partnership. Oxford Tire Recycling of Northern California, Inc., a subsidiary of CMS Generation until 1995, owned the Filbin tire pile. CMS Generation has not owned an interest in Oxford Tire Recycling of Northern California, Inc. or Modesto Energy Limited Partnership since 1995. In 2000, the California Attorney General filed a complaint against the potentially responsible parties for cleanup of the site and assessed penalties for violation of the California Regional Water Control Board order. The parties have reached a settlement with the state, which the court approved, pursuant to which CMS Energy had to pay \$6 million. At the request of the U.S. Department of Justice in San Francisco (DOJ), CMS Energy and other parties contacted by the DOJ entered into separate Tolling Agreements with the DOJ in September 2002 that stopped the running of any statute of limitations until March 14, 2003 to facilitate the settlement discussions between all the parties in connection with federal

CMS Energy Corporation

claims arising from the fire at the Filbin tire pile. On September 23, 2002, CMS Energy received a written demand from the U.S. Coast Guard for reimbursement of approximately \$3.5 million in costs incurred by the U.S. Coast Guard in fighting the fire.

In connection with this fire, several class action lawsuits were filed claiming that the fire resulted in damage to the class and that management of the site caused the fire. CMS Generation has reached a settlement in principle with the plaintiffs in the amount of \$9 million. The primary insurance carrier will cover

Edgar Filing: CMS ENERGY CORP - Form 10-Q/A

100 percent of the settlement once the agreement is finalized.

DEARBORN INDUSTRIAL GENERATION: In October 2001, Duke/Fluor Daniel (DFD) presented DIG with a change order to their construction contract and filed an action in Michigan state court claiming damages in the amount of \$110 million, plus interest and costs, which DFD states represents the cumulative amount owed by DIG for delays DFD believes DIG caused and for prior change orders that DIG previously rejected. DFD also filed a construction lien for the \$110 million. DIG, in addition to drawing down on three letters of credit totaling \$30 million that it obtained from DFD, has filed an arbitration claim against DFD asserting in excess of an additional \$75 million in claims against DFD. The judge in the Michigan State Court case entered an order staying DFD's prosecution of its claims in the court case and permitting the arbitration to proceed. CMS Energy believes the claims are without merit and will continue to vigorously contest them, but any change order costs ultimately paid would be capitalized as a project construction cost.

Ford Motor Company and Rouge Steel Company, the customers of the DIG facility, continue to be in discussion with DIG regarding several commercial issues that have arisen between the parties.

CMS OIL AND GAS: In 1999, a former subsidiary of CMS Oil and Gas, Terra Energy Ltd., was sued by Star Energy, Inc. and White Pine Enterprises LLC in the 13th Judicial Circuit Court in Antrim County, Michigan, on grounds, among others, that Terra violated oil and gas lease and other agreements by failing to drill wells. Among the defenses asserted by Terra were that the wells were not required to be drilled and the claimant's sole remedy was termination of the oil and gas lease. During the trial, the judge declared the lease terminated in favor of White Pine. The jury then awarded Star Energy and White Pine \$7.6 million in damages. Terra appealed this matter to the Michigan Court of Appeals, which referred the case to its settlement program. After Star Energy refused to participate meaningfully in the settlement program, the parties completed briefing and oral argument was heard on October 2, 2002. The parties are now waiting for a decision from the Court of Appeals. A reserve has been established for this matter.

ARGENTINA ECONOMIC EMERGENCY: In January 2002, the Republic of Argentina enacted the Public Emergency and Foreign Exchange System Reform Act. This law repealed the fixed exchange rate of one U.S. Dollar to one Argentina Peso, converted all Dollar-denominated utility tariffs and energy contract obligations into Pesos at the same one-to-one exchange rate, and directed the President of Argentina to renegotiate such tariffs.

In February 2002, the Republic of Argentina enacted additional measures that required all monetary obligations (including current debt and future contract payment obligations) denominated in foreign currencies to be converted into Pesos. These February measures also authorize the Argentine judiciary essentially to rewrite private contracts denominated in Dollars or other foreign currencies if the parties cannot agree on how to share equitably the impact of the conversion of their contract payment obligations into Pesos. In April 2002, based on a consideration of these environmental factors, CMS Energy evaluated its Argentine investments for impairment as required under SFAS No. 144 and APB Opinion No. 18. These impairment models contain certain assumptions regarding

Edgar Filing: CMS ENERGY CORP - Form 10-Q/A

anticipated future exchange rates and operating performance of the investments. Exchange rates used in the models assume that the rate will decrease from current levels to approximately 3.00 Pesos per U.S. Dollar over the remaining life of these investments. Based on the results of these models, CMS Energy determined that these investments were not impaired.

Effective April 30, 2002, CMS Energy adopted the Argentine Peso as the functional currency for most of its Argentine investments. CMS had previously used the U.S. Dollar as the functional currency for its Argentine investments. As a result, on April 30, 2002, CMS Energy translated the assets and liabilities of its Argentine entities into U.S. Dollars, in accordance with SFAS No. 52, using an exchange rate of 3.45 Pesos per U.S. Dollar, and recorded an initial charge to the Foreign Currency Translation component of Common Stockholders' Equity of approximately \$400 million.

For the nine months ended September 30, 2002, CMS Energy recorded losses of \$40 million reflecting the negative impact of the actions of the Argentine government. These losses represent changes in the value of Peso-denominated monetary assets (such as receivables) and liabilities of Argentina-based subsidiaries and lower net project earnings resulting from the conversion to Pesos of utility tariffs and energy contract obligations that were previously calculated in U.S. Dollars.

While CMS Energy's management cannot predict the most likely future, average, or end of period 2002 Peso to U.S. Dollar exchange rates, it does expect that these non-cash charges substantially reduce the risk of further material balance sheet impacts when combined with anticipated proceeds from international arbitration currently in progress, political risk insurance, and the eventual sale of these assets. As a result of the change in functional currency, and the ongoing translation of revenue and expense accounts of these investments into U.S. Dollars, an additional \$6 million assuming exchange rates ranging from 3.00 to 4.00 Pesos per U.S. Dollar may adversely affect 2002 earnings for CMS Energy. At September 30, 2002, the net foreign currency loss due to the unfavorable exchange rate of the Argentine Peso recorded in the Foreign Currency Translation component of Common Stockholders' Equity using an exchange rate of 3.665 Pesos per U.S. Dollar was approximately \$400 million.

CAPITAL EXPENDITURES: CMS Energy estimates capital expenditures, including investments in unconsolidated subsidiaries and new lease commitments, of \$910 million for 2002, \$500 million for 2003 and \$655 million for 2004. The 2002 amount includes Panhandle's estimated expenditures of \$124 million, which includes expenditures associated with the LNG terminal expansion for which an application was filed with the FERC on December 26, 2001, estimated at \$8 million. The 2003 and 2004 amounts exclude Panhandle's expenditures, estimated at \$112 million in 2003 and \$124 million in 2004, which include expenditures associated with the LNG terminal expansion of \$33 million in 2003 and \$66 million in 2004. CMS Energy is exploring the sale of Panhandle. For further information, see the Outlook section of the MD&A.

PENSION: The recent significant downturn in the equities markets has affected the value of the Pension Plan assets. If the plan's Accumulated Benefit Obligation exceeds the value of these assets at December 31, 2002, CMS Energy will be required to recognize an additional minimum liability for this excess in accordance with SFAS No 87. CMS Energy cannot predict the future fair value of the plan's assets but it is probable, without significant appreciation in the

Edgar Filing: CMS ENERGY CORP - Form 10-Q/A

plan's assets, that CMS Energy will need to book an additional minimum liability through a charge to other comprehensive income. The Accumulated Benefit Obligation is determined by the plan's actuary in the fourth quarter of each year.

GUARANTEES: CMS Energy and Enterprises, including subsidiaries, have guaranteed payment of obligations, through letters of credit and surety bonds, of unconsolidated affiliates and related parties approximating \$1.5 billion as of September 30, 2002. Included in this amount, Enterprises, in the ordinary course of business, has guarantees in place for contracts of CMS MST that contain certain schedule and performance requirements. As of September 30, 2002, the actual amount of financial exposure covered by these guarantees was \$473 million. This amount excludes the guarantees associated with CMS MST's natural gas sales arrangements totaling \$270 million, which are recorded as liabilities on the Consolidated Balance Sheet at September 30, 2002. Management monitors and approves these obligations and believes it is unlikely that CMS Energy or Enterprises would be required to perform or otherwise incur any material losses associated with the above obligations.

OTHER: Certain CMS Gas Transmission and CMS Generation affiliates in Argentina received notice from various Argentine provinces claiming stamp taxes and associated penalties and interest arising from various gas transportation transactions. Although these claims total approximately \$75 million, the affiliates and CMS Energy believe the claims are without merit and will continue to vigorously contest them.

CMS Generation does not currently expect to incur significant capital costs at its power facilities for compliance with current U.S. environmental regulatory standards.

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

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

6: SHORT-TERM AND LONG-TERM FINANCINGS, AND CAPITALIZATION

On July 12, 2002, CMS Energy and its subsidiaries reached agreement with its lenders on five credit facilities (facilities) totaling approximately \$1.3 billion of credit for CMS Energy, Enterprises and Consumers. The agreements were executed by various combinations of up to 21 lenders and by CMS Energy and are as follows: a \$295.8 million revolving credit facility by CMS Energy, maturing March 31, 2003; a \$300 million revolving credit facility by CMS Energy, maturing December 15, 2003; a \$150 million short-term loan by Enterprises, maturing December 13, 2002; a \$250 million revolving credit facility by Consumers, maturing July 11, 2003; and a \$300 million term loan by Consumers, maturing July

Edgar Filing: CMS ENERGY CORP - Form 10-Q/A

11, 2003.

In September 2002, Consumers' exercised its extension option on the \$300 million term loan to move the maturity date to July 11, 2004. Also in September 2002, CMS Energy retired the \$150 million short-term loan by Enterprises using proceeds from the sale of CMS Oil and Gas. In October 2002, Consumers simultaneously entered into a new Term Loan Agreement collateralized by First Mortgage Bonds and a new Gas Inventory Term Loan Agreement collateralized by Consumers' natural gas in storage. These agreements contain complementary collateral packages that provide Consumers, as additional First Mortgage Bonds become available, borrowing capacity of up to \$225 million. Consumers drew \$220 million of the capacity upon execution of the Agreements and is expected to be in a position to draw the full \$225 million by mid-November of 2002. The interest rate under the Agreements is LIBOR plus 300 basis points, but will increase by 100 basis points for any period after December 1, 2002 during which the banks thereunder have not yet received, among other deliveries, certified restated financial statements for CMS Energy's 2000 and 2001 fiscal years. The bank and legal fees associated with the Agreement were \$2 million. The first net amortization payment under these Agreements currently is scheduled to occur at the end of 2002 with monthly amortization scheduled until full repayment is completed in mid-April of 2003. This financing should eliminate the need for Consumers to access the capital markets for the remainder of 2002.

CMS ENERGY: As of September 30, 2002, bank commitments under CMS Energy's \$295.8 million credit agreement had been reduced to \$259.9 million as a result of mandatory prepayments with proceeds of various asset sales. CMS Energy had the full \$259.9 million outstanding as of that date. Also on September 30, 2002, CMS Energy had \$88.7 million of borrowings and \$210.9 million of letter-of-credit usage outstanding under the \$300 million credit agreement.

In the first nine months of 2002, CMS Energy called \$243 million of Series A through F GTNs at interest rates ranging from 7 percent to 9 percent using funds available from asset sales proceeds. At September 30, 2002, CMS Energy had remaining \$110 million Series D GTNs, \$241 million Series E GTNs and \$299 million of Series F GTNs issued and outstanding with weighted average interest rates of 6.9 percent, 7.8 percent and 7.6 percent, respectively.

In May 2002, CMS Energy registered \$300 million Series G GTNs. The notes will be issued from time to time with the proceeds being used for general corporate purposes. As of November 1, 2002, no Series G GTNs had been issued.

Under its most restrictive debt covenant, CMS Energy has approximately \$1 billion available for the payment of common dividends at September 30, 2002. Pursuant to restrictive covenants in the CMS Energy \$295.8 million facility, CMS Energy is limited to quarterly dividend payments of \$0.1825 per share and

must receive \$250 million in net cash proceeds from the planned issuance of equity or equity-linked securities by December 31, 2002 in order to continue to pay a dividend thereafter. Further cost-cutting steps and sales of non-strategic assets are expected to eliminate the need for CMS Energy to access the capital markets for the remainder of 2002. Asset sale proceeds are expected to be used to repay the balance of CMS Energy's \$295.8 million facility, but management can make no assurances that such payment will be made or that dividends will be declared by the Board of Directors.

Edgar Filing: CMS ENERGY CORP - Form 10-Q/A

CONSUMERS: At September 30, 2002, Consumers had FERC authorization to issue or guarantee through June 2004, up to \$1.1 billion of short-term securities outstanding at any one time. Consumers also had remaining FERC authorization to issue through September 2002 up to \$500 million of long-term securities for refinancing or refunding purposes, \$690 million for general corporate purposes, and \$900 million of First Mortgage Bonds to be issued solely as security for the long-term securities.

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

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

In March 2002, Consumers sold \$300 million principal amount of six percent senior notes, maturing in March 2005. Net proceeds from the sale were \$299 million. Consumers used the net proceeds to replace a First Mortgage Bond that was to mature in 2003.

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

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

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

REQUIRED RATIOS: The credit facilities also have contractual restrictions that require CMS Energy and Consumers to maintain, as of the last day of each fiscal quarter, the following:

Edgar Filing: CMS ENERGY CORP - Form 10-Q/A

| Required Ratio | Limitation | Ratio at September |
|----------------------------------|----------------------------|--------------------|
| CMS ENERGY: | | |
| Consolidated Leverage Ratio (a) | not more than 5.75 to 1.00 | 5.43 |
| Cash Dividend Coverage Ratio (a) | not less than 1.25 to 1.00 | 2.15 |
| Dividend Coverage Ratio | not less than 1.15 to 1.00 | 4.14 |
| Restricted Payments Ratio (a) | not less than 1.05 to 1.00 | 2.30 |
| CONSUMERS: | | |
| Debt to Capital Ratio (a) | not more than 0.65 to 1.00 | 0.52 |
| Interest Coverage Ratio (a) | not less than 2.00 to 1.00 | 3.38 |

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

In 1994, CMS Energy executed an indenture (the "Indenture") with J.P. Morgan Chase Bank pursuant to CMS Energy's general term notes program. The Indenture, through supplements, contains certain provisions that can trigger a limitation on CMS Energy's consolidated indebtedness. The limitation can be activated when CMS Energy's consolidated leverage ratio, as defined in the Indenture (essentially the ratio of consolidated debt to consolidated capital), exceeds 0.75 to 1.0. Upon activation of the limitation, CMS Energy will not and will not permit certain material subsidiaries, excluding Consumers and its subsidiaries, to become liable for new indebtedness. However, CMS Energy and the material subsidiaries may incur revolving indebtedness to banks of up to \$1 billion in the aggregate and refinance existing debt outstanding at CMS Energy and at the material subsidiaries. At September 30, 2002, CMS Energy's consolidated leverage ratio was 0.75 to 1.0. CMS Energy expects that the aggregate effect of non-cash charges to equity and the reconsolidation of debt on the balance sheet anticipated to occur in the fourth quarter of 2002 would result in a year-end debt ratio in excess of 75 percent. This debt ratio could be significantly reduced if CMS Energy decides to proceed with its sale of Panhandle, its sale of CMS Field Services, other asset sales or other options such as the securitization of additional assets at Consumers.

COMPANY-OBLIGATED PREFERRED SECURITIES: CMS Energy and Consumers each have wholly-owned statutory business trusts that are consolidated with the respective parent company. CMS Energy and Consumers created their respective trusts for the sole purpose of issuing Trust Preferred Securities. In each case, the primary asset of the trust is a note or debenture of the parent company. The terms of the Trust Preferred Security parallel the terms of the related parent company note or debenture. The terms, rights and obligations of the Trust Preferred Security and related note or debenture are also defined in the related indenture through which the note or debenture was issued, the parent guarantee of the related Trust Preferred Security and the declaration of trust for the particular trust. All of these documents together with their related note or debenture and Trust Preferred Security constitute a full and unconditional guarantee by the parent company of the trust's obligations under the Trust Preferred Security. In addition to the similar provisions previously discussed, specific terms of the securities follow:

| CMS Energy Trust and Securities | | In Millions | | | |
|---------------------------------|----------|--------------------|-------|----------|---------------------|
| September 30 | Rate (%) | Amount Outstanding | | Maturity | Earliest Redemption |
| | | 2002 | 2001 | | |
| CMS Energy Trust I (a) | 7.75 | \$173 | \$173 | 2027 | 2001 |
| CMS Energy Trust II (b) | 8.75 | - | 301 | 2004 | - |
| CMS Energy Trust III (c) | 7.25 | 220 | 220 | 2004 | - |
| Total Amount Outstanding | | \$393 | \$694 | | |

(a) Represents Quarterly Income Preferred Securities that are convertible into 1.2255 shares of CMS Energy Common Stock (equivalent to a conversion price of \$40.80). Effective July 2001, CMS Energy can revoke the conversion rights if certain conditions are met.

(b) Represents 7,250,000 Adjustable Convertible Preferred Securities that were converted to 8,787,725 newly issued shares of CMS Energy Common Stock on July 1, 2002. (c) Represents Premium Equity Participating Security Units in which holders are obligated to purchase a variable number of shares of CMS Energy Common Stock by the August 2003 conversion date.

| Consumers Energy Trust and Securities | | In Millions | | | |
|--|----------|--------------------|-------|----------|---------------------|
| September 30 | Rate (%) | Amount Outstanding | | Maturity | Earliest Redemption |
| | | 2002 | 2001 | | |
| Consumers Power Company Financing I, Trust Originated Preferred Securities | 8.36 | \$ 70 | \$100 | 2015 | 2000 |
| Consumers Energy Company Financing II, Trust Originated Preferred Securities | 8.20 | 120 | 120 | 2027 | 2002 |
| Consumers Energy Company Financing III, Trust Originated Preferred Securities | 9.25 | 175 | 175 | 2029 | 2004 |
| Consumers Energy Company Financing IV, Trust Preferred Securities | 9.00 | 125 | 125 | 2031 | 2006 |
| Total Amount Outstanding | | \$490 | \$520 | | |

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

7: EARNINGS PER SHARE AND DIVIDENDS

The following tables present a reconciliation of the numerators and denominators of the basic and diluted earnings per share computations.

COMPUTATION OF EARNINGS (LOSS) PER SHARE:

| | | In Millions, Except Per Share A | |
|---|--|---------------------------------|---------|
| Three Months Ended September 30 | | 2002 | |
| | | (As Restated) | (As Res |
| NET INCOME (LOSS) APPLICABLE TO BASIC AND DILUTED EPS | | | |
| Consolidated Net Income (Loss) | | \$ 37 | \$ |
| ===== | | | |
| Net Income (Loss) Attributable to Common Stock: | | | |
| CMS Energy -- Basic | | 37 | |
| Add conversion of 7.75% Trust | | | |
| Preferred Securities (net of tax) | | - (a) | |
| ----- | | | |
| CMS Energy -- Diluted | | \$ 37 | \$ |
| ===== | | | |
| AVERAGE COMMON SHARES OUTSTANDING | | | |
| APPLICABLE TO BASIC AND DILUTED EPS | | | |
| CMS Energy: | | | |
| Average Shares -- Basic | | 143.9 | |
| Add conversion of 7.75% Trust | | | |
| Preferred Securities | | - (a) | |
| Stock Options | | - (b) | |
| ----- | | | |
| Average Shares -- Diluted | | 143.9 | |
| ===== | | | |
| EARNINGS (LOSS) PER AVERAGE COMMON SHARE | | | |
| Basic | | \$ 0.26 | \$ |
| Diluted | | \$ 0.26 | \$ |
| ===== | | | |

Edgar Filing: CMS ENERGY CORP - Form 10-Q/A

| In Millions, Except Per Share Amounts | | |
|--|---------------|---------------|
| Nine Months Ended September 30 | 2002 | 2001 |
| | (As Restated) | (As Restated) |
| NET INCOME (LOSS) APPLICABLE TO BASIC AND DILUTED EPS | | |
| Consolidated Net Income (Loss) | \$ 5 | \$ (287) |
| ===== | | |
| Net Income (Loss) Attributable to Common Stock: | | |
| CMS Energy -- Basic | \$ 5 | \$ (287) |
| Add conversion of 7.75% Trust Preferred Securities (net of tax) | - (a) | - |
| ----- | | |
| CMS Energy -- Diluted | \$ 5 | \$ (287) |
| ===== | | |
| AVERAGE COMMON SHARES OUTSTANDING APPLICABLE TO BASIC AND DILUTED EPS | | |
| CMS Energy: | | |
| Average Shares -- Basic | 137.4 | 130.0 |
| Add conversion of 7.75% Trust Preferred Securities | - (a) | - |
| Stock Options | - (b) | - |
| ----- | | |
| Average Shares -- Diluted | 137.4 | 130.0 |
| ===== | | |
| EARNINGS (LOSS) PER AVERAGE COMMON SHARE | | |
| Basic | \$.04 | \$ (2.20) |
| Diluted | \$.04 | \$ (2.20) |
| ===== | | |

- (a) The effect of converting the trust preferred securities were not included in the computation of diluted earnings per share because to do so would have been antidilutive.
- (b) Shares of outstanding stock options of 0.1 million for the three months ended September 30, 2002 and 0.3 million for the nine months ended September 30, 2002 were not included in the computation of diluted earnings per share because to do so would have been antidilutive.

In February, April and August 2002, CMS Energy paid dividends of \$0.365, \$0.365 and \$0.18 per share, respectively on CMS Energy Common Stock. In October 2002, the Board of Directors declared a quarterly dividend of \$0.18 per share on CMS Energy Common Stock, payable in November 2002.

8: RISK MANAGEMENT ACTIVITIES AND FINANCIAL INSTRUMENTS

The objective of the CMS Energy risk management policy is to analyze, manage and coordinate the identified risk exposures of the individual business segments and to exploit the presence of internal hedge opportunities that exist among its diversified business segments. CMS Energy, on behalf of its regulated and non-regulated subsidiaries, utilizes a variety of derivative instruments for both trading and non-trading purposes and executes these transactions with external parties through its marketing subsidiary, CMS MST. These derivative instruments include futures contracts, swaps, options and forward contracts to

Edgar Filing: CMS ENERGY CORP - Form 10-Q/A

manage exposure to fluctuations in commodity prices, interest rates and foreign exchange rates. In order for

115

CMS Energy Corporation

derivative instruments to qualify for hedge accounting under SFAS No. 133, the hedging relationship must be formally documented at inception and be highly effective in achieving offsetting cash flows or offsetting changes in fair value attributable to the risk being hedged.

Derivative instruments contain credit risk if the counterparties, including financial institutions and energy marketers, fail to perform under the agreements. CMS Energy minimizes such risk by performing financial credit mitigation programs including, among other things, using publicly available credit ratings of such counterparties, internally developed statistical models for credit scoring and use of internal hedging programs to minimize exposure to external counterparties. No material nonperformance is expected.

COMMODITY DERIVATIVES: Prior to January 1, 2001, CMS Energy accounted for its non-trading commodity contracts as hedges and deferred any changes in the market value and gains/losses resulting from settlements until the hedged transaction was completed. As of January 1, 2001, commodity contracts are now accounted for in accordance with the requirements of SFAS No. 133, as amended and interpreted, and may or may not qualify for hedge accounting treatment depending on the characteristics of each contract.

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

In December 2001, the FASB issued revised guidance regarding derivative accounting for electric call option contracts and option-like contracts. The revised guidance amended the criteria used to determine if derivative accounting

Edgar Filing: CMS ENERGY CORP - Form 10-Q/A

is required. In light of the amended criteria, Consumers re-evaluated its electric call option and option-like contracts, and determined that additional contracts require derivative accounting. Therefore, as of December 31, 2001, upon initial adoption of the revised guidance for these contracts, Consumers recorded an \$11 million, net of tax, cumulative effect adjustment as a decrease to earnings. This adjustment relates to the difference between the fair value and the recorded book value of these electric call option contracts. Consumers will record any change in fair value subsequent to December 31, 2001, directly in earnings, which could cause earnings volatility. As of September 30, 2002, Consumers recorded on the balance sheet all of its purchased electric call option contracts subject to derivative accounting, at a fair value of \$1 million.

116

CMS Energy Corporation

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

Consumers' electric business also uses gas swap contracts to protect against price risk due to the fluctuations in the market price of gas used as fuel for generation of electricity. These gas swaps are financial contracts that will be used to offset increases in the price of probable forecasted gas purchases. These contracts do not qualify for hedge accounting. Therefore, Consumers records any change in the fair value of these contracts directly in earnings as part of power supply costs, which could cause earnings volatility. As of September 30, 2002, a mark-to-market gain of \$1 million has been recorded for 2002, which represents the fair value of these contracts at September 30, 2002. These contracts expire in December 2002.

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

Consumers' gas business uses fixed price gas supply contracts, and fixed price weather-based gas supply call options and fixed price gas supply put options, and other types of contracts, to meet its regulatory obligation to provide gas to its customers at a reasonable and prudent cost. Some of the fixed price gas supply contracts require derivative accounting because they contain embedded put

Edgar Filing: CMS ENERGY CORP - Form 10-Q/A

options that disqualify the contracts from the normal purchase exception of SFAS No. 133. As of September 30, 2002, Consumers' gas supply contracts requiring derivative accounting had a fair value of \$1 million, representing a fair value gain on the contracts since the date of inception. This gain was recorded directly in earnings as part of other income, and then directly offset and recorded on the balance sheet as a regulatory liability. Any subsequent changes in fair value will be recorded in a similar manner. These contracts expire in October 2002.

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

117

CMS Energy Corporation

ENERGY TRADING ACTIVITIES: CMS Energy, through its subsidiary CMS MST, engages in trading activities. CMS MST manages any open positions within certain guidelines that limit its exposure to market risk and requires timely reporting to management of potential financial exposure. These guidelines include statistical risk tolerance limits using historical price movements to calculate daily value at risk measurements. CMS MST's trading activities are accounted for under the mark-to-market method of accounting consistent with guidance provided by EITF No. 98-10. Under mark-to-market accounting, energy-trading contracts are reflected at fair market value, net of reserves, with unrealized gains and losses recorded as an asset or liability in the consolidated balance sheets. These assets and liabilities are affected by the timing of settlements related to these contracts, current-period changes from newly originated transactions and the impact of price movements. Changes in fair values are recognized as revenues in the consolidated statements of income in the period in which the changes occur. Market prices used to value outstanding financial instruments reflect management's consideration of, among other things, closing exchange and over-the-counter quotations. In certain contracts, long-term commitments may extend beyond the period in which market quotations for such contracts are available and volumetric obligations may not be defined. The lack of long-term pricing liquidity requires the use of mathematical models to value these commitments under the accounting method employed. Mathematical models are developed to determine various inputs into fair value calculation including price, anticipated volumetric obligations and other inputs that may be required to adequately address the determination of fair value of the contracts. Realized cash returns on these commitments may vary, either positively or negatively, from the results estimated through application of forecasted pricing curves generated through application of the mathematical model. CMS Energy believes that its mathematical models utilize state-of-the-art technology, pertinent industry data and prudent discounting in order to forecast certain elongated pricing curves. Market prices are adjusted to reflect the potential impact of liquidating the company's position in an orderly manner over a reasonable period of time under present market conditions.

In connection with the market valuation of its energy commodity contracts, CMS Energy maintains reserves for credit risks based on the financial condition of counterparties. The creditworthiness of these counterparties will impact overall exposure to credit risk; however, with regard to its counterparties, CMS Energy maintains credit policies that management believes minimize overall credit risk. Determination of the credit quality of its counterparties is based upon a number of factors, including credit ratings, financial condition, and collateral

Edgar Filing: CMS ENERGY CORP - Form 10-Q/A

requirements. When trading terms permit, CMS Energy employs standard agreements that allow for netting of positive and negative exposures associated with a single counterparty. Based on these policies, its current exposures and its credit reserves, CMS Energy does not anticipate a material adverse effect on its financial position or results of operations as a result of counterparty nonperformance.

For the nine months ended September 30, 2002 and 2001, CMS Energy reflected \$129 million and (\$33) million net price risk management asset (liability), respectively, net of reserves, related to the unrealized mark-to-market gains and losses on existing wholesale power contracts, gas contracts and economic hedges for retail activities that are marked as derivatives.

The following tables provide a summary of the fair value of CMS Energy's energy commodity contracts as of September 30, 2002.

118

CMS Energy Corporation

| In Millions | | | | | |
|--|------------|---------------------|--------|--------|----------------|
| Source of Fair Value | Total | Maturity (in years) | | | |
| | Fair Value | Less than 1 | 1 to 3 | 4 to 5 | Greater than 5 |
| Prices actively quoted | \$ 7 | \$ 7 | \$ - | \$ - | |
| Prices provided by other external sources | 23 | 7 | 16 | - | |
| Prices based on models and other valuation | 99 | 13 | 54 | 22 | |
| Total | \$129 | \$27 | \$70 | \$22 | |

FLOATING TO FIXED INTEREST RATE SWAPS: CMS Energy and its subsidiaries enter into floating to fixed interest rate swap agreements to reduce the impact of interest rate fluctuations. These swaps are designated as cash flow hedges and the difference between the amounts paid and received under the swaps is accrued and recorded as an adjustment to interest expense over the term of the agreement. Changes in the fair value of these swaps are recorded in accumulated other comprehensive income until the swaps are terminated. As of September 30, 2002, these swaps had a negative fair value of \$9 million that if sustained, will be reclassified to earnings as the swaps are settled on a quarterly basis. No ineffectiveness was recognized during the third quarter of 2002 under the requirements of SFAS No. 133.

Notional amounts reflect the volume of transactions but do not represent the amount exchanged by the parties to the financial instruments. Accordingly, notional amounts do not necessarily reflect CMS Energy's exposure to credit or market risks. As of September 30, 2002 and 2001, the weighted average interest rate associated with outstanding swaps was approximately 5.2 percent and 6.5 percent, respectively.

Edgar Filing: CMS ENERGY CORP - Form 10-Q/A

| In Millions | | | | |
|--|--------------------|------------------|---------------|---------------------------|
| Floating to Fixed Interest Rate Swaps | Notional Amount | Maturity Date | Fair Value | Unrealized Gain (Loss) |
| September 30, 2002 | \$ 294 | 2003-2006 | \$ (9) | \$ - |
| September 30, 2001 | \$1,419 | 2001-2006 | \$(14) | \$ 3 |

CMS Energy monitors its debt portfolio mix of fixed and variable rate instruments and from time to time enters into fixed to floating rate swaps to maintain the optimum mix of fixed and floating rate debt. These swaps are designated as fair value hedges and any realized gains or losses in the fair value are amortized to earnings after the termination of the hedge instrument over the remaining life of the hedged item. There were no outstanding fixed to floating interest rate swaps as of September 30, 2002.

FOREIGN EXCHANGE DERIVATIVES: CMS Energy uses forward exchange and option contracts to hedge certain receivables, payables, long-term debt and equity value relating to foreign investments. The purpose of CMS Energy's foreign currency hedging activities is to protect the company from risk that U.S. Dollar net cash flows resulting from sales to foreign customers and purchases from foreign suppliers and the repayment of non-U.S. Dollar borrowings as well as the equity reported on the company's balance sheet, may be adversely affected by changes in exchange rates. These contracts do not subject CMS Energy to risk from exchange rate movements because gains and losses on such contracts offset losses and gains, respectively, on assets and liabilities being hedged. The estimated fair value of the foreign exchange and option contracts at September 30, 2002 and 2001 was approximately zero and \$18 million, respectively; representing the amount CMS Energy would receive or (pay) upon settlement.

119

CMS Energy Corporation

The notional amount of the outstanding foreign exchange contracts at September 30, 2002 was \$1 million Canadian contracts. Foreign exchange contracts outstanding as of September 30, 2001 had a total notional amount of \$223 million, which was related to CMS Energy's investments in Argentina. The Argentine contracts matured at various times during the fourth quarter of 2001 and 2002.

FINANCIAL INSTRUMENTS: The carrying amounts of cash, short-term investments and current liabilities approximate their fair values due to their short-term nature. The estimated fair values of long-term investments are based on quoted market prices or, in the absence of specific market prices, on quoted market prices of similar investments or other valuation techniques. Judgment may also be required to interpret market data to develop certain estimates of fair value. Accordingly, the estimates determined as of September 30, 2002 and 2001 are not necessarily indicative of the amounts that may be realized in current market exchanges. The carrying amounts of all long-term investments in financial instruments, except for those as shown below, approximate fair value.

As of September 30

2002 Restated

2001 Restate

Edgar Filing: CMS ENERGY CORP - Form 10-Q/A

| | Carrying Cost | Fair Value | Unrealized Gain | Carrying Cost | Fair Value |
|---|------------------|---------------|--------------------|------------------|---------------|
| Long-Term Debt (a) | \$5,648 | \$5,206 | \$442 | \$6,222 | \$6,193 |
| Preferred Stock and Trust Preferred Securities | 927 | 699 | 228 | 1,258 | 1,162 |

(a) Settlement of long-term debt is generally not expected until maturity.

9: REPORTABLE SEGMENTS

CMS Energy operates principally in the following five reportable segments: electric utility; gas utility; independent power production; natural gas transmission; and marketing, services and trading.

CMS Energy's reportable segments are strategic business units organized and managed by the nature of the products and services each provides. Management evaluates performance based on the net income of each segment. The electric utility segment consists of regulated activities associated with the generation, transmission and distribution of electricity in the state of Michigan through its subsidiary, Consumers. The gas utility segment consists of regulated activities associated with the transportation, storage and distribution of natural gas in the state of Michigan through its subsidiary, Consumers. Independent power production invests in, acquires, develops, constructs and operates non-utility power generation plants in the United States and abroad. Natural gas transmission owns, develops, and manages domestic and international natural gas facilities. The marketing, services and trading segment provides gas, oil, and electric marketing, risk management and energy management services to industrial, commercial, utility and municipal energy users throughout the United States and abroad.

120

CMS Energy Corporation

The Consolidated Statements of Income show operating revenue and operating income (loss) by reportable segment. Revenues from a land development business fall below the quantitative thresholds for reporting, and have never met any of the quantitative thresholds for determining reportable segments. The table below shows net income (loss) by reportable segment.

| September 30 | Three Months Ended | | 2000 |
|---|--------------------|------------|----------|
| | 2002 | 2001 | |
| | (Restated) | (Restated) | (Restate |
| Net income (loss) available to common stockholder | | | |
| Electric Utility | \$ 88 | \$ 15 | \$ 2 |
| Gas Utility | (18) | (11) | |
| Independent Power Production | 49 | (89) | |
| Natural Gas Transmission | - | (20) | |

Edgar Filing: CMS ENERGY CORP - Form 10-Q/A

| | | | |
|--|-------|----------|-----|
| Marketing, Services, and Trading | 8 | (7) | |
| Corporate Interest and Other | (115) | (64) | (1) |
| ----- | | | |
| Income (Loss) From Continuing Operations | 12 | (176) | 1 |
| Discontinued Operations | 24 | (202) | (1) |
| Cumulative Accounting Change | 1 | - | |
| ----- | | | |
| CONSOLIDATED NET INCOME (LOSS) | \$ 37 | \$ (378) | \$ |
| ===== | | | |

| June 30 | Three Months Ended | | 2001 |
|---|--------------------|------------|------------|
| | 2002 | 2001 | |
| | (Restated) | (Restated) | (Restated) |
| ----- | | | |
| Net income (loss) available to common stockholder | | | |
| Electric Utility | \$ 84 | \$ 31 | \$ 1 |
| Gas Utility | 3 | - | |
| Independent Power Production | 17 | 20 | |
| Natural Gas Transmission | (4) | (1) | |
| Marketing, Services, and Trading | (20) | (16) | |
| Corporate Interest and Other | (44) | (52) | (|
| ----- | | | |
| Income (Loss) From Continuing Operations | 36 | (18) | 1 |
| Discontinued Operations | (127) | 21 | (1 |
| Cumulative Accounting Change | 17 | - | |
| ----- | | | |
| CONSOLIDATED NET INCOME (LOSS) | \$ (74) | \$ 3 | \$ (|
| ===== | | | |

121

CMS Energy Corporation

| March 31 | In Millions | |
|--|-------------|------------|
| | 2002 | 2001 |
| | (Restated) | (Restated) |
| ----- | | |
| Net income available to common stockholder | | |
| Electric Utility | \$ 50 | \$ 62 |
| Gas Utility | 28 | 27 |
| Independent Power Production | 17 | 25 |
| Natural Gas Transmission | 12 | 5 |
| Marketing, Services, and Trading | 25 | (4) |

Edgar Filing: CMS ENERGY CORP - Form 10-Q/A

| | | |
|-----------------------------------|-------|-------|
| Corporate Interest and Other | (39) | (63) |
| ----- | | |
| Income From Continuing Operations | 93 | 52 |
| Discontinued Operations | (51) | 27 |
| Cumulative Accounting Change | - | 9 |
| ----- | | |
| CONSOLIDATED NET INCOME | \$ 42 | \$ 88 |
| ===== | | |

10: RESTATEMENT

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

In May 2002, as a result of certain financial reporting issues surrounding round-trip trading transactions at CMS MST, CMS Energy announced that it would restate its consolidated financial statements for 2000 and 2001 to eliminate the effects of round-trip energy trades and form a Special Committee to investigate these trades. Following this announcement, CMS Energy received formal notification from Arthur Andersen that it had terminated its relationship with CMS Energy and affiliates. Arthur Andersen notified CMS Energy that due to the investigation, Arthur Andersen's historical opinions on CMS Energy's financial statements for the periods being restated could not be relied upon. Arthur Andersen also notified CMS Energy that it would be unable to give an opinion on CMS Energy's restated financial statements when they were completed. As a result, Ernst & Young began the process of re-auditing CMS Energy's consolidated financial statements for each of the fiscal years ended December 31, 2001 and December 31, 2000. Although Arthur Andersen's notification did not apply to separate, audited financial statements of Consumers and Panhandle for the applicable years, the re-audit did include audit work at Consumers and Panhandle for these years.

In connection with Ernst & Young's re-audit of the financial statements for the fiscal years ended December 31, 2001 and December 31, 2000, CMS Energy has made, in consultation with Ernst & Young, certain adjustments (in addition to the round-trip trades) to its consolidated financial statements for the fiscal years ended December 31, 2001 and December 31, 2000, which affect the results of the quarterly periods within 2001 and 2002. Therefore, the consolidated financial statements for the quarters of 2001, the years ended December 31, 2001 and 2000, and the quarters of 2002 have been restated from amounts previously reported. At

the time it adopted the accounting treatment for these items, CMS Energy believed that such accounting was appropriate under accounting principles generally accepted in the United States.

The primary restated items: 1) change the accounting associated with the PPA reserve, which results in: the reversal of the 2001 increase to the PPA reserve of \$126 million; the reversal of a net \$12 million charged to operating expenses

Edgar Filing: CMS ENERGY CORP - Form 10-Q/A

associated with the PPA in 2001; and the reversal of \$29 million of the amount charged to the PPA reserve in 2000; 2) recognize Consumers' new headquarters lease as a capital lease, instead of an operating lease, and record the lease obligation and capitalize costs incurred; 3) reverse a 2001 charge for a contract loss associated with the DIG complex; 4) eliminate mark-to-market gains and losses on inter-book and intercompany transactions at CMS MST; 5) record adjustments associated with account reconciliations at CMS MST; 6) reverse deferred income tax benefits recorded in association with the write-down of certain foreign investments; 7) record an additional write-down of system-balancing gas at Panhandle; 8) change the accounting treatment for CMS Energy's and Panhandle's interest in the LNG business; and 9) change the accounting treatment for CMS Energy's financing of its methanol plant.

The tables below summarize the significant audit adjustments and the effects on CMS Energy's consolidated financial statements as of December 31, 2001 and December 31, 2000:

| NET INCOME INCREASE (DECREASE) | 2001 | 2000 |
|---|-------|-------|
| MCV PPA Adjustments | \$ 90 | \$ 90 |
| DIG Loss Contract Accounting | 126 | 126 |
| Mark-to-Market Gains and Losses on Inter-book Transactions and Other Related Adjustments | (43) | (43) |
| Mark-to-Market Gains and Losses on Intercompany Transactions | (30) | (30) |
| CMS MST Account Reconciliations | (5) | (5) |
| Income Tax Adjustments | (30) | (30) |
| Panhandle System Gas | (7) | (7) |
| Amortization of Debt Costs | (2) | (2) |
| Other | (2) | (2) |
| Total | \$ 97 | \$ 97 |

| BALANCE SHEET: INCREASE IN CONSOLIDATED DEBT | 2001 | 2000 |
|--|------|-------|
| Reconsolidation of LNG Facility | | \$ 29 |
| Structured Financing of Methanol Plant | | 126 |
| Consumers' Headquarters Capital Lease | | 126 |

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

Edgar Filing: CMS ENERGY CORP - Form 10-Q/A

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

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

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

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

DIG LOSS CONTRACT ACCOUNTING: The Dearborn Industrial Generation complex, a 710 MW combined-cycle facility, was constructed during 1998 through 2001 to fulfill contractual requirements and to sell excess power in the wholesale power market. DIG entered into electric sales agreements (ESA) with Ford Motor Company, Rouge Industries and Double Eagle Steel Coating Company, later assigned by DIG to CMS MST Michigan, LLC, that require CMS MST Michigan to provide up to 300 MW of electricity at pre-determined prices for a fifteen-year term beginning in June 2000. DIG also entered into steam sales agreements (SSA) with Ford and Rouge, whereby DIG is to supply process and heating steam at a fixed price commencing no later than June 1, 2000.

During the third quarter of 2001, CMS Energy recognized a pretax charge to

Edgar Filing: CMS ENERGY CORP - Form 10-Q/A

earnings of \$200 million for the calculated loss on portions of the power capacity under the ESAs. At that time CMS Energy assessed whether the DIG facility was impaired under SFAS No. 121 and concluded that the DIG facility was not impaired.

124

CMS ENERGY CORPORATION

CMS Energy has now determined that existing accounting literature precludes the recognition of anticipated losses on executory contracts such as those involved with the ESAs at DIG. Accordingly, CMS Energy reversed the \$200 million pretax loss (\$126 million after-tax) in 2001 on the ESA contracts and subsequent related transactions.

ELIMINATION OF MARK-TO-MARKET GAINS AND LOSSES ON INTER-BOOK TRANSACTIONS AND OTHER RELATED ADJUSTMENTS: CMS MST's business activities include marketing to end users of energy commodities such as commercial and small industrial purchasers of natural gas (CMS MST's retail business) and trading activities with such entities as other energy trading companies (CMS MST's wholesale business). During 2000 and 2001, CMS MST used two different methods to account for these distinct activities: it applied the mark-to-market method of accounting to its wholesale trading business operations, and it accounted for its retail business operations using the accrual method. Some other energy trading companies have taken a similar approach when their business activities have included retail operations.

EITF Issue No. 98-10, Accounting for Contracts Involved in Energy Trading and Risk Management Activities, applies to certain parts of CMS MST's operations. EITF Issue No. 98-10 requires that energy-trading contracts be marked to market; that is, measured at fair value determined as of the balance sheet date, with the gains and losses included in earnings. According to EITF Issue No. 98-10, the determination of whether an entity is involved in energy trading activities is a matter of judgment that depends on the relevant facts and circumstances. CMS MST had used the mark-to-market method of accounting for its wholesale operations because these had been considered trading activities under EITF Issue No. 98-10. Because CMS MST's retail operations had not been considered trading activities, mark-to-market accounting under EITF Issue No. 98-10 was not applied to any retail contracts.

During 2000 and 2001, CMS MST's wholesale business entered into certain transactions with CMS MST's retail business (inter-book transactions) in order to economically hedge retail sales. The wholesale business marked-to-market these inter-book transactions while the retail business did not; however, the transactions were not properly documented as hedges under SFAS No. 133 or other previously applicable accounting standard. Accordingly, CMS Energy has determined that the mark-to-market gains and losses that were recognized by the wholesale business on these inter-book transactions should have been eliminated in consolidation. CMS Energy therefore has recognized a \$75 million after-tax charge to earnings in 2001 and \$34 million of after-tax income in 2000 to eliminate the effects of mark-to-market accounting in consolidation on inter-book transactions.

A number of other adjustments have been recorded at CMS MST relating to front-office activities and mark-to-market accounting. The adjustments, which mainly affect price risk management assets and liabilities and inventory, increased after-tax income by \$32 million in 2001 and reduced after-tax income by \$16 million in 2000.

Edgar Filing: CMS ENERGY CORP - Form 10-Q/A

ELIMINATION OF MARK-TO-MARKET GAINS AND LOSSES ON INTERCOMPANY TRANSACTIONS: As explained above, during 2000 and 2001 CMS MST applied the mark-to-market method of accounting to the energy-trading contracts of its wholesale operations. In doing so, CMS MST did not distinguish between counterparties that were unrelated third parties, and those that were consolidated or equity-method affiliates. Energy-trading contracts with affiliated companies were therefore measured at their fair values as of the balance sheet date,

125

CMS ENERGY CORPORATION

with the gains and losses included in earnings. The affiliated counterparties, however, accounted for these contracts on the accrual basis, because these companies were not engaged in energy trading activities and therefore their activities were not within the scope of EITF Issue No. 98-10. In addition, their contracts with CMS MST were not required to be marked to market in 2001 under SFAS No. 133. The mark-to-market profits and losses that CMS MST recognized on the contracts with affiliated companies were included in the CMS Energy consolidated financial statements. CMS Energy has now concluded that these amounts should have been eliminated in consolidation.

CMS Energy's restated consolidated financial statements have eliminated \$30 million of after-tax mark-to-market gains in 2001 and \$18 million of after-tax mark-to-market losses in 2000 on intercompany transactions.

CMS MST ACCOUNT RECONCILIATIONS: CMS MST's business experienced rapid growth during 2000 and 2001. Late in 2001, CMS Energy became aware of certain control weaknesses at CMS MST and immediately began an internal investigation. The investigation revealed that the size and expertise of the back-office accounting staff had not kept pace with the rapid growth and, as a result, bookkeeping errors had occurred and account reconciliations were not prepared. Additionally, computer interfaces of sub-ledgers to the general ledger were ineffective or lacking. As a result, sub-ledger balances did not agree to the general ledger and the differences were not adjusted. In early 2002, CMS MST commenced an account recalculation and reconciliation project that focused initially on accounts receivable and payable, intercompany and cash accounts, but was later expanded to include other accounts. The recalculation and reconstruction work for 2000, 2001 and 2002 has been completed and the consolidated financial statements reflect the required adjustments, which decreased net income by \$5 million in 2001 and \$13 million in 2000.

INCOME TAX ADJUSTMENT: During the third quarter of 2001, CMS Energy wrote down the value of certain of its foreign investments (see Note 3, Asset Dispositions). The write-down was net of deferred U.S. income tax benefits in the amount of \$30 million expected to be realized upon the ultimate disposition of these investments in transactions subject to U.S. income tax. CMS Energy has now concluded that since these foreign investments were considered by CMS Energy at the time to be essentially permanent in duration, no deferred U.S. income tax benefits should have been recorded in 2001 on the write-down.

PANHANDLE SYSTEM GAS: Panhandle maintains system-balancing gas for use in operations. During 2001, Panhandle applied lower of cost or market pricing only to the portion of system balancing gas that it expected to consume in its operations over the next twelve months. The remaining gas was reflected as non-current and was recorded at cost. Upon further review, Panhandle has determined that it should have applied lower of cost or market pricing to all system balancing gas. The application of the lower of cost or market pricing to

Edgar Filing: CMS ENERGY CORP - Form 10-Q/A

the non-current system balancing gas results in an additional \$7 million after-tax write-down.

CONSOLIDATION OF LNG HOLDINGS: In late 2001, Panhandle entered into a structured transaction to monetize a portion of the value of a long-term terminalling contract of its LNG subsidiary. The LNG assets were contributed to LNG Holdings, which then received an equity investment from an unaffiliated third party, Dekatherm Investor Trust, and obtained new loans secured by the assets. After paying expenses, net proceeds of \$235 million were distributed to Panhandle and the venture also loaned \$75 million to Panhandle. While the proceeds received by Panhandle were in excess of its book basis, a gain on the transaction was not recorded. This excess was originally recorded as a deferred commitment, reflecting the fact that Panhandle was expecting to reinvest proceeds into LNG Holdings for a planned expansion.

126

CMS ENERGY CORPORATION

Panhandle is the manager and operator of the venture, and has the primary economic interest in it. Initially, Panhandle believed that off-balance sheet treatment for the venture was appropriate under generally accepted accounting principles. Upon further analysis of these facts, CMS Energy and Panhandle have now concluded that it did not meet the conditions precedent to account for the contribution of the LNG entity as a disposition given Panhandle's continuing involvement and the lack of sufficient participating rights by the third-party equity holder in the venture. As a result, CMS Energy has restated its financial statements to reflect consolidation of LNG Holdings at December 31, 2001. The new accounting treatment resulted in a net increase of \$215 million of debt, the elimination of \$183 million of deferred commitment, minority interest of \$30 million and other net assets of \$62 million. Due to the pending sale of Panhandle, all of these adjustments are included in discontinued operations on CMS Energy's consolidated balance sheet at December 31, 2001. With the exception of certain immaterial reclassifications, there was no impact to 2001 net income resulting from this accounting treatment.

STRUCTURED FINANCING OF METHANOL PLANT: In 1999, CMS Gas Transmission and an unrelated entity financed \$250 million of the costs of construction of a jointly owned methanol plant with an off-balance-sheet special purpose entity (SPE) that entered into two separate non-recourse note borrowings containing cross-collateral provisions only with respect to a joint collection account into which the proceeds from shared collateral were to be deposited. Plant construction was completed in the spring of 2001. In December 2001, CMS Gas Transmission issued an irrevocable call for \$125 million of these notes (i.e., the A1 Notes) and they were paid off in January 2002. As part of the 1999 financing, CMS Energy guaranteed the interest payments on the A1 Notes, subject to a \$75 million limit. CMS Energy did not guarantee repayment of the A1 Notes; however, CMS Energy issued mandatorily convertible preferred stock to a trust as security for the A1 Notes. If an amount to repay the A1 Notes was not deposited within 120 days of the maturity date (or earlier date caused by, for example, a downgrade of the credit rating of CMS Energy) the holders of 25 percent of the A1 Notes could cause the mandatorily convertible preferred shares to be sold. The mandatorily convertible preferred stock of CMS Energy was convertible into the number of shares of CMS Energy Common Stock needed to make the note holder whole without limit. Additional security for the A1 Notes was 60 percent of the capital stock of CMS Methanol, an entity that held a 45 percent ownership interest in the methanol plant. The SPE's assets comprised investments in CMS Methanol and in another subsidiary that also owned a 45 percent interest in the methanol plant. Because the use of non-recourse debt having cross-collateral

Edgar Filing: CMS ENERGY CORP - Form 10-Q/A

provisions only with respect to the joint collection account effectively segregated the cash flows and assets, in substance this financing created two separate SPEs. CMS Energy has now concluded that it should have consolidated the virtual SPE created by the non-recourse borrowing. Therefore, CMS Energy has restated its 2000 and 2001 financial statements to increase its equity ownership interest in the methanol plant and increase debt, each by \$125 million.

AMORTIZATION OF DEBT COSTS: CMS Energy had been amortizing debt issuance costs on a straight-line basis over the term of the debt. In connection with the re-audit, CMS Energy changed the accounting for debt issuance costs pursuant to the effective interest method. The changes reduced 2002 net income by \$2 million; the quarterly impacts are shown in the accompanying table.

OTHER: Other adjustments reflected in the table below include the effects of intercompany out of balance corrections and foreign currency transaction adjustments.

In addition to the audit adjustments described above, goodwill write-downs of \$601 million (\$369 million after-tax) and \$15 million (\$10 million after-tax) reflected retroactively to the first quarter of 2002 as a

127

CMS ENERGY CORPORATION

cumulative effect of change in accounting for goodwill, pursuant to the requirements of SFAS No. 142, primarily due to changes in market conditions and the value of Panhandle and Viron since acquisition by CMS Energy. (See Note 4, Goodwill). The goodwill write-downs are included in discontinued operations.

REVENUES RECLASSIFICATIONS: EITF Issue No. 02-3, Recognition And Reporting Of Gains And Losses On Energy Trading Contracts Under EITF Issues No. 98-10 and 00-17: In September 2002, the EITF reaffirmed the consensus originally reached in June 2002 that requires all gains and losses, including mark-to-market gains and losses and physical settlements, related to energy trading activities within the scope of EITF Issue No 98-10 be presented as a net amount in the income statement. At the October 25, 2002 meeting, the EITF reached a consensus to rescind EITF Issue No. 98-10, Accounting for Contracts Involved In Energy Trading and Risk Management Activities. As a result, at December 31, 2002 and 2001, these transactions were presented gross, and the third quarter 2002 and 2001 were reclassified accordingly. The reclassification had no impact on previously reported net income or stockholders' equity.

DISCONTINUED OPERATIONS: In accordance with SFAS No. 144, discontinued operations include components of entities or entire entities that have been eliminated from the ongoing operations of CMS Energy. Upon implementation, prior periods were reclassified. (See Note 2, Discontinued Operations).

MCV MTM ACCOUNTING CHANGE: On April 1, 2002, the MCV Partnership implemented Derivative Implementation Group Issue C-16, an interpretation of SFAS No. 133. The MCV Partnership began accounting for several natural gas contracts containing an option component at fair value. As a result, a \$58 million cumulative effect adjustment for the change in accounting principle was recorded as an increase to earnings. CMS Midland's 49 percent ownership share was \$28 million, \$18 million after-tax (\$17 million in the second quarter 2002 and \$1 million in the third quarter 2002). This accounting was originally reported in revenues and income taxes; it is now reported as a cumulative effect of accounting change, net of tax.

Edgar Filing: CMS ENERGY CORP - Form 10-Q/A

EARLY EXTINGUISHMENT OF DEBT: In April 2002 the FASB issued SFAS No. 145, Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections. This standard rescinds SFAS No. 4, Reporting Gains and Losses from Extinguishment of Debt, and SFAS No. 64, Extinguishment of Debt Made to Satisfy Sinking-Fund Requirements. As a result, any gain or loss on extinguishment of debt should be classified as an extraordinary item only if it meets criteria set forth in APB Opinion No. 30. The provisions of this statement are applicable to fiscal years beginning 2003, however, CMS Energy has adopted this provision effective in 2002 and reclassified extraordinary losses of \$7 million and \$18 million in 2002 and 2001, respectively, in the accompanying Consolidated Statement of Income. The 2002 reclassification increased interest expense \$12 million (\$8 million after-tax) and increased income from discontinued operations \$1 million. The 2001 reclassification increased interest expense \$25 million (\$16 million after-tax) and decreased income from discontinued operations \$2 million.

128

CMS ENERGY CORPORATION

The following table reflects all adjustments to the quarterly income statements for the first three quarters in 2002 and 2001 as reported in each of CMS Energy's 2002 Form 10-Qs.

| ----- In Millions (Unaudited) ----- | | | | | |
|---|----------|-----------------|----------|----------|-----------------|
| Quarters Ended | March 31 | 2002 June 30 | Sept. 30 | March 31 | 2001 June 30 |
| ----- | | | | | |
| Operating revenues | \$2,525 | \$2,368 | \$1,333 | \$2,853 | \$2,165 |
| EITF Reclassifications | - | - | 1,382 | - | - |
| Discontinued Operations | (246) | (164) | (157) | (413) | (278) |
| MTM Inter-book | | | | | |
| Transactions and MST | | | | | |
| Account Reconciliations | (39) | (43) | 14 | (18) | 60 |
| MTM Gains and | | | | | |
| Losses on Intercompancy | | | | | |
| Transactions | 22 | (1) | 10 | (10) | (18) |
| MCV MTM Accounting Change | - | (25) | (3) | | |
| Other | 1 | 2 | - | 4 | 3 |
| Restated operating revenues | \$2,263 | \$2,137 | \$2,579 | \$2,416 | \$1,932 |
| ----- | | | | | |

| ----- In Millions (Unaudited) ----- | | | | | |
|---|----------|-----------------|----------|----------|-----------------|
| Quarters Ended | March 31 | 2002 June 30 | Sept. 30 | March 31 | 2001 June 30 |
| ----- | | | | | |
| Operating income (loss) | \$292 | \$233 | \$211 | \$327 | \$225 |

Edgar Filing: CMS ENERGY CORP - Form 10-Q/A

| | | | | | |
|---|-------|-------|-------|-------|-------|
| Discontinued Operations | (67) | (42) | (44) | (99) | (41) |
| MCV PPA Adjustment | - | - | - | 4 | 4 |
| DIG Loss Contract | (9) | (8) | (5) | - | - |
| MTM Inter-book Transactions and MST Account Reconciliations | 35 | - | 19 | (14) | (77) |
| MTM Gains and Losses on Intercompany Transactions | 22 | (1) | 10 | (10) | (18) |
| MCV MTM Accounting Change | - | (25) | (3) | - | - |
| Panhandle System Gas | - | - | - | - | (6) |
| Other | 2 | (5) | 4 | 6 | 6 |
| Restated operating Income (loss) | \$275 | \$152 | \$192 | \$214 | \$ 93 |

| | | | | | |
|---|-------|------|------|-------|-------|
| Income (loss) from continuing operations | \$400 | \$73 | \$ 6 | \$108 | \$ 34 |
| Discontinued Operations | (332) | (8) | (6) | (31) | - |
| MCV PPA Adjustment | 1 | - | 1 | 2 | 2 |
| DIG Loss Contract | (6) | (5) | (3) | - | - |
| MTM Inter-book Transactions and MST Account Reconciliations | 20 | 2 | 10 | (8) | (49) |
| MTM Gains and Losses on Intercompany Transactions | 14 | (1) | 6 | (6) | (12) |

129

CMS ENERGY CORPORATION

| | | | | | |
|--|-------|------|------|-------|---------|
| MCV MTM Accounting Change | - | (17) | (1) | - | - |
| Panhandle System Gas | - | - | - | - | (3) |
| Amortization of Debt Costs | - | - | - | (11) | 8 |
| Early Extinguishment of Debt | (1) | (7) | - | - | - |
| Income Tax Adjustments | - | - | - | - | - |
| Other | (3) | (1) | (1) | (2) | 2 |
| Restated income (loss) from continuing operations | \$ 93 | \$36 | \$12 | \$ 52 | \$ (18) |

In Millions (Un

| Quarters Ended | 2002 | | | 2001 | | |
|-------------------------|----------|----------|----------|----------|---------|---|
| | March 31 | June 30 | Sept. 30 | March 31 | June 30 | S |
| Discontinued Operations | \$ - | \$ (141) | \$17 | \$ 1 | \$19 | |

Edgar Filing: CMS ENERGY CORP - Form 10-Q/A

| | | | | | |
|--|---------|----------|------|------|------|
| Discontinued Operations | (47) | 8 | 6 | 31 | - |
| MTM Inter-book Transactions and MST Account Reconciliations | (3) | 6 | (1) | (4) | 1 |
| MTM Gains and Losses on Intercompany Transactions | - | - | 3 | - | - |
| Early Extinguishment of Debt | - | - | - | - | - |
| Income Tax Adjustments | - | - | - | - | - |
| Other | (1) | - | (1) | (1) | 1 |
| Restated Discontinued Operations | \$ (51) | \$ (127) | \$24 | \$27 | \$21 |
| ----- | | | | | |
| Cumulative effect of a Change in accounting principle | \$ - | \$ - | \$ - | \$ - | - |
| MTM Inter-book Transactions and MST Account Reconciliations | - | - | - | 9 | - |
| MCV MTM Accounting Change | - | 17 | 1 | - | - |
| Restated Cumulative effect of a Change in accounting principle | \$ - | \$ 17 | \$ 1 | \$ 9 | \$ - |
| ----- | | | | | |
| Extraordinary Item | \$ (1) | \$ (7) | \$ - | \$ - | \$ - |
| Early Extinguishment of Debt | 1 | 7 | - | - | - |
| Restated Extraordinary Item | \$ - | \$ - | \$ - | \$ - | \$ - |
| ----- | | | | | |

130

CMS ENERGY CORPORATION

| Quarters Ended | In Millions | | | | |
|---|-------------|-----------------|----------|----------|---------|
| | March 31 | 2002 June 30 | Sept. 30 | March 31 | June 30 |
| Consolidated net income (loss) | \$399 | \$ (75) | \$23 | \$109 | \$53 |
| Discontinued Operations | (379) | - | - | - | - |
| MCV PPA Adjustment | 1 | - | 1 | 2 | 2 |
| DIG Loss Contract | (6) | (5) | (3) | - | - |
| MTM Inter-book Transactions and MST Account Reconciliations | 17 | 8 | 9 | (3) | (48) |
| MTM Gains and Losses on Intercompany | | | | | |

Edgar Filing: CMS ENERGY CORP - Form 10-Q/A

| | | | | | |
|--|-------|---------|------|-------|------|
| Transactions | 14 | (1) | 9 | (6) | (12) |
| Panhandle System Gas | - | - | - | - | (3) |
| Amortization of Debt Costs | | | | (11) | 8 |
| Income Tax Adjustments | - | - | - | - | - |
| Other | (4) | (1) | (2) | (3) | 3 |
| Restated consolidated net income (loss) | \$ 42 | \$ (74) | \$37 | \$ 88 | \$3 |

131

CMS Energy Corporation

The following tables reflect the effects of the restatement on CMS Energy's consolidated financial statements for the quarterly periods ended March 31, June 30, and, September 30, 2002 and 2001:

| CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED) | Three Months Ended | | As |
|---|--------------------|-------------|----|
| | 2002 | | |
| In Millions, Except Per Share Amounts | As Reported | As Restated | |
| March 31 | | | |
| Operating Revenue | \$ 2,525 | \$ 2,263 | |
| Operating Expenses | 1,964 | 1,754 | |
| Maintenance | 63 | 55 | |
| Depreciation, depletion and amortization | 140 | 122 | |
| General taxes | 66 | 57 | |
| Total Operating Expenses | 2,233 | 1,988 | |
| OPERATING INCOME (LOSS) | | | |
| Electric utility | 114 | 115 | |

Edgar Filing: CMS ENERGY CORP - Form 10-Q/A

| | | |
|--|---------|---------|
| Gas utility | 63 | 64 |
| Natural gas transmission | 61 | - |
| Independent power production | 38 | 28 |
| Oil and gas exploration and production | - | - |
| Marketing, services and trading | 11 | 42 |
| Other | 5 | 26 |
| | ----- | ----- |
| | 292 | 275 |
| OTHER INCOME (DEDUCTIONS) | | |
| Accretion expense | (9) | (8) |
| Gain on asset sales, net | 520 | 22 |
| Other, net | 10 | - |
| | ----- | ----- |
| | 521 | 14 |
| | ----- | ----- |
| EARNINGS BEFORE INTEREST AND INCOME TAXES | 813 | 289 |
| | ----- | ----- |
| FIXED CHARGES | | |
| Interest on long-term debt | 131 | 95 |
| Other interest | 8 | 11 |
| Capitalized interest | (4) | (3) |
| Preferred securities distributions | 25 | 25 |
| | ----- | ----- |
| | 160 | 128 |
| | ----- | ----- |
| Earnings Before Income Taxes and Minority Interests | 653 | 161 |
| Income Taxes | 253 | 68 |
| Minority Interests | - | - |
| | ----- | ----- |
| Income From Continuing Operations | 400 | 93 |
| Income (Loss) From Discontinued Operations | - | (51) |
| | ----- | ----- |
| Income Before Cumulative Effect of Change in Accounting Principle and Extraordinary Item | 400 | 42 |
| Cumulative Effect of Change in Accounting for Derivative Instruments | - | - |
| | ----- | ----- |
| Earnings Before Extraordinary Item | 400 | 42 |
| Extraordinary Item | (1) | - |
| | ----- | ----- |
| Consolidated Net Income | \$ 399 | \$ 42 |
| ===== | ===== | ===== |
| Basic Earnings Per Average Common Share | \$ 2.99 | \$.32 |
| ===== | ===== | ===== |
| Diluted Earnings Per Average Common Share | \$ 2.92 | \$.32 |
| ===== | ===== | ===== |
| Dividends Declared Per Common Share | \$.365 | \$.365 |
| ===== | ===== | ===== |

Edgar Filing: CMS ENERGY CORP - Form 10-Q/A

| CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED) In Millions March 31 | 2002 | |
|--|-------------|-------------|
| | As Reported | As Restated |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Consolidated net income | \$ 399 | \$ 42 |
| Adjustments to reconcile net income to net cash provided by operating activities | | |
| Depreciation, depletion and amortization | 140 | 122 |
| Discontinued operations (Note 2) | - | - |
| Capital lease and debt discount amortization | 4 | 4 |
| Deferred income taxes and investment tax credit | (31) | (245) |
| Accretion expense | 9 | 8 |
| Undistributed earnings of related parties | (31) | (36) |
| Gain on the sale of assets | (520) | (22) |
| Cumulative effect of an accounting change | - | - |
| Changes in other assets and liabilities: | | |
| Decrease in accounts receivable and accrued revenue | 250 | 36 |
| Decrease in inventories | 179 | 185 |
| Increase (Decrease) in accounts payable and accrued expenses | (86) | 84 |
| Regulatory obligation --gas customer choice | (7) | - |
| Change in postretirement benefits, net | (47) | - |
| Changes in other assets and liabilities | (7) | 68 |
| Net cash provided by operating activities | 252 | 246 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Capital expenditures (excludes assets placed under capital lease) | (192) | (156) |
| Investments in partnerships and unconsolidated subsidiaries | (17) | (16) |
| Cost to retire property, net | (15) | (20) |
| Investments in Electric Restructuring Implementation Plan | - | (3) |
| Investments in nuclear decommissioning trust funds | (2) | (2) |
| Proceeds from nuclear decommissioning trust funds | 8 | 8 |
| Net proceeds from sale of assets | 878 | 878 |
| Other | (31) | (42) |
| Net cash provided by (used in) investing activities | 629 | 647 |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Proceeds from notes, bonds, and other long-term debt | 299 | 311 |
| Issuance of common stock | 29 | 42 |
| Retirement of bonds and other long-term debt | (902) | (912) |
| Retirement of trust preferred securities | (30) | (30) |
| Payment of common stock dividends | (48) | (49) |
| Decrease in notes payable, net | (252) | (249) |
| Payment of capital lease obligations | (3) | (3) |
| Other financing | (3) | (1) |
| Net cash provided by (used in) financing activities | (910) | (891) |
| NET INCREASE (DECREASE) IN CASH AND TEMPORARY CASH INVESTMENTS | (29) | 2 |
| CASH AND TEMPORARY CASH INVESTMENTS, BEGINNING OF PERIOD | 189 | 127 |
| CASH AND TEMPORARY CASH INVESTMENTS, END OF PERIOD | \$ 160 | \$ 129 |
| OTHER CASH FLOW ACTIVITIES AND NON-CASH INVESTING AND FINANCING ACTIVITIES: | | |
| CASH TRANSACTIONS | | |
| Interest paid (net of amounts capitalized) | \$ 139 | \$ 94 |

Edgar Filing: CMS ENERGY CORP - Form 10-Q/A

| | | |
|---|------|------|
| Income taxes paid (net of refunds) | (42) | (42) |
| Pension and OPEB cash contribution | - | 61 |
| NON-CASH TRANSACTIONS | | |
| Nuclear fuel placed under capital lease | - | - |
| Other assets placed under capital lease | 8 | 17 |

133

CMS Energy Corporation

| CONSOLIDATED BALANCE SHEETS | March 31, 2002 | | December 31, 2001 | |
|--|----------------|-------------|-------------------|-------------|
| | (Unaudited) | | | |
| In Millions | As Reported | As Restated | As Reported | As Restated |
| ASSETS | | | | |
| PLANT AND PROPERTY (AT COST) | \$ 14,574 | \$ 11,591 | \$ 14,631 | \$ 11,485 |
| Less accumulated depreciation, depletion and amortization | 6,950 | 6,259 | 6,833 | 6,158 |
| Plant, net | 7,624 | 5,332 | 7,798 | 5,327 |
| Construction work-in-progress | 611 | 580 | 564 | 521 |
| Total Plant | 8,235 | 5,912 | 8,362 | 5,848 |
| INVESTMENTS | | | | |
| Independent power production | 745 | 741 | 718 | 714 |
| Natural gas transmission | 423 | 350 | 501 | 577 |
| Midland Cogeneration Venture Limited Partnership | 316 | 316 | 300 | 300 |
| First Midland Limited Partnership | 257 | 257 | 253 | 253 |
| Other | 80 | 77 | 123 | 117 |
| | 1,821 | 1,741 | 1,895 | 1,961 |
| CURRENT ASSETS | | | | |
| Cash and temporary cash investments at cost | 160 | 129 | 189 | 127 |
| Accounts receivable, notes receivable and accrued revenue | 587 | 275 | 681 | 219 |
| Accounts receivable -- Marketing, services and trading | 445 | 276 | 683 | 295 |
| Accounts receivable and notes receivable - related parties | - | 115 | - | 190 |
| Inventories at average cost | | | | |
| Gas in underground storage | 402 | 407 | 587 | 590 |
| Materials and supplies | 175 | 92 | 174 | 89 |
| Generating plant fuel stock | 50 | 50 | 52 | 52 |
| Assets held for sale | - | 385 | - | 471 |
| Price risk management assets | 417 | 366 | 461 | 327 |

Edgar Filing: CMS ENERGY CORP - Form 10-Q/A

| | | | | |
|-------------------------------------|------------------|------------------|------------------|-----------------|
| Deferred income taxes | - | - | - | - |
| Prepayments and other | 252 | 168 | 206 | 200 |
| Total Current Assets | 2,488 | 2,263 | 3,033 | 2,560 |
| NON-CURRENT ASSETS | | | | |
| Regulatory Assets | | | | |
| Securitized costs | 714 | 714 | 717 | 717 |
| Postretirement benefits | 203 | 203 | 209 | 209 |
| Abandoned Midland Project | 11 | 11 | 12 | 12 |
| Other | 171 | 171 | 167 | 167 |
| Assets held for sale | - | 2,697 | - | 3,480 |
| Price risk management assets | 549 | 434 | 424 | 368 |
| Goodwill, net | 811 | - | 811 | - |
| Nuclear decommissioning trust funds | 576 | 576 | 581 | 581 |
| Notes receivable -- related parties | 213 | 213 | 177 | 177 |
| Notes receivable | 129 | 126 | 134 | 130 |
| Other | 558 | 543 | 580 | 565 |
| Total Non-current Assets | 3,935 | 5,688 | 3,812 | 6,406 |
| TOTAL ASSETS | \$ 16,479 | \$ 15,604 | \$ 17,102 | \$16,775 |

134

CMS Energy Corporation

| CONSOLIDATED BALANCE SHEETS | March 31, 2002 | | December 31, 2001 | |
|--|----------------|--------------|-------------------|--------------|
| | (Unaudited) | | | |
| In Millions | As Reported | As Restated | As Reported | As Restated |
| STOCKHOLDERS' INVESTMENT AND LIABILITIES | | | | |
| CAPITALIZATION | | | | |
| Common Stockholders' equity | \$ 2,289 | \$ 2,080 | \$ 1,890 | \$ 2,038 |
| Preferred stock of subsidiary | 44 | 44 | 44 | 44 |
| Company-obligated convertible Trust Preferred Securities of subsidiaries (a) | 694 | 694 | 694 | 694 |
| Company-obligated mandatorily redeemable preferred securities of Consumers' subsidiaries (a) | 490 | 490 | 520 | 520 |
| Long-term debt | 6,543 | 5,475 | 6,923 | 5,840 |
| Non-current portion of capital leases | 60 | 84 | 60 | 71 |
| Total Capitalization | 10,120 | 8,867 | 10,131 | 9,207 |
| Minority Interests | 87 | 24 | 86 | 24 |
| CURRENT LIABILITIES | | | | |

Edgar Filing: CMS ENERGY CORP - Form 10-Q/A

| | | | | |
|---|------------------|------------------|------------------|-----------------|
| Current portion of long-term debt and capital leases | 743 | 736 | 981 | 1,016 |
| Notes payable | 179 | 164 | 416 | 416 |
| Accounts payable | 538 | 296 | 547 | 359 |
| Accounts payable -- Marketing, services and trading | 323 | 211 | 574 | 236 |
| Accrued taxes | 314 | 111 | 125 | 111 |
| Accrued interest | 155 | 142 | 163 | 135 |
| Accounts payable -- related parties | 67 | 59 | 62 | 54 |
| Liabilities held for sale | - | 603 | - | 639 |
| Price risk management liabilities | 396 | 356 | 381 | 367 |
| Current portion of purchase power contracts | - | 24 | - | 24 |
| Current portion of gas supply contract obligations | - | 23 | - | 22 |
| Deferred income taxes | 14 | 15 | 51 | 49 |
| Other | 430 | 245 | 510 | 243 |
| Total Current Liabilities | 3,159 | 2,985 | 3,810 | 3,671 |
| NON-CURRENT LIABILITIES | | | | |
| Deferred income taxes | 781 | 609 | 773 | 824 |
| Postretirement benefits | 280 | 298 | 333 | 356 |
| Deferred investment tax credit | 100 | 100 | 102 | 102 |
| Liabilities held for sale | - | 1,475 | - | 1,376 |
| Regulatory liabilities for income taxes, net | 276 | 276 | 276 | 276 |
| Price risk management liabilities | 461 | 341 | 352 | 287 |
| Power loss contract reserves | 341 | - | 354 | - |
| Gas supply contract obligations | 277 | 254 | 287 | 266 |
| Power purchase agreement -- MCV Partnership | - | 47 | - | 52 |
| Other | 597 | 328 | 598 | 334 |
| TOTAL NON-CURRENT LIABILITIES | 3,113 | 3,728 | 3,075 | 3,873 |
| TOTAL STOCKHOLDERS' INVESTMENT AND LIABILITIES | \$ 16,479 | \$ 15,604 | \$ 17,102 | \$16,775 |

135

CMS Energy Corporation

CONSOLIDATED STATEMENTS OF COMMON STOCKHOLDERS' EQUITY (UNAUDITED)

| | Three Months Ended | | | T |
|--------------------------------|--------------------|-------------|--|----|
| | 2002 | | | |
| | As Reported | As Restated | | |
| March 31 | | | | |
| In Millions | | | | |
| COMMON STOCK | | | | |
| At beginning and end of period | \$ 1 | \$ 1 | | \$ |

Edgar Filing: CMS ENERGY CORP - Form 10-Q/A

| | | | |
|--|----------|----------|----|
| OTHER PAID-IN CAPITAL | | | |
| At beginning of period | 3,269 | 3,257 | |
| Common stock issued | 29 | 42 | |
| | <hr/> | | |
| At end of period | 3,298 | 3,299 | |
| <hr/> | | | |
| OTHER COMPREHENSIVE INCOME (LOSS) | | | |
| Investments | | | |
| At beginning of period | (4) | (5) | |
| Unrealized gain (loss) on investments (a) | 5 | - | |
| | <hr/> | | |
| At end of period | 1 | (5) | |
| <hr/> | | | |
| Derivative Instruments (c) | | | |
| At beginning of period (b) | (26) | (31) | |
| Unrealized gain (loss) on derivative instruments (a) | 7 | 12 | |
| Reclassification adjustments included in consolidated net income (a) | 2 | 2 | |
| | <hr/> | | |
| At end of period | (17) | (17) | |
| <hr/> | | | |
| FOREIGN CURRENCY TRANSLATION | | | |
| At beginning of period | (295) | (233) | |
| Change in foreign currency translation (a) | 5 | (8) | |
| | <hr/> | | |
| At end of period | (290) | (241) | |
| <hr/> | | | |
| RETAINED EARNINGS (DEFICIT) | | | |
| At beginning of period | (1,055) | (951) | |
| Consolidated net income (a) | 399 | 42 | |
| Common stock dividends declared | (48) | (48) | |
| | <hr/> | | |
| At end of period | (704) | (957) | |
| <hr/> | | | |
| Total Common Stockholders' Equity | \$ 2,289 | \$ 2,080 | \$ |
| <hr/> | | | |
| (a) Disclosure of Consolidated Comprehensive Income: | | | |
| Investments | | | |
| Unrealized gain (loss) on investments | \$ 5 | \$ - | \$ |
| Derivative Instruments | | | |
| Unrealized gain (loss) on derivative instruments | 7 | 12 | |
| Reclassification adjustments included in consolidated net income | 2 | 2 | |
| Foreign currency translation, net | 5 | (8) | |
| Consolidated net income | 399 | 42 | |
| | <hr/> | | |
| Total Consolidated Comprehensive Income | \$ 418 | \$ 48 | \$ |
| <hr/> | | | |

(b) Cumulative effect of change in accounting principle, net of \$(8) tax in 2001.

(c) Included in these amounts is CMS Energy's proportionate share of the effects of derivative accounting relating to its equity investment in the MCV Partnership as follows:

Edgar Filing: CMS ENERGY CORP - Form 10-Q/A

| | | | |
|--|----|---|--------|
| MCV Partnership: | | | |
| At the beginning of the period | \$ | - | \$ (8) |
| Cumulative effect of change in accounting for derivative instruments | | - | - |
| Unrealized gain/(loss) on derivative instruments | | - | 5 |
| Reclassification adjustments included in net income | | - | 2 |
| | | | |
| At the end of the period | \$ | - | \$ (1) |

136

CMS Energy Corporation

CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

Three Months Ended

In Millions, Except Per Share Amounts

2002

June 30

As Reported As Restated

| | | |
|---|----------|----------|
| Operating Revenue | \$ 2,368 | \$ 2,137 |
| Operating Expenses | 1,926 | 1,798 |
| Maintenance | 61 | 53 |
| Depreciation, depletion and amortization | 95 | 86 |
| General taxes | 53 | 48 |
| Total Operating Expenses | 2,135 | 1,985 |
| OPERATING INCOME (LOSS) | | |
| Electric utility | 116 | 116 |
| Gas utility | 20 | 18 |
| Natural gas transmission | 38 | (5) |
| Independent power production | 73 | 37 |
| Marketing, services and trading | (33) | (32) |
| Other | 19 | 18 |
| | 233 | 152 |
| OTHER INCOME (DEDUCTIONS) | | |
| Accretion expense | (8) | (7) |
| Gain (loss) on asset sales, net | 26 | 26 |
| Other, net | (1) | (1) |
| | 17 | 18 |
| EARNINGS BEFORE INTEREST AND INCOME TAXES | 250 | 170 |
| FIXED CHARGES | | |
| Interest on long-term debt | 119 | 101 |
| Other interest | 5 | 3 |
| Capitalized interest | (5) | (4) |

Edgar Filing: CMS ENERGY CORP - Form 10-Q/A

| | | |
|---|----------|----------|
| Preferred dividends | - | 1 |
| Preferred securities distributions | 25 | 25 |
| | 144 | 126 |
| Earnings (Loss) Before Income Taxes and Minority Interests | 106 | 44 |
| Income Taxes (Benefits) | 32 | 7 |
| Minority Interests | 1 | 1 |
| Income (Loss) From Continuing Operations | 73 | 36 |
| Income (Loss) From Discontinued Operations | (141) | (127) |
| Income (Loss) Before Cumulative Effect of Change in Accounting Principle and Extraordinary Item | (68) | (91) |
| Cumulative Effect of Change in Accounting Principle | - | 17 |
| Income (Loss) Before Extraordinary Item | (68) | (74) |
| Extraordinary Item | (7) | - |
| Consolidated Net Income (Loss) | \$ (75) | \$ (74) |
| Basic Earnings (Loss) Per Average Common Share | \$ (.56) | \$ (.55) |
| Diluted Earnings (Loss) Per Average Common Share | \$ (.56) | \$ (.55) |
| Dividends Declared Per Common Share | .365 | \$.365 |

137

CMS Energy Corporation

| CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED) | Six Months Ended | | |
|---|------------------|-------------|-------------|
| | 2002 | | |
| | As Reported | As Restated | As Reported |
| In Millions, Except Per Share Amounts | | | |
| June 30 | | | |
| Operating Revenue | \$ 4,834 | \$ 4,400 | \$ 4,834 |
| Operating Expenses | 3,847 | 3,552 | 3,847 |
| Maintenance | 123 | 108 | 123 |
| Depreciation, depletion and amortization | 226 | 208 | 226 |
| General taxes | 118 | 105 | 118 |
| Total Operating Expenses | 4,314 | 3,973 | 4,314 |
| OPERATING INCOME (LOSS) | | | |
| Electric utility | 231 | 231 | 231 |
| Gas utility | 83 | 82 | 83 |

Edgar Filing: CMS ENERGY CORP - Form 10-Q/A

| | | | |
|---|---------|----------|-------|
| Natural gas transmission | 99 | (5) | |
| Independent power production | 111 | 65 | |
| Marketing, services and trading | (26) | 10 | |
| Other | 22 | 44 | |
| | ----- | ----- | |
| | 520 | 427 | |
| OTHER INCOME (DEDUCTIONS) | | | |
| Accretion expense | (17) | (15) | |
| Gain (loss) on asset sales, net | 48 | 48 | |
| Other, net | 9 | (1) | |
| | ----- | ----- | |
| | 40 | 32 | |
| ----- | ----- | ----- | |
| EARNINGS BEFORE INTEREST AND INCOME TAXES | 560 | 459 | |
| ----- | ----- | ----- | |
| FIXED CHARGES | | | |
| Interest on long-term debt | 243 | 196 | |
| Other interest | 14 | 14 | |
| Capitalized interest | (9) | (7) | |
| Preferred dividends | 1 | 1 | |
| Preferred securities distributions | 50 | 50 | |
| | ----- | ----- | |
| | 299 | 254 | |
| ----- | ----- | ----- | |
| Earnings Before Income Taxes and Minority Interests | 261 | 205 | |
| Income Taxes | 97 | 75 | |
| Minority Interests | 2 | 1 | |
| | ----- | ----- | |
| Income From Continuing Operations | 162 | 129 | |
| Income (Loss) From Discontinued Operations | 169 | (178) | |
| | ----- | ----- | |
| Income (Loss) Before Cumulative Effect of Change in Accounting Principle and Extraordinary Item | 331 | (49) | |
| Cumulative Effect of Change in Accounting Principle | (9) | 17 | |
| | ----- | ----- | |
| Income (Loss) Before Extraordinary Item | 322 | (32) | |
| Extraordinary Item | (8) | - | |
| | ----- | ----- | |
| Consolidated Net Income (Loss) | \$ 314 | \$ (32) | \$ |
| ===== | ===== | ===== | ===== |
| Basic Earnings (Loss) Per Average Common Share | \$ 2.34 | \$ (.24) | \$ |
| ===== | ===== | ===== | ===== |
| Diluted Earnings (Loss) Per Average Common Share | \$ 2.30 | \$ (.24) | \$ |
| ===== | ===== | ===== | ===== |
| Dividends Declared Per Common Share | \$.73 | \$.73 | \$ |
| ===== | ===== | ===== | ===== |

138

CMS Energy Corporation

Six Months Ended

2002

Edgar Filing: CMS ENERGY CORP - Form 10-Q/A

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
June 30

| In Millions | As Reported | As Restated |
|--|----------------|----------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Consolidated net income (loss) | \$ 314 | \$(32) |
| Adjustments to reconcile net income to net cash provided by operating activities | | |
| Depreciation, depletion and amortization | 226 | 208 |
| Discontinued operations (Note 2) | (169) | 132 |
| Capital lease and debt discount amortization | 11 | 10 |
| Deferred income taxes and investment tax credit | (126) | (325) |
| Accretion expense | 17 | 15 |
| Distributions from related parties in excess of (less than) earnings | (81) | (57) |
| (Gain) loss on the sale of assets | (48) | (48) |
| Cumulative effect of an accounting change | 9 | (17) |
| Extraordinary item | 8 | - |
| Changes in other assets and liabilities: | | |
| Decrease in accounts receivable and accrued revenues | 205 | 150 |
| Decrease (increase) in inventories | 90 | 99 |
| Increase (decrease) in accounts payable and accrued expenses | 116 | 138 |
| Regulatory obligation - gas choice | (6) | - |
| Changes in other assets and liabilities | (65) | 139 |
| Net cash provided by operating activities | 501 | 412 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Capital expenditures (excludes assets placed under capital lease) | (361) | (357) |
| Investments in partnerships and unconsolidated subsidiaries | (29) | (29) |
| Cost to retire property, net | (31) | (33) |
| Investment in Electric Restructuring Implementation Plan | - | (5) |
| Investments in nuclear decommissioning trust funds | (3) | (3) |
| Proceeds from nuclear decommissioning trust funds | 12 | 12 |
| Proceeds from sale of assets | 1,188 | 1,286 |
| Other | (24) | (16) |
| Net cash provided by (used in) investing activities | 752 | 855 |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Proceeds from notes, bonds, and other long-term debt | 349 | 390 |
| Proceeds from trust preferred securities | - | - |
| Issuance of common stock | 49 | 60 |
| Retirement of bonds and other long-term debt | (1,313) | (1,346) |
| Retirement of trust preferred securities | (30) | (30) |
| Payment of common stock dividends | (97) | (97) |
| Decrease in notes payable, net | (150) | (143) |
| Payment of capital lease obligations | (7) | (7) |
| Other financing | 21 | 1 |
| Net cash provided by (used in) financing activities | (1,178) | (1,172) |
| NET INCREASE (DECREASE) IN CASH AND TEMPORARY CASH INVESTMENTS | 75 | 95 |
| CASH AND TEMPORARY CASH INVESTMENTS, BEGINNING OF PERIOD | 189 | 127 |
| CASH AND TEMPORARY CASH INVESTMENTS, END OF PERIOD | \$ 264 | \$ 222 |
| OTHER CASH FLOW ACTIVITIES AND NON-CASH INVESTING AND FINANCING ACTIVITIES: | | |

Edgar Filing: CMS ENERGY CORP - Form 10-Q/A

| | | |
|--|--------|--------|
| CASH TRANSACTIONS | | |
| Interest paid (net of amounts capitalized) | \$ 232 | \$ 185 |
| Income taxes paid (net of refunds) | (42) | (42) |
| Pension and OPEB cash contribution | 106 | 106 |
| NON-CASH TRANSACTIONS | | |
| Nuclear fuel placed under capital lease | \$ - | \$ - |
| Other assets placed under capital lease | 15 | 35 |

139

CMS Energy Corporation

| CONSOLIDATED BALANCE SHEETS | June 30, 2002 | | December 31, 2001 | |
|--|---------------|-------------|-------------------|-------------|
| | (Unaudited) | | | |
| In Millions | As Reported | As Restated | As Reported | As Restated |
| ASSETS | | | | |
| PLANT AND PROPERTY (AT COST) | \$ 13,983 | \$ 11,044 | \$ 14,631 | \$ 11,485 |
| Less accumulated depreciation, depletion and amortization | 6,873 | 6,016 | 6,833 | 6,158 |
| Plant, net | 7,110 | 5,028 | 7,798 | 5,327 |
| Construction work-in-progress | 515 | 482 | 564 | 521 |
| Total Plant | 7,625 | 5,510 | 8,362 | 5,848 |
| INVESTMENTS | | | | |
| Independent power production | 733 | 728 | 718 | 714 |
| Natural gas transmission | 257 | 179 | 501 | 577 |
| Midland Cogeneration Venture Limited Partnership | 359 | 359 | 300 | 300 |
| First Midland Limited Partnership | 261 | 261 | 253 | 253 |
| Other | 91 | 75 | 135 | 117 |
| | 1,701 | 1,602 | 1,907 | 1,961 |
| CURRENT ASSETS | | | | |
| Cash and temporary cash investments at cost | 264 | 222 | 189 | 127 |
| Accounts receivable, notes receivable and accrued revenue | 408 | 135 | 681 | 219 |
| Accounts receivable -- Marketing, services and trading | 547 | 340 | 561 | 295 |
| Accounts receivable and notes receivable - related parties | - | 111 | - | 190 |
| Inventories at average cost | | | | |
| Gas in underground storage | 473 | 476 | 587 | 590 |
| Materials and supplies | 186 | 77 | 174 | 89 |
| Generating plant fuel stock | 57 | 57 | 52 | 52 |
| Assets held for sale | - | 410 | - | 471 |

Edgar Filing: CMS ENERGY CORP - Form 10-Q/A

| | | | | |
|-------------------------------------|------------------|------------------|------------------|-----------------|
| Price risk management assets | 255 | 226 | 461 | 327 |
| Prepayments and other | 217 | 143 | 206 | 200 |
| Total Current Assets | 2,407 | 2,197 | 2,911 | 2,560 |
| NON-CURRENT ASSETS | | | | |
| Regulatory Assets | | | | |
| Securitized costs | 709 | 709 | 717 | 717 |
| Postretirement benefits | 197 | 197 | 209 | 209 |
| Abandoned Midland Project | 11 | 11 | 12 | 12 |
| Other | 173 | 173 | 167 | 167 |
| Assets held for sale | - | 2,452 | - | 3,480 |
| Price risk management assets | 510 | 382 | 424 | 368 |
| Goodwill, net | 747 | - | 811 | - |
| Nuclear decommissioning trust funds | 555 | 555 | 581 | 581 |
| Notes receivable -- related party | 203 | 203 | 177 | 177 |
| Notes receivable | 129 | 126 | 134 | 130 |
| Other | 506 | 470 | 568 | 565 |
| Total Non-current Assets | 3,740 | 5,278 | 3,800 | 6,406 |
| TOTAL ASSETS | \$ 15,473 | \$ 14,587 | \$ 16,980 | \$16,775 |

140

CMS Energy Corporation

| CONSOLIDATED BALANCE SHEETS | June 30, 2002 | | December 31, 2001 | |
|--|---------------|--------------|-------------------|--------------|
| | (Unaudited) | | | |
| In Millions | As Reported | As Restated | As Reported | As Restated |
| STOCKHOLDERS' INVESTMENT AND LIABILITIES | | | | |
| CAPITALIZATION | | | | |
| Common Stockholders' equity | \$ 1,757 | \$ 1,552 | \$ 1,890 | \$ 2,038 |
| Preferred stock of subsidiary | 44 | 44 | 44 | 44 |
| Company-obligated convertible Trust Preferred Securities of subsidiaries | 694 | 694 | 694 | 694 |
| Company-obligated mandatorily redeemable preferred securities of Consumers' subsidiaries | 490 | 490 | 520 | 520 |
| Long-term debt | 6,307 | 5,367 | 6,923 | 5,840 |
| Non-current portion of capital leases | 96 | 97 | 60 | 71 |
| Total Capitalization | 9,388 | 8,244 | 10,131 | 9,207 |
| Minority Interests | 77 | 13 | 86 | 24 |
| CURRENT LIABILITIES | | | | |

Edgar Filing: CMS ENERGY CORP - Form 10-Q/A

| | | | | |
|---|------------------|------------------|------------------|------------------|
| Current portion of long-term debt and capital leases | 644 | 639 | 981 | 1,016 |
| Notes payable | 280 | 269 | 416 | 416 |
| Accounts payable | 526 | 270 | 547 | 359 |
| Accounts payable -- Marketing, services and trading | 380 | 233 | 452 | 236 |
| Accrued taxes | 337 | 223 | 125 | 111 |
| Accrued interest | 173 | 150 | 163 | 135 |
| Accounts payable -- related parties | 66 | 57 | 62 | 54 |
| Liabilities held for sale | - | 579 | - | 639 |
| Price risk management liabilities | 198 | 178 | 381 | 367 |
| Current portion of purchase power contracts | - | 24 | - | 24 |
| Current portion of gas supply contract obligations | - | 24 | - | 22 |
| Deferred income taxes | 12 | 13 | 51 | 49 |
| Other | 438 | 223 | 510 | 243 |
| Total Current Liabilities | 3,054 | 2,882 | 3,688 | 3,671 |
| NON-CURRENT LIABILITIES | | | | |
| Deferred income taxes | 694 | 529 | 773 | 824 |
| Postretirement benefits | 271 | 296 | 333 | 356 |
| Liabilities held for sale | - | 1,350 | - | 1,376 |
| Deferred investment tax credit | 94 | 94 | 102 | 102 |
| Regulatory liabilities for income taxes, net | 276 | 276 | 276 | 276 |
| Price risk management liabilities | 457 | 321 | 352 | 287 |
| Gas supply contract obligations | 272 | 249 | 287 | 266 |
| Power loss contract reserves | 327 | - | 354 | - |
| Power purchase agreement -- MCV Partnership | - | 41 | - | 52 |
| Other | 563 | 292 | 598 | 334 |
| TOTAL NON-CURRENT LIABILITIES | 2,954 | 3,448 | 3,075 | 3,873 |
| TOTAL STOCKHOLDERS' INVESTMENT AND LIABILITIES | \$ 15,473 | \$ 14,587 | \$ 16,980 | \$ 16,775 |

141

CMS Energy Corporation

CONSOLIDATED STATEMENTS OF COMMON STOCKHOLDERS' EQUITY (UNAUDITED)

June 30

Three Months Ended

2002

In Millions

As Reported As Restated As

COMMON STOCK

At beginning and end of period

\$ 1 \$ 1

OTHER PAID-IN CAPITAL

Edgar Filing: CMS ENERGY CORP - Form 10-Q/A

| | | |
|---|---------|----------|
| At beginning of period | 3,298 | 3,299 |
| Common stock reacquired | (1) | (1) |
| Common stock issued | 20 | 19 |
| At end of period | 3,317 | 3,317 |
| ----- | | |
| OTHER COMPREHENSIVE INCOME (LOSS) | | |
| Investments | | |
| At beginning of period | 1 | (5) |
| Unrealized loss on investments (a) | (1) | (2) |
| At end of period | - | (7) |
| ----- | | |
| Derivative Instruments (b) | | |
| At beginning of period | (17) | (17) |
| Unrealized loss on derivative instruments (a) | (10) | (13) |
| Reclassification adjustments included in consolidated net income (loss) (a) | 2 | 1 |
| At end of period | (25) | (29) |
| ----- | | |
| FOREIGN CURRENCY TRANSLATION | | |
| At beginning of period | (290) | (241) |
| Change in foreign currency translation (a) | (408) | (409) |
| At end of period | (698) | (650) |
| ----- | | |
| RETAINED EARNINGS (DEFICIT) | | |
| At beginning of period | (714) | (957) |
| Consolidated net income (loss) (a) | (75) | (74) |
| Common stock dividends declared | (49) | (49) |
| At end of period | (838) | (1,080) |
| ----- | | |
| Total Common Stockholders' Equity | \$1,757 | \$ 1,552 |
| ===== | | |

(a) Disclosure of Comprehensive Income (Loss):

| | | |
|---|----------|----------|
| Investments | | |
| Unrealized loss on investments | \$ (1) | \$ (2) |
| Derivative Instruments | | |
| Unrealized loss on derivative instruments | (10) | (13) |
| Reclassification adjustments included in consolidated net income (loss) | 2 | 1 |
| Foreign currency translation, net | (408) | (409) |
| Consolidated net income (loss) | (75) | (74) |
| Total Consolidated Comprehensive Income (Loss) | \$ (492) | \$ (497) |
| ===== | | |

(b) Included in these amounts is CMS Energy's proportionate share of the effects of derivative accounting relating to its equity investment in the MCV Partnership as follows:

Edgar Filing: CMS ENERGY CORP - Form 10-Q/A

| | | |
|--|------|--------|
| MCV Partnership: | | |
| At the beginning of the period | \$ - | \$ (1) |
| Unrealized gain (loss) on derivative instruments | - | 1 |
| Reclassification adjustments included in consolidated net income | - | 1 |
| At the end of the period | \$ - | \$ 1 |

142

CMS Energy Corporation

CONSOLIDATED STATEMENTS OF COMMON STOCKHOLDERS' EQUITY (UNAUDITED)
IN MILLIONS

| June 30 | Six Months Ended 2002 | | Six |
|---|-----------------------|-------------|-------------|
| | As Reported | As Restated | As Reported |
| COMMON STOCK | \$ 1 | \$ 1 | \$ |
| At beginning and end of period | | | |
| OTHER PAID-IN CAPITAL | | | |
| At beginning of period | 3,269 | 3,257 | 2 |
| Common stock reacquired | (1) | (1) | |
| Common stock issued | 49 | 61 | |
| At end of period | 3,317 | 3,317 | 3 |
| OTHER COMPREHENSIVE INCOME (LOSS) | | | |
| Investments | | | |
| At beginning of period | (4) | (5) | |
| Unrealized loss on investments (a) | 4 | (2) | |
| At end of period | - | (7) | |
| Derivative Instruments (c) | | | |
| At beginning of period (b) | (26) | (31) | |
| Unrealized loss on derivative instruments (a) | (3) | (1) | |
| Reclassification adjustments included in consolidated net income (loss) (a) | 4 | 3 | |
| At end of period | (25) | (29) | |
| FOREIGN CURRENCY TRANSLATION | | | |
| At beginning of period | (295) | (233) | |
| Change in foreign currency translation (a) | (403) | (417) | |

Edgar Filing: CMS ENERGY CORP - Form 10-Q/A

| | | | |
|------------------------------------|----------|----------|------|
| At end of period | (698) | (650) | |
| ----- | | | |
| RETAINED EARNINGS (DEFICIT) | | | |
| At beginning of period | (1,055) | (951) | |
| Consolidated net income (loss) (a) | 314 | (32) | |
| Common stock dividends declared | (97) | (97) | |
| At end of period | (838) | (1,080) | |
| ----- | | | |
| Total Common Stockholders' Equity | \$ 1,757 | \$ 1,552 | \$ 2 |
| ===== | | | |

(a) Disclosure of Comprehensive Income (Loss):

| | | | |
|---|---------|----------|----|
| Investments | | | |
| Unrealized gain (loss) on investments | \$ 4 | \$ (2) | \$ |
| Derivative Instruments | | | |
| Unrealized loss on derivative instruments | (3) | (1) | |
| Reclassification adjustments included in consolidated net income (loss) | 4 | 3 | |
| Foreign currency translation, net | (403) | (417) | |
| Consolidated net income (loss) | 314 | (32) | |
| ----- | | | |
| Total Consolidated Comprehensive Income (Loss) | \$ (84) | \$ (449) | \$ |
| ===== | | | |

(b) Cumulative effect of change in accounting principle, net of \$(8) tax in 2001.

(c) Included in these amounts is CMS Energy's proportionate share of the effects of derivative accounting relating to its equity investment in the MCV Partnership as follows:

| | | | |
|--|------|--------|----|
| MCV Partnership: | | | |
| At the beginning of the period | \$ - | \$ (8) | \$ |
| Cumulative effect of change in accounting for derivative instruments | - | - | |
| Unrealized gain (loss) on derivative instruments | - | 6 | |
| Reclassification adjustments included in consolidated net income | - | 3 | |
| ----- | | | |
| At the end of the period | \$ - | \$ 1 | \$ |
| ===== | | | |

Edgar Filing: CMS ENERGY CORP - Form 10-Q/A

| CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED) In Millions, Except Per Share Amounts September 30 | Three Months Ended | | Three M |
|--|--------------------|-------------|-------------|
| | 2002 | | |
| | As Reported | As Restated | As Reported |
| Operating Revenue | 1,333 | 2,579 | 1,333 |
| Operating Expenses | 910 | 2,203 | 933 |
| Maintenance | 57 | 49 | 59 |
| Depreciation, depletion and amortization | 103 | 89 | 113 |
| General taxes | 52 | 46 | 52 |
| Loss contracts and reduced asset valuations | - | - | 554 |
| Total Operating Expenses | 1,122 | 2,387 | 1,711 |
| OPERATING INCOME (LOSS) | | | |
| Electric utility | 175 | 175 | (63) |
| Gas utility | (15) | (14) | (2) |
| Natural gas transmission | 41 | (3) | 7 |
| Independent power production | 43 | 38 | (328) |
| Marketing, services and trading | (4) | 15 | 18 |
| Other | (29) | (19) | (10) |
| | 211 | 192 | (378) |
| OTHER INCOME (DEDUCTIONS) | | | |
| Accretion expense | (9) | (8) | (9) |
| Gain on asset sales, net | 12 | 13 | - |
| Other, net | 6 | (3) | 8 |
| | 9 | 2 | (1) |
| EARNINGS (LOSS) BEFORE INTEREST AND INCOME TAXES | 220 | 194 | (379) |
| FIXED CHARGES | | | |
| Interest on long-term debt | 142 | 109 | 130 |
| Other interest | 7 | 5 | 18 |
| Capitalized interest | (5) | (5) | (7) |
| Preferred securities distributions | 18 | 18 | 25 |
| | 162 | 127 | 166 |
| Earnings (Loss) Before Income Taxes and Minority | | | |
| Interests | 58 | 67 | (545) |
| Income Taxes (Benefits) | 50 | 55 | (184) |
| Minority Interests | 2 | - | 2 |
| Income (Loss) From Continuing Operations | 6 | 12 | (363) |
| Income (Loss) From Discontinued Operations | 17 | 24 | (206) |
| Income (Loss) Before Cumulative Effect of Change in Accounting Principle | 23 | 36 | (569) |
| Cumulative Effect of Change in Accounting Principle | - | 1 | - |
| Consolidated Net Income (Loss) | \$ 23 | \$ 37 | \$ (569) |

Edgar Filing: CMS ENERGY CORP - Form 10-Q/A

| | | | |
|--|--------|--------|-----------|
| Basic Earnings (Loss) Per Average Common Share | \$.16 | \$.26 | \$ (4.29) |
| Diluted Earnings (Loss) Per Average Common Share | \$.16 | \$.26 | \$ (4.29) |
| Dividends Declared Per Common Share | \$.18 | \$.18 | \$.365 |

144

| CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED) In Millions, Except Per Share Amounts September 30 | Nine Months Ended | | |
|--|-------------------|-------------|----|
| | 2002 | | |
| | As Reported | As Restated | As |
| Operating Revenue | \$ 4,285 | \$ 6,979 | |
| Operating Expenses | 2,875 | 5,755 | |
| Maintenance | 180 | 157 | |
| Depreciation, depletion and amortization | 329 | 297 | |
| General taxes | 170 | 151 | |
| Loss contracts and reduced asset valuations | - | - | |
| Total Operating Expenses | 3,554 | 6,360 | |
| OPERATING INCOME (LOSS) | | | |
| Electric utility | 406 | 406 | |
| Gas utility | 68 | 68 | |
| Natural gas transmission | 140 | (8) | |
| Independent power production | 154 | 103 | |
| Marketing, services and trading | (29) | 25 | |
| Other | (8) | 25 | |
| | 731 | 619 | |
| OTHER INCOME (DEDUCTIONS) | | | |
| Accretion expense | (26) | (23) | |
| Gain (loss) on asset sales, net | 60 | 61 | |
| Other, net | 15 | (4) | |
| | 49 | 34 | |
| EARNINGS BEFORE INTEREST AND INCOME TAXES | 780 | 653 | |
| FIXED CHARGES | | | |
| Interest on long-term debt | 385 | 305 | |
| Other interest | 21 | 19 | |
| Capitalized interest | (14) | (12) | |
| Preferred dividends | 1 | 1 | |
| Preferred securities distributions | 68 | 68 | |
| | 461 | 381 | |

Edgar Filing: CMS ENERGY CORP - Form 10-Q/A

| | | |
|---|---------|--------|
| Earnings (Loss) Before Income Taxes and Minority Interests | 319 | 272 |
| Income Taxes (Benefits) | 147 | 130 |
| Minority Interests | 4 | 1 |
| Income (Loss) From Continuing Operations | 168 | 141 |
| Income (Loss) From Discontinued Operations | 186 | (154) |
| Income (Loss) Before Cumulative Effect of Change in Accounting Principle and Extraordinary Item | 354 | (13) |
| Cumulative Effect of Change in Accounting Principle | (9) | 18 |
| Income (Loss) Before Extraordinary Item | 345 | 5 |
| Extraordinary Item | (8) | - |
| Consolidated Net Income (Loss) | \$ 337 | \$ 5 |
| Basic Earnings (Loss) Per Average Common Share | \$ 2.45 | \$.04 |
| Diluted Earnings (Loss) Per Average Common Share | \$ 2.42 | \$.04 |
| Dividends Declared Per Common Share | \$.91 | \$.91 |

145

CMS Energy Corporation

Nine Months End

2002

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
September 30
In Millions

As Reported As R

| | | |
|--|--------|----|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Consolidated net income (loss) | \$ 337 | \$ |
| Adjustments to reconcile net income to net cash provided by operating activities | | |
| Depreciation, depletion and amortization | 329 | |
| Reduced asset valuations | - | |
| Discontinued operations (Note 2) | (186) | |
| Capital lease and debt discount amortization | 17 | |
| Deferred income taxes and investment tax credit | (105) | |
| Accretion expense | 26 | |
| Undistributed earnings from related parties | (102) | |
| (Gain) loss on the sale of assets | (60) | |
| Cumulative effect of an accounting change | 9 | |
| Extraordinary item | 8 | |
| Changes in other assets and liabilities: | | |
| Decrease in accounts receivable and accrued revenues | 415 | |
| Increase in inventories | (48) | |
| Decrease in accounts payable and accrued expenses | (175) | |

Edgar Filing: CMS ENERGY CORP - Form 10-Q/A

| | | | |
|---|--|---------|----|
| Change in postretirement benefits, net | | (46) | |
| Changes in other assets and liabilities | | (96) | |
| ----- | | | |
| Net cash provided by operating activities | | 323 | |
| ----- | | | |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Capital expenditures (excludes assets placed under capital lease) | | (523) | |
| Investments in partnerships and unconsolidated subsidiaries | | (49) | |
| Cost to retire property, net | | (50) | |
| Investments in Electric Restructuring Implementation Plan | | - | |
| Investments in nuclear decommissioning trust funds | | (5) | |
| Proceeds from nuclear decommissioning trust funds | | 19 | |
| Proceeds from sale of assets | | 1,527 | |
| Other | | (20) | |
| ----- | | | |
| Net cash provided by (used in) investing activities | | 899 | |
| ----- | | | |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Proceeds from notes, bonds, and other long-term debt | | 688 | |
| Proceeds from trust preferred securities | | - | |
| Issuance of common stock | | 350 | |
| Retirement of bonds and other long-term debt | | (1,421) | |
| Retirement of trust preferred securities | | (331) | |
| Repurchase of common stock | | - | |
| Payment of common stock dividends | | (124) | |
| Decrease in notes payable, net | | (185) | |
| Payment of capital lease obligations | | (11) | |
| Other financing | | 30 | |
| ----- | | | |
| Net cash provided by (used in) financing activities | | (1,004) | |
| ----- | | | |
| NET INCREASE IN CASH AND TEMPORARY CASH INVESTMENTS | | 218 | |
| CASH AND TEMPORARY CASH INVESTMENTS, BEGINNING OF PERIOD | | 189 | |
| ----- | | | |
| CASH AND TEMPORARY CASH INVESTMENTS, END OF PERIOD | | \$ 407 | \$ |
| ===== | | | |
| OTHER CASH FLOW ACTIVITIES AND NON-CASH INVESTING AND FINANCING ACTIVITIES: | | | |
| CASH TRANSACTIONS | | | |
| Interest paid (net of amounts capitalized) | | \$ 421 | \$ |
| Income taxes paid (net of refunds) | | (42) | |
| Pension and OPEB cash contributions | | 126 | |
| NON-CASH TRANSACTIONS | | | |
| Nuclear fuel placed under capital lease | | \$ - | \$ |
| Other assets placed under capital lease | | 65 | |

146

CMS Energy Corporation

| CONSOLIDATED BALANCE SHEETS | September 30, 2002 | | December 31, | |
|-----------------------------|--------------------|-------------|--------------|------|
| | (Unaudited) | | ----- | |
| In Millions | As Reported | As Restated | As Reported | As R |

Edgar Filing: CMS ENERGY CORP - Form 10-Q/A

ASSETS

| | | | | |
|---|----------|----------|----------|-----|
| PLANT AND PROPERTY (AT COST) | \$13,593 | \$11,228 | \$14,631 | \$1 |
| Less accumulated depreciation, depletion and amortization | 6,523 | 6,060 | 6,833 | |
| Plant, net | 7,070 | 5,168 | 7,798 | |
| Construction work-in-progress | 488 | 466 | 564 | |
| Total Plant | 7,558 | 5,634 | 8,362 | |
| INVESTMENTS | | | | |
| Independent power production | 706 | 703 | 718 | |
| Natural gas transmission | 269 | 176 | 501 | |
| Midland Cogeneration Venture Limited Partnership | 370 | 370 | 300 | |
| First Midland Limited Partnership | 250 | 250 | 253 | |
| Other | 86 | 74 | 135 | |
| | 1,681 | 1,573 | 1,907 | |
| CURRENT ASSETS | | | | |
| Cash and temporary cash | 407 | 350 | 189 | |
| investments at cost | | | | |
| Accounts receivable, notes receivable and accrued revenue | 309 | 102 | 681 | |
| Accounts receivable -- Marketing, services and trading | 441 | 276 | 561 | |
| Accounts receivable and notes receivable - related parties | - | 103 | - | |
| Inventories at average cost | | | | |
| Gas in underground storage | 630 | 635 | 587 | |
| Materials and supplies | 163 | 87 | 174 | |
| Generating plant fuel stock | 49 | 49 | 52 | |
| Assets held for sale | - | 338 | - | |
| Price risk management assets | 240 | 211 | 461 | |
| Prepayments and other | 200 | 139 | 206 | |
| Total Current Assets | 2,439 | 2,290 | 2,911 | |
| NON-CURRENT ASSETS | | | | |
| Regulatory Assets | | | | |
| Securitized costs | 699 | 699 | 717 | |
| Postretirement benefits | 191 | 191 | 209 | |
| Abandoned Midland Project | 11 | 11 | 12 | |
| Other | 173 | 173 | 167 | |
| Assets held for sale | - | 2,249 | - | |
| Price risk management assets | 386 | 276 | 424 | |
| Goodwill, net | 740 | - | 811 | |
| Nuclear decommissioning trust funds | | | | |
| | 530 | 530 | 581 | |
| Notes receivable -- related party | 203 | 203 | 177 | |
| Notes receivable | 126 | 126 | 134 | |
| Other | 485 | 442 | 568 | |
| Total Non-current Assets | 3,544 | 4,900 | 3,800 | |
| TOTAL ASSETS | \$15,222 | \$14,397 | \$16,980 | \$1 |

Edgar Filing: CMS ENERGY CORP - Form 10-Q/A

147

CMS Energy Corporation

CONSOLIDATED BALANCE SHEETS

September 30, 2002

December 31, 2002

(Unaudited)

In Millions

As Reported

As Restated

As Reported

As Reported

STOCKHOLDERS' INVESTMENT AND
LIABILITIES

CAPITALIZATION

| | | | | |
|--|--------------|--------------|---------------|----|
| Common Stockholders' equity | \$ 2,022 | \$ 1,829 | \$ 1,890 | \$ |
| Preferred stock of subsidiary | 44 | 44 | 44 | |
| Company-obligated convertible Trust Preferred Securities of subsidiaries | 393 | 393 | 694 | |
| Company-obligated mandatorily redeemable preferred securities of Consumers' subsidiaries | 490 | 490 | 520 | |
| Long-term debt | 6,585 | 5,648 | 6,923 | |
| Non-current portion of capital leases | 110 | 110 | 60 | |
| Total Capitalization | 9,644 | 8,514 | 10,131 | |

| | | | | |
|--------------------|----|----|----|--|
| Minority Interests | 74 | 12 | 86 | |
|--------------------|----|----|----|--|

CURRENT LIABILITIES

| | | | | |
|--|--------------|--------------|--------------|--|
| Current portion of long-term debt and capital leases | 604 | 601 | 981 | |
| Notes payable | 246 | 235 | 416 | |
| Accounts payable | 435 | 308 | 547 | |
| Accounts payable -- Marketing, services and trading | 274 | 170 | 452 | |
| Accrued taxes | 292 | 259 | 125 | |
| Accrued interest | 125 | 114 | 163 | |
| Accounts payable -- related parties | 65 | 56 | 62 | |
| Liabilities held for sale | - | 317 | - | |
| Price risk management liabilities | 208 | 180 | 381 | |
| Current portion of purchase power contracts | - | 29 | - | |
| Current portion of gas supply contract obligations | - | 24 | - | |
| Deferred income taxes | 11 | 11 | 51 | |
| Other | 444 | 243 | 510 | |
| Total Current Liabilities | 2,704 | 2,547 | 3,688 | |

NON-CURRENT LIABILITIES

| | | | | |
|--------------------------------|-----|-------|-----|--|
| Deferred income taxes | 712 | 570 | 773 | |
| Postretirement benefits | 266 | 306 | 333 | |
| Liabilities held for sale | - | 1,321 | - | |
| Deferred investment tax credit | 92 | 92 | 102 | |

Edgar Filing: CMS ENERGY CORP - Form 10-Q/A

| | | | |
|---|-----------------|-----------------|-----------------|
| Regulatory liabilities for income taxes, net | 282 | 282 | 276 |
| Price risk management liabilities | 301 | 178 | 352 |
| Power loss contract reserves | 312 | - | 354 |
| Gas supply contract obligations | 270 | 246 | 287 |
| Power purchase agreement -- MCV Partnership | - | 30 | - |
| Other | 565 | 299 | 598 |
| TOTAL NON-CURRENT LIABILITIES | 2,800 | 3,324 | 3,075 |
| TOTAL STOCKHOLDERS' INVESTMENT AND LIABILITIES | \$15,222 | \$14,397 | \$16,980 |

148

CMS Energy Corporation

CONSOLIDATED STATEMENTS OF COMMON STOCKHOLDERS' EQUITY (UNAUDITED)

| September 30 | Three Months Ended | | As Reported | As Restated | As Reported |
|---|--------------------|--|-------------|-------------|-------------|
| | 2002 | | | | |
| In Millions | | | | | |
| COMMON STOCK | | | | | |
| At beginning and end of period | | | \$ 1 | \$ 1 | |
| OTHER PAID-IN CAPITAL | | | | | |
| At beginning of period | | | 3,317 | 3,317 | |
| Common stock repurchased | | | - | - | |
| Common stock reacquired | | | (1) | (1) | |
| Common stock issued | | | 303 | 303 | |
| At end of period | | | 3,619 | 3,619 | |
| OTHER COMPREHENSIVE INCOME (LOSS) | | | | | |
| Investments | | | | | |
| At beginning of period | | | - | (7) | |
| Unrealized gain (loss) on investments (a) | | | (5) | 1 | |
| At end of period | | | (5) | (6) | |
| Derivative Instruments (b) | | | | | |
| At beginning of period | | | (25) | (29) | |
| Unrealized loss on derivative instruments (a) | | | (12) | (21) | |
| Reclassification adjustments included in consolidated net income (loss) (a) | | | 1 | 2 | |
| At end of period | | | (36) | (48) | |

Edgar Filing: CMS ENERGY CORP - Form 10-Q/A

| | | |
|--|-------|-------|
| FOREIGN CURRENCY TRANSLATION | | |
| At beginning of period | (698) | (650) |
| Change in foreign currency translation (a) | (17) | (17) |
| | ----- | |
| At end of period | (715) | (667) |

| | | |
|------------------------------------|-------|---------|
| RETAINED EARNINGS (DEFICIT) | | |
| At beginning of period | (838) | (1,080) |
| Consolidated net income (loss) (a) | 23 | 37 |
| Common stock dividends declared | (27) | (27) |
| | ----- | |
| At end of period | (842) | (1,070) |

| | | |
|-----------------------------------|---------|---------|
| Total Common Stockholders' Equity | \$2,022 | \$1,829 |
| ===== | | |

(a) Disclosure of Comprehensive Income (Loss):

| | | |
|--|--------|------|
| Investments | | |
| Unrealized gain (loss) on investments, | \$ (5) | \$ 1 |
| Derivative Instruments | | |
| Unrealized gain (loss) on derivative instruments | (12) | (21) |
| Reclassification adjustments included in | | |
| consolidated net income (loss) | 1 | 2 |
| Foreign currency translation, net | (17) | (17) |
| Consolidated net income (loss) | 23 | 37 |
| | ----- | |

| | | |
|--|---------|------|
| Total Consolidated Comprehensive Income (Loss) | \$ (10) | \$ 2 |
| ===== | | |

(b) Included in these amounts is CMS Energy's proportionate share of the effects of derivative accounting relating to its equity investment in the MCV Partnership and Taweelah as follows:

| | | |
|--|-------|------|
| MCV Partnership: | | |
| At the beginning of the period | \$ - | \$ 1 |
| Unrealized gain (loss) on derivative instruments | - | 1 |
| Reclassification adjustments included in consolidated net income | - | 2 |
| | ----- | |

| | | |
|--------------------------|------|------|
| At the end of the period | \$ - | \$ 4 |
| ===== | | |

| | | |
|--|-------|------|
| Taweelah: | | |
| At the beginning of the period | \$ - | \$ - |
| Unrealized gain (loss) on derivative instruments | - | (24) |
| | ----- | |

| | | |
|--------------------------|------|---------|
| At the end of the period | \$ - | \$ (24) |
| ===== | | |

Edgar Filing: CMS ENERGY CORP - Form 10-Q/A

CMS Energy Corporation

CONSOLIDATED STATEMENTS OF COMMON STOCKHOLDERS' EQUITY (UNAUDITED)

| September 30 | Nine Months Ended 2002 | | N |
|---|------------------------|----------------|----|
| In Millions | As Reported | As Restated | As |
| COMMON STOCK | | | |
| At beginning and end of period | \$ 1 | \$ 1 | |
| OTHER PAID-IN CAPITAL | | | |
| At beginning of period | 3,269 | 3,257 | |
| Common stock repurchased | - | - | |
| Common stock reacquired | (2) | (2) | |
| Common stock issued | 352 | 364 | |
| At end of period | 3,619 | 3,619 | |
| OTHER COMPREHENSIVE INCOME (LOSS) | | | |
| Investments | | | |
| At beginning of period | (4) | (5) | |
| Unrealized loss on investments (a) | (1) | (1) | |
| At end of period | (5) | (6) | |
| Derivative Instruments (c) | | | |
| At beginning of period (b) | (26) | (31) | |
| Unrealized loss on derivative instruments (a) | (15) | (22) | |
| Reclassification adjustments included in consolidated net income (loss) (a) | 5 | 5 | |
| At end of period | (36) | (48) | |
| FOREIGN CURRENCY TRANSLATION | | | |
| At beginning of period | (295) | (233) | |
| Change in foreign currency translation (a) | (420) | (434) | |
| At end of period | (715) | (667) | |
| RETAINED EARNINGS | | | |
| At beginning of period | (1,055) | (951) | |
| Consolidated net income (loss) (a) | 337 | 5 | |
| Common stock dividend declared | (124) | (124) | |
| At end of period | (842) | (1,070) | |
| Total Common Stockholders' Equity | \$2,022 | \$1,829 | |

(a) Disclosure of Comprehensive Income (Loss):

| | | |
|---|--------|--------|
| Investments | | |
| Unrealized loss on investments | \$ (1) | \$ (1) |
| Derivative Instruments | | |
| Unrealized loss on derivative instruments | (15) | (22) |

Edgar Filing: CMS ENERGY CORP - Form 10-Q/A

| | | |
|---|---------|----------|
| Reclassification adjustments included in consolidated net income (loss) | 5 | 5 |
| Foreign currency translation, net | (420) | (434) |
| Consolidated net income (loss) | 337 | 5 |
| | | |
| Total Consolidated Comprehensive (Loss) | \$ (94) | \$ (447) |
| | | |

(b) Cumulative effect of change in accounting principle, net of \$(8) tax in 2001.

(c) Included in these amounts is CMS Energy's proportionate share of the effects of derivative accounting relating to its equity investment in the MCV Partnership and Taweelah as follows:

| | | |
|--|------|---------|
| MCV Partnership: | | |
| At the beginning of the period | \$ - | \$ (8) |
| Cumulative effect of change in accounting for derivative instruments | - | - |
| Unrealized gain (loss) on derivative instruments | - | 7 |
| Reclassification adjustments included in consolidated net income | - | 5 |
| | | |
| At the end of the period | \$ - | \$ 4 |
| | | |
| Taweelah: | | |
| At the beginning of the period | \$ - | \$ - |
| Unrealized gain (loss) on derivative instruments | - | (24) |
| | | |
| At the end of the period | \$ - | \$ (24) |
| | | |

150

CMS Energy Corporation

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

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

CMS Energy Corporation

11: SUBSEQUENT EVENTS

Subsequent to November 14, 2002, the date of filing CMS Energy's Form 10-Q for the third quarter 2002, a number of material events have occurred. These material events have been disclosed in CMS Energy's Form 10-K/A Amendment No. 2 for the fiscal year ended December 31, 2002, filed with the SEC on July 1, 2003, CMS Energy's Form 10-Q for the quarterly period ended March 31, 2003, filed with the SEC on May 14, 2003, and CMS Energy's Form 8-K filed with the SEC on June 24, 2003, each of which is incorporated by reference herein. In addition to the events disclosed in the above referenced documents, see below for a summary of events that have occurred subsequent to July 1, 2003, the date of filing CMS Energy's Form 10-K/A Amendment No. 2 with the SEC.

DISCLOSURE CONTROLS

CMS Energy's CEO and CFO are responsible for establishing and maintaining CMS Energy's disclosure controls and procedures. Management, under the direction of CMS Energy's principal executive and financial officers, has evaluated the effectiveness of CMS Energy's disclosure controls and procedures as of a date within 90 days of the filing of this quarterly report on Form 10-Q/A. Based on these evaluations, CMS Energy's CEO and CFO have concluded that CMS Energy's disclosure controls and procedures are effective to ensure that material information was presented to them and properly disclosed. There have been no significant changes in CMS Energy's internal controls or in other factors that could significantly affect internal controls subsequent to such evaluation.

DISCONTINUED OPERATIONS

In July 2003, CMS Energy completed the sale of CMS Field Services to Cantera Resources Inc. for approximately \$112.6 million in cash and a \$50 million face value note of Cantera Resources Inc. The note is payable to CMS Energy for up to \$50 million subject to the financial performance of the Fort Union and Bighorn natural gas gathering systems from 2005 through 2009. The net sale proceeds of approximately \$100.4 million were used to reduce debt.

Effective June 30, 2003, CMS Energy completed the sale of CMS Viron to Chevron Energy Solutions as part of its ongoing asset sale program.

UNCERTAINTIES

CONSUMERS' ELECTRIC UTILITY RATE MATTERS

SECURITIZATION: In June 2003, the MPSC issued a financing order authorizing the issuance of \$554 million of Securitization bonds. The order approved Consumers' request to securitize costs associated with federal Clean Air Act expenditures, retail open access implementation costs and expenses associated with the issuance of the securitization bonds. The order also directed that the securitization charges be designed such that retail open access customers would pay a significantly smaller charge than would full service customers. On July 1, 2003, Consumers filed a petition for rehearing and clarification of certain portions of the order with the MPSC, including the portion dealing with the design of the securitization charges. Depending upon the results and timing of

Edgar Filing: CMS ENERGY CORP - Form 10-Q/A

the rehearing and if there are no court appeals and no delays in the offering process, Consumers anticipates, but

152

CMS Energy Corporation

cannot assure, that securitization bonds could be issued during the first quarter of 2004.

CONSUMERS' GAS UTILITY BUSINESS OUTLOOK

In July 2003, the MPSC approved a settlement agreement authorizing Consumers to increase its GCR factor for the remainder of their current GCR plan year and to implement a quarterly ceiling price adjustment mechanism. This order will increase the likelihood that Consumers will recover the higher costs associated with its gas purchases in a more timely manner.

ENTERPRISES' OUTLOOK

An affiliate of CMS Generation owns a 49.6 percent interest in the Loy Yang Power Partnership ("LYPP"), which owns the 2,000 megawatts Loy Yang coal-fired power project in Victoria, Australia. Due to unfavorable power prices in the Australian market, the LYPP is not generating cash flow sufficient to meet its operating and debt-service obligations. LYPP currently has A\$500 million of term bank debt that, pursuant to prior extensions from the lenders, was scheduled to mature on July 11, 2003. A further extension was received such that this debt now is scheduled to mature on November 11, 2003. The partners in LYPP (including affiliates of CMS Generation Co., NRG Energy Inc. and Horizon Energy Australia Investments) have been exploring the possible sale of the project (or control of the project) or a restructuring of the finances of LYPP.

In July 2003, a conditional share sale agreement was executed by the LYPP partners and partners of the Great Energy Alliance Corporation ("GEAC") to sell the project to GEAC for about A\$3.5 billion (approximately \$2.4 billion in U.S. dollars), including A\$165 million (approximately \$111 million in U.S. dollars) for the project equity. The Australian Gas Light Company, the Tokyo Electric Power Company, Inc. and a group of financial investors led by the Commonwealth Bank of Australia formed GEAC earlier this year to explore the possible acquisition of Loy Yang. The conditions to completion of the sale to GEAC include consents from LYPP's lenders to a restructuring of the project's debt, satisfactory resolution of regulatory issues and approvals, rulings on tax and stamp duty obligations, and approvals from the investors in Horizon Energy Australia Investments and the creditors committee of NRG Energy Inc. It should be noted in particular that the Australian federal antitrust regulator has indicated its concern with the potential anticompetitive effects of this transaction. Closing is targeted for early September 2003, however, given the regulatory uncertainties, the parties to the share sale agreement have agreed to extend the date for resolution of the regulatory conditions to closing to not later than November 2, 2003, assuming satisfactory interim resolution of other closing conditions. The share sale agreement provides GEAC a period of exclusivity while the conditions of the purchase are satisfied. The signing of the share sale agreement allows GEAC to begin discussions with LYPP's lenders to pursue a debt restructuring. The proceeds to CMS Energy for its equity share of LYPP are estimated to be approximately \$55 million. However, the ultimate net proceeds to CMS Energy for its equity share in LYPP may be subject to reduction based on the ultimate resolution of many of the factors described above as conditions to completion of the sale, as well as closing adjustments and transaction costs.

CMS Energy cannot predict whether this sale to GEAC will be consummated or, if

Edgar Filing: CMS ENERGY CORP - Form 10-Q/A

not, whether any of the other initiatives will be successful, and it is possible that CMS Generation may lose all or a substantial part of its equity investment in the LYPP. CMS Energy has previously written off its equity investment in the LYPP, and further write-offs would be limited to cumulative net foreign currency translation losses. The amount of such cumulative net foreign currency translation losses is \$119 million at June 30, 2003. Any

153

CMS Energy Corporation

such write-off would flow through CMS Energy's income statement but would not result in a reduction in shareholders' equity or cause CMS Energy to be in noncompliance with its financing agreements.

In July 2003, CMS Energy and the National Power Company, through their joint venture Jubail Energy Company (JEC) closed a \$170 million limited recourse project financing for construction of a co-generation plant designed to produce up to 250 MW and 510 tons of industrial steam per hour. The plant will be located within the Saudi Petrochemical Company's (SADAF) complex at Jubail Industrial City in Saudi Arabia. CMS Energy owns 25 percent of JEC, which has entered into a long-term contract with SADAF for the entire output of the plant. The plant is expected to be in operation in 2005 and will be the first independent power plant in Saudi Arabia.

SHORT-TERM AND LONG-TERM FINANCINGS AND CAPITALIZATION

In July 2003, CMS Energy paid down \$150 million principal amount of CMS Energy's 8.375% Reset Put Securities due 2013. As a result, CMS Energy recorded a charge of approximately \$19 million after-tax related to the accelerated amortization of debt issuance costs and the premium paid associated with the discharge of these securities.

In July 2003, CMS Energy issued \$150 million of 3.375 % convertible senior notes due 2023 and \$300 million of 7.75 % senior notes due 2010. The securities, offered in a private placement under Rule 144A of the Securities Act of 1933, were purchased at closing by certain financial institutions as initial purchasers. CMS Energy has granted the initial purchasers an option to purchase up to an additional \$50 million of the convertible senior notes for a period of 45 days after closing. Closing of the sales of the notes occurred on July 16, 2003 for the convertible senior notes and July 17, 2003 for the senior notes.

CMS Energy may redeem all or part of the senior notes at any time, for a price equal to 100 percent of the principal amount of the senior notes to be redeemed plus any accrued and unpaid interest, and additional amounts, if any, to the redemption date. CMS Energy may redeem all or part of the convertible senior notes on or after July 15, 2008, for a price equal to 100 percent of the principal amount of the convertible senior notes to be redeemed plus any accrued and unpaid interest, and additional amounts owed, if any, to the redemption date.

Holder of the convertible senior notes will have the right to require CMS Energy to repurchase all or any part of their convertible senior notes at a repurchase price equal to 100 percent of the principal amount of the convertible senior notes, plus accrued and unpaid interest and additional amounts, if any, on July 15, 2008, July 15, 2013 and July 15, 2018.

Holder of the convertible senior notes may convert their notes prior to maturity into shares of CMS Energy Common Stock under certain circumstances at a conversion price of \$10.671 per share (subject to adjustment in certain events).

Edgar Filing: CMS ENERGY CORP - Form 10-Q/A

The senior notes and convertible senior notes, as well as the underlying CMS Energy Common Stock issuable upon conversion, have not been registered under the Securities Act of 1933, although CMS Energy is contractually committed to register the replacement senior notes and convertible senior notes, as well as the CMS Energy Common Stock.

The approximately \$433 million of net proceeds from these offerings will be applied to retire a portion of debt outstanding under CMS Energy's Second Amended and Restated Senior Credit Agreement and to redeem a portion of CMS Energy's 6.75 % Senior Notes due January 2004. If exercised, the proceeds from the initial purchasers' option for the additional \$50 million convertible senior notes would be used to refinance existing indebtedness.

NEW ACCOUNTING STANDARD:

SFAS NO. 150, ACCOUNTING FOR CERTAIN FINANCIAL INSTRUMENTS WITH CHARACTERISTICS OF BOTH LIABILITIES AND EQUITY: Issued by the FASB in May 2003, this statement establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. The statement

154

CMS Energy Corporation

requires an issuer to classify financial instruments within its scope as liabilities. Those instruments were previously classified as mezzanine equity. SFAS No. 150 is effective July 1, 2003.

CMS Energy has determined that Consumers Power Company Financing I, Consumers Energy Company Financing II, Consumers Energy Company Financing III, Consumers Energy Company Financing IV, and CMS Energy Trust I securities fall under the scope of SFAS No. 150. These securities have fixed redemption dates and amounts and qualify as mandatorily redeemable preferred securities under SFAS No. 150. Beginning July 1, 2003, these securities will be reclassified from the mezzanine equity section to the liability section of CMS Energy's consolidated balance sheet at fair value.

CMS Energy has determined that CMS Energy Trust Securities III have both equity and liability characteristics. The securities include both a future stock purchase contract and a preferred security. CMS Energy is continuing to evaluate the overall effect of SFAS No. 150.

155

12. RESTATED FINANCIAL STATEMENTS FOR FIRST AND SECOND QUARTERS

CMS ENERGY CORPORATION
CONSOLIDATED STATEMENTS OF INCOME
(UNAUDITED)
(AS RESTATED, SEE NOTE 10)

MARCH 31

In Millions, Exce

OPERATING REVENUE
Electric utility

\$

Edgar Filing: CMS ENERGY CORP - Form 10-Q/A

Gas utility
Natural gas transmission
Independent power production
Marketing, services and trading
Other

OPERATING EXPENSES

Operation
Fuel for electric generation
Purchased and interchange power - Marketing, services and trading
Purchased and interchange power
Purchased power - related parties
Cost of gas sold - Marketing, services and trading
Cost of gas sold
Other operating expenses

Maintenance
Depreciation, depletion and amortization
General taxes

OPERATING INCOME (LOSS)

Electric utility
Gas utility
Natural gas transmission
Independent power production
Marketing, services and trading
Other

OTHER INCOME (DEDUCTIONS)

Accretion expense
Gain on asset sales
Other, net

EARNINGS BEFORE INTEREST AND TAXES

FIXED CHARGES

Interest on long-term debt
Other interest
Capitalized interest
Preferred securities distributions

INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS

INCOME TAXES

MINORITY INTERESTS

INCOME FROM CONTINUING OPERATIONS

INCOME (LOSS) FROM DISCONTINUED OPERATIONS, NET OF \$33 TAX

Edgar Filing: CMS ENERGY CORP - Form 10-Q/A

BENEFIT IN 2002 AND \$24 TAX EXPENSE IN 2001

INCOME BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING

CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING FOR DERIVATIVE INSTRUMENTS,
NET OF \$6 TAX EXPENSE

CONSOLIDATED NET INCOME

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

156

| MARCH 31 | (AS RESTATED, SE THREE MO 2002 |
|---|--------------------------------------|
| In Millions, Except Per Sha | |
| CMS ENERGY | |
| NET INCOME | |
| Net Income Available to Common Stock | \$ 42 |
| BASIC EARNINGS PER AVERAGE COMMON SHARE | |
| Income from Continuing Operations | \$ 0.70 |
| Income (Loss) from Discontinued Operations | (0.38) |
| Income from Cumulative Effect of Change in Accounting | - |
| Net Income Attributable to Common Stock | \$ 0.32 |
| DILUTED EARNINGS PER AVERAGE COMMON SHARE | |
| Income from Continuing Operations | \$ 0.70 |
| Income (Loss) from Discontinued Operations | (0.38) |
| Income from Cumulative Effect of Change in Accounting | - |
| Net Income Attributable to Common Stock | \$ 0.32 |
| DIVIDENDS DECLARED PER COMMON SHARE | \$0.365 |

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

157

Edgar Filing: CMS ENERGY CORP - Form 10-Q/A

CMS ENERGY CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)
(AS RESTATED, SEE NOTE 10)

March 31

CASH FLOWS FROM OPERATING ACTIVITIES

Consolidated net income

Adjustments to reconcile net income to net cash
provided by operating activities

Depreciation, depletion and amortization (includes nuclear
decommissioning of \$2 and \$2, respectively)

Capital lease and debt discount amortization

Deferred income taxes and investment tax credit

Accretion expense

Undistributed earnings from related parties

Gain on the sale of assets

Cumulative effect of accounting change

Changes in other assets and liabilities:

Decrease in accounts receivable and accrued revenues

Decrease in inventories

Increase (decrease) in accounts payable and accrued expenses

Changes in other assets and liabilities

Net cash provided by operating activities

CASH FLOWS FROM INVESTING ACTIVITIES

Capital expenditures (excludes assets placed under capital lease)

Investments in partnerships and unconsolidated subsidiaries

Cost to retire property, net

Investment in Electric Restructuring Implementation Plan

Investments in nuclear decommissioning trust funds

Proceeds from nuclear decommissioning trust funds

Proceeds from sale of assets

Other investing

Net cash provided by (used in) investing activities

CASH FLOWS FROM FINANCING ACTIVITIES

Proceeds from notes, bonds, and other long-term debt

Issuance of common stock

Retirement of bonds and other long-term debt

Retirement of trust preferred securities

Payment of common stock dividends

Decrease in notes payable, net

Payment of capital lease obligations

Other financing

Edgar Filing: CMS ENERGY CORP - Form 10-Q/A

Net cash provided by (used in) financing activities

NET INCREASE (DECREASE) IN CASH AND TEMPORARY CASH INVESTMENTS

CASH AND TEMPORARY CASH INVESTMENTS, BEGINNING OF PERIOD

CASH AND TEMPORARY CASH INVESTMENTS, END OF PERIOD
=====

158

MARCH 31

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

CASH TRANSACTIONS

Interest paid (net of amounts capitalized)

Income taxes paid (net of refunds)

Pension and OPEB cash contributions

NON-CASH TRANSACTIONS

Nuclear fuel placed under capital lease

Other assets placed under capital lease
=====

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

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

159

Edgar Filing: CMS ENERGY CORP - Form 10-Q/A

CMS ENERGY CORPORATION
CONSOLIDATED BALANCE SHEETS
(AS RESTATED, SEE NOTE 10)

ASSETS

| | MARCH 31 2002 (UNAUDITED) |
|--|---------------------------------|
| <hr/> | |
| PLANT AND PROPERTY (AT COST) | |
| Electric utility | \$ 7,733 |
| Gas utility | 2,625 |
| Natural gas transmission | 206 |
| Independent power production | 918 |
| Other | 109 |
| | <hr/> |
| | 11,591 |
| Less accumulated depreciation, depletion and amortization | 6,259 |
| | <hr/> |
| | 5,332 |
| Construction work-in-progress | 580 |
| | <hr/> |
| | 5,912 |
| <hr/> | |
| INVESTMENTS | |
| Independent power production | 741 |
| Natural gas transmission | 350 |
| Midland Cogeneration Venture Limited Partnership | 316 |
| First Midland Limited Partnership | 257 |
| Other | 77 |
| | <hr/> |
| | 1,741 |
| <hr/> | |
| CURRENT ASSETS | |
| Cash and temporary cash investments at cost, which approximates market | 129 |
| Accounts receivable, notes receivable and accrued revenue, less allowances of \$5, \$5 and \$6, respectively | 275 |
| Accounts receivable - Marketing, services and trading, less allowances of \$10, \$9 and \$6, respectively | 276 |
| Accounts receivable and notes receivable - related parties | 115 |
| Inventories at average cost | |
| Gas in underground storage | 407 |
| Materials and supplies | 92 |
| Generating plant fuel stock | 50 |
| Assets held for sale | 385 |
| Price risk management assets | 366 |
| Deferred income taxes | - |
| Prepayments and other | 168 |
| | <hr/> |
| | 2,263 |
| <hr/> | |
| NON-CURRENT ASSETS | |
| Regulatory Assets | |
| Securitized costs | 714 |

Edgar Filing: CMS ENERGY CORP - Form 10-Q/A

| | |
|-------------------------------------|----------|
| Postretirement benefits | 203 |
| Abandoned Midland project | 11 |
| Other | 171 |
| Assets held for sale | 2,697 |
| Price risk management assets | 434 |
| Nuclear decommissioning trust funds | 576 |
| Notes receivable - related parties | 213 |
| Notes receivable | 126 |
| Other | 543 |
| | ----- |
| | 5,688 |
| | ----- |
| TOTAL ASSETS | \$15,604 |
| ===== | ===== |

160

STOCKHOLDERS' INVESTMENT AND LIABILITIES

| | |
|---|-------------|
| | (AS |
| | MARCH 31 |
| | 2002 |
| | (UNAUDITED) |
| ----- | ----- |
| CAPITALIZATION | |
| Common stockholders' equity | |
| Common stock, authorized 250.0 shares; outstanding 134.2 shares, 133.0 shares and 131.9 shares, respectively | \$ 1 |
| Other paid-in-capital | 3,299 |
| Other comprehensive loss | (263) |
| Retained deficit | (957) |
| | ----- |
| | 2,080 |
| Preferred stock of subsidiary | 44 |
| Company-obligated convertible Trust Preferred Securities of subsidiaries (a) | 694 |
| Company-obligated mandatorily redeemable preferred securities of Consumers' subsidiaries (a) | 490 |
| Long-term debt | 5,475 |
| Non-current portion of capital leases | 84 |
| | ----- |
| | 8,867 |
| ----- | ----- |
| MINORITY INTERESTS | 24 |
| ----- | ----- |
| CURRENT LIABILITIES | |
| Current portion of long-term debt and capital leases | 736 |
| Notes payable | 164 |
| Accounts payable | 296 |
| Accounts payable - Marketing, services and trading | 211 |
| Accrued interest | 142 |
| Accrued taxes | 111 |
| Accounts payable - related parties | 59 |

Edgar Filing: CMS ENERGY CORP - Form 10-Q/A

| | |
|--|-----|
| Liabilities held for sale | 603 |
| Price risk management liabilities | 356 |
| Current portion of purchase power contracts | 24 |
| Current portion of gas supply contract obligations | 23 |
| Deferred income taxes | 15 |
| Other | 245 |

2,985

NON-CURRENT LIABILITIES

| | |
|--|-------|
| Postretirement benefits | 298 |
| Deferred income taxes | 609 |
| Deferred investment tax credit | 100 |
| Regulatory liabilities for income taxes, net | 276 |
| Liabilities held for sale | 1,475 |
| Price risk management liabilities | 341 |
| Gas supply contract obligations | 254 |
| Power purchase agreement - MCV Partnership | 47 |
| Other | 328 |

3,728

COMMITMENTS AND CONTINGENCIES (Notes 1 and 5)

TOTAL STOCKHOLDERS' INVESTMENT AND LIABILITIES \$ 15,604
=====

(A) FOR FURTHER DISCUSSION, SEE NOTE 6 OF THE CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

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

161

(This page intentionally left blank)

162

CMS ENERGY CORPORATION
CONSOLIDATED STATEMENTS OF COMMON STOCKHOLDERS' EQUITY
(UNAUDITED)
(AS RESTATED, SEE NOTE 10)

MARCH 31

THREE
2002

COMMON STOCK

| | |
|--------------------------------|------|
| At beginning and end of period | \$ 1 |
|--------------------------------|------|

Edgar Filing: CMS ENERGY CORP - Form 10-Q/A

| | |
|--|----------|
| OTHER PAID-IN CAPITAL | |
| At beginning of period | 3,257 |
| Common stock issued | 42 |
| | ----- |
| At end of period | 3,299 |
| | ----- |
| OTHER COMPREHENSIVE INCOME (LOSS) | |
| Investments | |
| At beginning of period | (5) |
| Unrealized gain (loss) on investments (a) | - |
| | ----- |
| At end of period | (5) |
| | ----- |
| Derivative Instruments (c) | |
| At beginning of period (b) | (31) |
| Unrealized gain (loss) on derivative instruments (a) | 12 |
| Reclassification adjustments included in consolidated net income (a) | 2 |
| | ----- |
| At end of period | (17) |
| | ----- |
| FOREIGN CURRENCY TRANSLATION | |
| At beginning of period | (233) |
| Change in foreign currency translation (a) | (8) |
| | ----- |
| At end of period | (241) |
| | ----- |
| RETAINED EARNINGS (DEFICIT) | |
| At beginning of period | (951) |
| Consolidated net income (a) | 42 |
| Common stock dividends declared | (48) |
| | ----- |
| At end of period | (957) |
| | ----- |
| TOTAL COMMON STOCKHOLDERS' EQUITY | \$ 2,080 |
| ===== | |

(a) Disclosure of Comprehensive Income (Loss):

| | |
|---|-------|
| Investments | |
| Unrealized loss on investments, net of tax of \$- and \$-, respectively | \$ - |
| Derivative Instruments | |
| Unrealized gain (loss) on derivative instruments, net of tax of \$(3) and \$8, respectively | 12 |
| Reclassification adjustments included in net income, net of tax of \$(1) and \$4, respectively | 2 |
| Foreign currency translation, net | (8) |
| Net income | 42 |
| | ----- |
| Total Comprehensive Income | \$ 48 |
| | ===== |

(b) Cumulative effect of change in accounting principle, net of \$(8) tax in 2001

(c) Included in these amounts is CMS Energy's proportionate share of the effects of derivative accounting related to its equity investment in the MCV Partnership as follows:
 MCV Partnership:

Edgar Filing: CMS ENERGY CORP - Form 10-Q/A

| | |
|--|--------|
| At the beginning of the period | \$ (8) |
| Cumulative effect of change in accounting for derivative instruments | - |
| Unrealized gain (loss) on derivative instruments | 5 |
| Reclassification adjustments included in net income | 2 |
| | ----- |
| At the end of the period | \$ (1) |
| | ===== |

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

163

CMS ENERGY CORPORATION
CONSOLIDATED STATEMENTS OF INCOME
(UNAUDITED)
(AS RESTATED, SEE NOTE 10)

| June 30 | THREE MONTH 2002 |
|---|---------------------|
| ----- | |
| | In Mill |
| OPERATING REVENUE | |
| Electric utility | \$ 631 |
| Gas utility | 252 |
| Natural gas transmission | 9 |
| Independent power production | 102 |
| Marketing, services and trading | 1,116 |
| Other | 27 |
| | ----- |
| | 2,137 |
| OPERATING EXPENSES | |
| Operation | |
| Fuel for electric generation | 91 |
| Purchased and interchange power - Marketing, services and trading | 548 |
| Purchased and interchange power | 103 |
| Purchased power - related parties | 133 |
| Cost of gas sold - Marketing, services and trading | 512 |
| Cost of gas sold | 186 |
| Other | 225 |
| | ----- |
| | 1,798 |
| Maintenance | 53 |
| Depreciation, depletion and amortization | 86 |
| General taxes | 48 |
| | ----- |
| | 1,985 |
| OPERATING INCOME (LOSS) | |
| Electric utility | 116 |
| Gas utility | 18 |
| Natural gas transmission | (5) |
| Independent power production | 37 |
| Marketing, services and trading | (32) |
| Other | 18 |

Edgar Filing: CMS ENERGY CORP - Form 10-Q/A

| | | |
|---|-------|---------|
| | ----- | 152 |
| ----- | | |
| OTHER INCOME (DEDUCTIONS) | | |
| Accretion expense | | (7) |
| Gain (loss) on asset sales, net | | 26 |
| Other, net | | (1) |
| | | ----- |
| | | 18 |
| ----- | | |
| EARNINGS BEFORE INTEREST AND TAXES | | 170 |
| ----- | | |
| FIXED CHARGES | | |
| Interest on long-term debt | | 101 |
| Other interest | | 3 |
| Capitalized interest | | (4) |
| Preferred dividends | | 1 |
| Preferred securities distributions | | 25 |
| | | ----- |
| | | 126 |
| ----- | | |
| INCOME (LOSS) BEFORE INCOME TAXES AND MINORITY INTERESTS | | 44 |
| INCOME TAXES (BENEFITS) | | 7 |
| MINORITY INTERESTS | | 1 |
| | | ----- |
| INCOME (LOSS) FROM CONTINUING OPERATIONS | | 36 |
| INCOME (LOSS) FROM DISCONTINUED OPERATIONS, NET OF TAX BENEFIT OF \$61 AND \$94 IN 2002, AND TAX EXPENSE OF \$15 AND \$39 IN 2001, RESPECTIVELY | | (127) |
| | | ----- |
| INCOME (LOSS) BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING | | (91) |
| CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING FOR DERIVATIVE INSTRUMENTS, NET OF TAX EXPENSE OF \$9, \$-, \$9 AND \$6, RESPECTIVELY | | 17 |
| | | ----- |
| CONSOLIDATED NET INCOME (LOSS) | | \$ (74) |
| ===== | | |

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

JUNE 30

CMS ENERGY

Edgar Filing: CMS ENERGY CORP - Form 10-Q/A

NET INCOME (Loss)
Net Income (Loss) Available to Common Stock

BASIC EARNINGS PER AVERAGE COMMON SHARE
Income (Loss) from Continuing Operations
Income (Loss) from Discontinued Operations
Income from Cumulative Effect of Change in Accounting

Net Income (Loss) Attributable to Common Stock

DILUTED EARNINGS PER AVERAGE COMMON SHARE
Income (Loss) from Continuing Operations
Income (Loss) from Discontinued Operations
Income from Cumulative Effect of Change in Accounting

Net Income (Loss) Attributable to Common Stock

DIVIDENDS DECLARED PER COMMON SHARE

JUNE 30

CMS ENERGY

NET INCOME (Loss)
Net Income (Loss) Available to Common Stock

BASIC EARNINGS PER AVERAGE COMMON SHARE
Income from Continuing Operations
Income (Loss) from Discontinued Operations
Income from Cumulative Effect of Change in Accounting

Net Income (Loss) Attributable to Common Stock

DILUTED EARNINGS PER AVERAGE COMMON SHARE
Income from Continuing Operations
Income (Loss) from Discontinued Operations
Income from Cumulative Effect of Change in Accounting

Net Income (Loss) Attributable to Common Stock

DIVIDENDS DECLARED PER COMMON SHARE

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

Edgar Filing: CMS ENERGY CORP - Form 10-Q/A

CMS ENERGY CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)
(AS RESTATED, SEE NOTE 10)

JUNE 30

SIX MONTH
2002

In Mi

CASH FLOWS FROM OPERATING ACTIVITIES

| | |
|--|---------|
| Consolidated net income (loss) | \$ (32) |
| Adjustments to reconcile net income to net cash provided by operating activities | |
| Depreciation, depletion and amortization (includes nuclear decommissioning of \$3 and \$3, respectively) | 208 |
| Discontinued operations | 132 |
| Capital lease and debt discount amortization | 10 |
| Deferred income taxes and investment tax credit | (325) |
| Accretion expense | 15 |
| Distributions from related parties in excess of (less than) earnings | (57) |
| Loss (gain) on the sale of assets | (48) |
| Cumulative effect of an accounting change | (17) |
| Changes in other assets and liabilities: | |
| Decrease in accounts receivable and accrued revenues | 150 |
| Decrease (increase) in inventories | 99 |
| Increase (decrease) in accounts payable and accrued expenses | 138 |
| Changes in other assets and liabilities | 139 |
| Net cash provided by operating activities | 412 |

CASH FLOWS FROM INVESTING ACTIVITIES

| | |
|---|-------|
| Capital expenditures (excludes assets placed under capital lease) | (357) |
| Investments in partnerships and unconsolidated subsidiaries | (29) |
| Cost to retire property, net | (33) |
| Investment in Electric Restructuring Implementation Plan | (5) |
| Investments in nuclear decommissioning trust funds | (3) |
| Proceeds from nuclear decommissioning trust funds | 12 |
| Proceeds from sale of assets | 1,286 |
| Other | (16) |
| Net cash provided by (used in) investing activities | 855 |

CASH FLOWS FROM FINANCING ACTIVITIES

| | |
|--|---------|
| Proceeds from notes, bonds, and other long-term debt | 390 |
| Proceeds from trust preferred securities | - |
| Issuance of common stock | 60 |
| Retirement of bonds and other long-term debt | (1,346) |
| Retirement of trust preferred securities | (30) |
| Payment of common stock dividends | (97) |
| Decrease in notes payable, net | (143) |
| Payment of capital lease obligations | (7) |
| Other financing | 1 |

Edgar Filing: CMS ENERGY CORP - Form 10-Q/A

| | |
|--|---------|
| Net cash provided by (used in) financing activities | (1,172) |
| ----- | |
| NET INCREASE (DECREASE) IN CASH AND TEMPORARY CASH INVESTMENTS | 95 |
| CASH AND TEMPORARY CASH INVESTMENTS, BEGINNING OF PERIOD | 127 |
| ----- | |
| CASH AND TEMPORARY CASH INVESTMENTS, END OF PERIOD | \$ 222 |
| ===== | |

(AS RESTATED,
SIX MONTHS
2002

JUNE 30

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

| | | |
|--|--------|----|
| Interest paid (net of amounts capitalized) | \$ 185 | In |
| Income taxes paid (net of refunds) | (42) | |
| Pension and OPEB cash contributions | 106 | |
| NON-CASH TRANSACTIONS | | |
| Nuclear fuel placed under capital lease | \$ - | |
| Other assets placed under capital leases | 35 | |
| ===== | | |

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

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

166

CMS ENERGY CORPORATION
CONSOLIDATED BALANCE SHEETS
(AS RESTATED, SEE NOTE 10)

ASSETS

| | |
|---|--------------------------------|
| | JUNE 30 2002 (UNAUDITED) |
| ----- | |
| PLANT AND PROPERTY (AT COST) | |
| Electric utility | \$ 7,396 |
| Gas utility | 2,651 |
| Natural gas transmission | 208 |
| Independent power production | 689 |
| Other | 100 |
| | ----- |
| | 11,044 |
| Less accumulated depreciation, depletion and amortization | 6,016 |
| | ----- |
| | 5,028 |
| Construction work-in-progress | 482 |

Edgar Filing: CMS ENERGY CORP - Form 10-Q/A

| | |
|--|-------------|
| | 5,510 |
| <hr/> | |
| INVESTMENTS | |
| Independent power production | 728 |
| Natural gas transmission | 179 |
| Midland Cogeneration Venture Limited Partnership | 359 |
| First Midland Limited Partnership | 261 |
| Other | 75 |
| | <hr/> 1,602 |
| <hr/> | |
| CURRENT ASSETS | |
| Cash and temporary cash investments at cost, which approximates market | 222 |
| Accounts receivable, notes receivable and accrued revenue, less allowances of \$4, \$5 and \$6, respectively | 135 |
| Accounts receivable - Marketing, services and trading, less allowances of \$11, \$9 and \$8, respectively | 340 |
| Accounts receivable and notes receivable - related parties | 111 |
| Inventories at average cost | |
| Gas in underground storage | 476 |
| Materials and supplies | 77 |
| Generating plant fuel stock | 57 |
| Assets held for sale | 410 |
| Price risk management assets | 226 |
| Prepayments and other | 143 |
| | <hr/> 2,197 |
| <hr/> | |
| NON-CURRENT ASSETS | |
| Regulatory Assets | |
| Securitized costs | 709 |
| Postretirement benefits | 197 |
| Abandoned Midland Project | 11 |
| Other | 173 |
| Assets held for sale | 2,452 |
| Price risk management assets | 382 |
| Nuclear decommissioning trust funds | 555 |
| Notes receivable - related party | 203 |
| Notes receivable | 126 |
| Other | 470 |
| | <hr/> 5,278 |
| <hr/> | |
| TOTAL ASSETS | \$ 14,587 |
| <hr/> | |

STOCKHOLDERS' INVESTMENT AND LIABILITIES

(AS R
JUNE 30
2002
(UNAUDITED)

Edgar Filing: CMS ENERGY CORP - Form 10-Q/A

CAPITALIZATION

| | |
|---|----------|
| Common stockholders' equity | |
| Common stock, authorized 250.0 shares; outstanding 135.1 shares, 133.0 shares and 132.4 shares, respectively | \$ 1 |
| Other paid-in-capital | 3,317 |
| Other comprehensive loss | (686) |
| Retained deficit | (1,080) |
| | ----- |
| | \$ 1,552 |
| Preferred stock of subsidiary | 44 |
| Company-obligated convertible Trust Preferred Securities of subsidiaries (a) | 694 |
| Company-obligated mandatorily redeemable preferred securities of Consumers' subsidiaries (a) | 490 |
| Long-term debt | 5,367 |
| Non-current portion of capital leases | 97 |
| | ----- |
| | 8,244 |

MINORITY INTERESTS

13

CURRENT LIABILITIES

| | |
|--|-------|
| Current portion of long-term debt and capital leases | 639 |
| Notes payable | 269 |
| Accounts payable | 270 |
| Accounts payable - Marketing, services and trading | 233 |
| Accrued interest | 150 |
| Accrued taxes | 223 |
| Accounts payable - related parties | 57 |
| Liabilities held for sale | 579 |
| Price risk management liabilities | 178 |
| Current portion of purchase power contracts | 24 |
| Current portion of gas supply contract obligations | 24 |
| Deferred income taxes | 13 |
| Other | 223 |
| | ----- |
| | 2,882 |

NON-CURRENT LIABILITIES

| | |
|--|-------|
| Postretirement benefits | 296 |
| Deferred income taxes | 529 |
| Deferred investment tax credit | 94 |
| Regulatory liabilities for income taxes, net | 276 |
| Liabilities held for sale | 1,350 |
| Price risk management liabilities | 321 |
| Gas supply contract obligations | 249 |
| Power purchase agreement - MCV Partnership | 41 |
| Other | 292 |
| | ----- |
| | 3,448 |

COMMITMENTS AND CONTINGENCIES (Notes 1 and 5)

TOTAL STOCKHOLDERS' INVESTMENT AND LIABILITIES \$ 14,587

Edgar Filing: CMS ENERGY CORP - Form 10-Q/A

(A) FOR FURTHER DISCUSSION, SEE NOTE 6 OF THE CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

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

168

CMS ENERGY CORPORATION
CONSOLIDATED STATEMENTS OF COMMON STOCKHOLDERS' EQUITY
(UNAUDITED)
(AS RESTATED, SEE NOTE 10)

| JUNE 30 | THREE MONTH 2002 |
|---|---------------------|
| <hr/> | |
| COMMON STOCK | |
| At beginning and end of period | \$ 1 |
| <hr/> | |
| OTHER PAID-IN CAPITAL | |
| At beginning of period | 3,299 |
| Common stock reacquired | (1) |
| Common stock issued | 19 |
| At end of period | 3,317 |
| <hr/> | |
| OTHER COMPREHENSIVE INCOME (LOSS) | |
| Investments | |
| At beginning of period | (5) |
| Unrealized gain (loss) on investments (a) | (2) |
| At end of period | (7) |
| <hr/> | |
| Derivative Instruments (c) | |
| At beginning of period (b) | (17) |
| Unrealized gain (loss) on derivative instruments (a) | (13) |
| Reclassification adjustments included in consolidated net income (loss) (a) | 1 |
| At end of period | (29) |
| <hr/> | |
| FOREIGN CURRENCY TRANSLATION | |
| At beginning of period | (241) |
| Change in foreign currency translation (a) | (409) |
| At end of period | (650) |
| <hr/> | |
| RETAINED EARNINGS (DEFICIT) | |
| At beginning of period | (957) |
| Consolidated net income (loss) (a) | (74) |
| Common stock dividends declared | (49) |
| At end of period | (1,080) |

Edgar Filing: CMS ENERGY CORP - Form 10-Q/A

TOTAL COMMON STOCKHOLDERS' EQUITY \$ 1,552

| | |
|---|----------|
| ===== | |
| (a) Disclosure of Comprehensive Income (Loss): | |
| Investments | |
| Unrealized loss on investments, net of tax of \$1, \$-, \$1 and \$-, respectively | \$ (2) |
| Derivative Instruments | |
| Unrealized loss on derivative instruments, net of tax of \$2, \$5, \$(1) and \$13, respectively | (13) |
| Reclassification adjustments included in consolidated net income (loss), net of tax of \$-, \$-, \$(1) and \$4, respectively | 1 |
| Foreign currency translation, net | (409) |
| Consolidated net income (loss) | (74) |
| | ----- |
| Total Consolidated Comprehensive Income (Loss) | \$ (497) |
| | ===== |

(b) Six months ended June 30, 2001 is the cumulative effect of change in accounting principle, net of \$(8) tax (Note 1)

(c) Included in these amounts is CMS Energy's proportionate share of the effects of derivative accounting related to its equity investment in the MCV Partnership as follows:

| | |
|--|--------|
| MCV Partnership: | |
| At the beginning of the period | \$ (1) |
| Cumulative effect of change in accounting for derivative instruments | - |
| Unrealized gain/(loss) on derivative instruments | 1 |
| Reclassification adjustments included in net income | 1 |
| | ----- |
| At the end of the period | \$ 1 |
| | ===== |

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

13: EQUITY METHOD INVESTMENTS

Certain of CMS Energy's investments in companies, partnerships and joint ventures, where ownership is more than 20 percent but less than a majority, are accounted for by the equity method of accounting in accordance with APB Opinion No. 18. For the nine months ended September 30, 2002 and 2001, net income included undistributed earnings of \$71 million and \$37 million, respectively, from these investments. The most significant of these investments is CMS Energy's 50 percent interest in Jorf Lasfar and its 49 percent interest in the MCV Partnership. Summarized income statement information of CMS Energy's most significant equity method investments follows.

Edgar Filing: CMS ENERGY CORP - Form 10-Q/A

| THREE MONTHS ENDED SEPTEMBER 30, 2002 | JORF LASFAR | MCV |
|---|-------------|--------|
| Operating revenue | \$ 87 | \$ 156 |
| Operating expenses | 47 | 120 |
| Operating income | 40 | 36 |
| Other Expense, net | (14) | (27) |
| Cumulative Effect of Change in Method of Accounting for Derivative Options Contracts | - | - |
| Net Income | \$ 26 | \$ 9 |

| THREE MONTHS ENDED SEPTEMBER 30, 2001 | JORF LASFAR | MCV |
|---|-------------|--------|
| Operating revenue | \$ 88 | \$ 165 |
| Operating expenses | 37 | 125 |
| Operating income | 51 | 40 |
| Other Expense, net | (13) | (27) |
| Cumulative Effect of Change in Method of Accounting for Derivative Options Contracts | - | - |
| Net Income | \$ 38 | \$ 13 |

| NINE MONTHS ENDED SEPTEMBER 30, 2002 | JORF LASFAR | MCV |
|---|-------------|--------|
| Operating revenue | \$ 274 | \$ 451 |
| Operating expenses | 136 | 318 |
| Operating income | 138 | 133 |
| Other Expense, net | (36) | (86) |
| Cumulative Effect of Change in Method of Accounting for Derivative Options Contracts | - | 58 |
| Net Income | \$ 102 | \$ 105 |

Edgar Filing: CMS ENERGY CORP - Form 10-Q/A

NINE MONTHS ENDED SEPTEMBER 30, 2001

JORF LASFAR

MCV

| | | |
|---|--------|--------|
| Operating revenue | \$ 264 | \$ 454 |
| Operating expenses | 107 | 329 |
| <hr style="border-top: 1px dashed black;"/> | | |
| Operating income | 157 | 125 |
| Other Expense, net | (34) | (81) |
| Cumulative Effect of Change in Method of Accounting for Derivative Options Contracts | - | - |
| <hr style="border-top: 1px dashed black;"/> | | |
| Net Income | \$ 123 | \$ 44 |
| <hr style="border-top: 3px double black;"/> | | |

THREE MONTHS ENDED JUNE 30, 2002

JORF LASFAR

MCV

| | | |
|---|-------|--------|
| Operating revenue | \$ 91 | \$ 145 |
| Operating expenses | 41 | 88 |
| <hr style="border-top: 1px dashed black;"/> | | |
| Operating income | 50 | 57 |
| Other Expense, net | (11) | (30) |
| Cumulative Effect of Change in Method of Accounting for Derivative Options Contracts | - | 58 |
| <hr style="border-top: 1px dashed black;"/> | | |
| Net Income | \$ 39 | \$ 85 |
| <hr style="border-top: 3px double black;"/> | | |

THREE MONTHS ENDED JUNE 30, 2001

JORF LASFAR

MCV

| | | |
|---|-------|--------|
| Operating revenue | \$ 89 | \$ 147 |
| Operating expenses | 34 | 109 |
| <hr style="border-top: 1px dashed black;"/> | | |
| Operating income | 55 | 38 |
| Other Income (Expense), net | 2 | (28) |
| Cumulative Effect of Change in Method of Accounting for Derivative Options Contracts | - | - |
| <hr style="border-top: 1px dashed black;"/> | | |
| Net Income | \$ 57 | \$ 10 |
| <hr style="border-top: 3px double black;"/> | | |

SIX MONTHS ENDED JUNE 30, 2002

JORF LASFAR

MCV

| | | |
|---|--------|--------|
| Operating revenue | \$ 187 | \$ 295 |
| Operating expenses | 89 | 198 |
| <hr style="border-top: 1px dashed black;"/> | | |
| Operating income | 98 | 97 |

Edgar Filing: CMS ENERGY CORP - Form 10-Q/A

| | | |
|---|-------|-------|
| Other Expense, net | (22) | (59) |
| Cumulative Effect of Change in Method of Accounting for Derivative Options Contracts | - | 58 |
| Net Income | \$ 76 | \$ 96 |

171

CMS Energy Corporation

| SIX MONTHS ENDED JUNE 30, 2001 | JORF LASFAR | MCV |
|---|-------------|--------|
| Operating revenue | \$176 | \$ 289 |
| Operating expenses | 70 | 204 |
| Operating income | 106 | 85 |
| Other Expense, net | (21) | (55) |
| Cumulative Effect of Change in Method of Accounting for Derivative Options Contracts | - | - |
| Net Income | \$ 85 | \$ 30 |

| THREE MONTHS ENDED MARCH 31, 2002 | JORF LASFAR | MCV |
|---|-------------|--------|
| Operating revenue | \$ 96 | \$ 149 |
| Operating expenses | 48 | 109 |
| Operating income | 48 | 40 |
| Other Expense, net | (11) | (29) |
| Cumulative Effect of Change in Method of Accounting for Derivative Options Contracts | - | - |
| Net Income | \$ 37 | \$ 11 |

| THREE MONTHS ENDED MARCH 31, 2001 | JORF LASFAR | MCV |
|-----------------------------------|-------------|--------|
| Operating revenue | \$ 87 | \$ 142 |
| Operating expenses | 36 | 95 |
| Operating income | 51 | 47 |

Edgar Filing: CMS ENERGY CORP - Form 10-Q/A

| | | |
|---|-------|-------|
| Other Expense, net | (23) | (27) |
| Cumulative Effect of Change in Method of Accounting for Derivative Options Contracts | - | - |
| | ----- | ----- |
| Net Income | \$ 28 | \$ 20 |
| | ===== | ===== |

172

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Quantitative and Qualitative Disclosures about Market Risk is contained in MANAGEMENT'S DISCUSSION AND ANALYSIS, which is incorporated by reference herein.

CONTROLS AND PROCEDURES

DISCLOSURE AND INTERNAL CONTROLS

CMS Energy's CEO and CFO are responsible for establishing and maintaining disclosure controls and procedures. Management, under the direction of its principal executive and financial officers, has evaluated the effectiveness of CMS Energy's disclosure controls and procedures as of a date within ninety days of the filing of this quarterly report on Form 10-Q/A. Based on these evaluations, CMS Energy's CEO and CFO have concluded that disclosure controls and procedures are effective to ensure that material information was presented to them and properly disclosed. There have been no significant changes in CMS Energy's internal controls or in factors that could significantly affect internal controls subsequent to such evaluation.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The discussion below is limited to an update of developments that have occurred in various judicial and administrative proceedings, many of which are more fully described in CMS Energy's Form 10-K for the year ended December 31, 2001. Reference is also made to the CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, in particular Note 5 - Uncertainties, included herein for additional information regarding various pending administrative and judicial proceedings involving rate, operating, regulatory and environmental matters.

AMERICAN HOME ASSURANCE COMPANY LITIGATION

American Home Assurance Company ("AHA") is one of the issuers of a joint and several surety bond, with a remaining surety amount of approximately \$190 million, supporting a CMS MST gas supply contract. Under an Indemnification Agreement with CMS Enterprises and CMS MST, AHA may demand that CMS Enterprises and CMS MST post acceptable collateral if CMS Energy's Standard & Poors senior debt rating falls below BB. Following the credit rating downgrade by Standard & Poors in July 2002, AHA demanded that CMS Enterprises and CMS MST post acceptable collateral for the remaining surety amount, and on August 9, 2002, AHA filed a lawsuit against CMS Enterprises and CMS MST in the United States District Court for the Eastern District of Michigan. In its lawsuit, AHA is seeking to require CMS Enterprises and CMS MST to post acceptable collateral and to enjoin CMS Enterprises and CMS MST from disposing of or transferring any corporate assets outside the ordinary course of business until AHA's claim is

Edgar Filing: CMS ENERGY CORP - Form 10-Q/A

fully adjudicated. AHA's request for a temporary restraining order was denied on August 9th.

St. Paul Fire and Marine Insurance Company ("St. Paul"), the co-surety on the bond with the AHA, has similar rights in connection with surety bonds supporting two other CMS MST gas supply contracts, where the remaining surety amounts total approximately \$112 million. In addition, the recent credit rating downgrade of St Paul has triggered an obligation under the gas supply contracts for

173

CMS MST to replace St. Paul's surety bond by September 16, 2002. Discussions with St. Paul are ongoing. St. Paul has not yet made a formal demand for collateral or commenced any legal action.

CMS and AIG have reached a settlement in principle that would provide AHA and St. Paul's with collateral and resolve AHA's litigation. However, the settlement is subject to final documentation as well as approval by the banks party to the CMS Energy secured credit lines.

DEMAND FOR ACTIONS AGAINST OFFICERS AND DIRECTORS

The Board of Directors of CMS Energy received a demand, on behalf of a shareholder of CMS common stock, that it commence civil actions (i) to remedy alleged breaches of fiduciary duties by CMS officers and directors in connection with round-trip trading at CMS, and (ii) to recover damages sustained by CMS as a result of alleged insider trades alleged to have been made by certain current and former officers of CMS and its subsidiaries. If the Board elects not to commence such actions, the shareholder has stated that he will initiate a derivative suit, bringing such claims on behalf of CMS. Winston & Strawn has been retained as counsel to the CMS Energy Board's Special Investigative Committee, and the Committee and its counsel are in the process of completing their investigation. Counsel for the shareholder has agreed to extend the time for CMS to respond to the demand.

EMPLOYMENT RETIREMENT INCOME SECURITY ACT ("ERISA") CLASS ACTION LAWSUITS

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

SECURITIES CLASS ACTION LAWSUITS

Eighteen separate civil lawsuits have been filed in federal court in Michigan in connection with round-trip trading, alleging (i) violation of Section 10(b) and Rule 10b-5 of the Securities Exchange Act of 1934 ("Exchange Act") and (ii) violation of Section 20(a) of the Exchange Act. All suits name Messrs. McCormick and Wright and CMS Energy as defendants. Consumers, Mr. Joos and Ms. Pallas are named as defendants on certain of the suits. The cases will be consolidated into a single lawsuit.

ENVIRONMENTAL MATTERS: CMS Energy and its subsidiaries and affiliates are subject to various federal, state and local laws and regulations relating to the

Edgar Filing: CMS ENERGY CORP - Form 10-Q/A

environment. Several of these companies have been named parties to various actions involving environmental issues. Based on its present knowledge and subject to future legal and factual developments, CMS Energy believes that it is unlikely that these actions, individually or in total, will have a material adverse effect on its financial condition. See MANAGEMENT'S DISCUSSION AND ANALYSIS and CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

174

ITEM 5. OTHER INFORMATION

In order for a shareholder to submit a proposal for a vote at the CMS Energy 2003 Annual Meeting, the shareholder must assure that CMS Energy receives the proposal on or before March 6, 2003. CMS Energy will not include shareholder's proposals in the CMS Energy's proxy statement. The shareholder must address the proposal to: Mr. Michael VanHemert, Corporate Secretary, Fairlane Plaza South, Suite 1100, 330 Town Center Drive, Dearborn, Michigan 48126. If the shareholder fails to submit the proposal on or before March 6, 2003, then management may use its discretionary voting authority to decide if it will submit the proposal to vote when the shareholder raises the proposal at the CMS Energy 2003 Annual Meeting.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) LIST OF EXHIBITS

- (4) (a) 91st Supplemental Indenture, dated as of May 23, 2003, between Consumers Energy Company and JP Morgan Chase Bank as Trustee
- (4) (b) 13th Supplemental Indenture, dated as of July 16, 2003, between CMS Energy Corporation and Bank One Trust Company, N.A. as Trustee
- (4) (c) 14th Supplemental Indenture, dated as of July 17, 2003, between CMS Energy Corporation and Bank One Trust Company, N.A. as Trustee
- (99) CMS Energy Corporation's certifications pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

(b) REPORTS ON FORM 8-K

During 3rd Quarter 2002, CMS Energy filed reports of Form 8-K on July 30, 2002, August 8, 2002 and November 4, 2002 covering matters pursuant to ITEM 5. OTHER EVENTS.

175

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CMS ENERGY CORPORATION
(Registrant)

Edgar Filing: CMS ENERGY CORP - Form 10-Q/A

Dated: July 23, 2003

By: /s/ Thomas J. Webb

Thomas J. Webb
Executive Vice President and
Chief Financial Officer

176

CERTIFICATION OF KENNETH WHIPPLE

I, Kenneth Whipple, certify that:

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

Edgar Filing: CMS ENERGY CORP - Form 10-Q/A

internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

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

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

Dated: July 23, 2003

By: /s/ Kenneth Whipple

Kenneth Whipple
Chairman of the Board and
Chief Executive Officer

177

CERTIFICATION OF THOMAS J. WEBB

I, Thomas J. Webb, certify that:

1. I have reviewed this quarterly report on Form 10-Q/A of CMS Energy Corporation;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operation and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

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

Edgar Filing: CMS ENERGY CORP - Form 10-Q/A

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

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

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

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

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

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

Dated: July 23, 2003

By: /s/ Thomas J. Webb

Thomas J. Webb
Executive Vice President and
Chief Financial Officer

178

EXHIBITS

| EXHIBIT NUMBER | DESCRIPTION |
|----------------|--|
| (4) (a) | 91st Supplemental Indenture, dated as of May 23, 2003, between Consumers Energy Company and JPMorgan Chase Bank as Trustee |
| (4) (b) | 13th Supplemental Indenture, dated as of July 16, 2003, between CMS Energy Corporation and Bank One Trust Company, N.A. as Trustee |
| (4) (c) | 14th Supplemental Indenture, dated as of July 17, 2003, between CMS Energy Corporation and Bank One Trust Company, N.A. as Trustee |
| (99) | CMS Energy Corporation's certifications pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |