

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

FORM 10-Q

QUARTERLY REPORT PURSUANT  
 TO SECTION 13 OR 15(d) OF THE  
 SECURITIES

EXCHANGE ACT OF 1934  
 For the quarterly period ended  
 September 30, 2018

OR

TRANSITION REPORT PURSUANT  
 TO SECTION 13 OR 15(d) OF THE  
 SECURITIES

EXCHANGE ACT OF 1934  
 For the transition period from \_\_\_\_\_ to \_\_\_\_\_

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

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

such filing requirements for the past 90 days.

CMS Energy Corporation: Yes  
 x No o

Consumers Energy Company: Yes x No o

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

CMS Energy Corporation: Yes  
 x No o

Consumers Energy Company: Yes x No o

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

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

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

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

CMS Energy Corporation: o

Consumers Energy Company: o

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

CMS Energy Corporation: Yes  
 o No x

Consumers Energy Company: Yes o No x

Indicate the number of shares outstanding of each  
of the issuer's classes of common stock at  
October 9, 2018:

CMS Energy Corporation:

CMS Energy Common Stock,  
\$0.01 par value

(including 20,316 shares owned by  
Consumers Energy) 283,331,416

Consumers Energy Company:

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

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CMS Energy Corporation

Consumers Energy Company

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September 30, 2018

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Glossary

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

2016 Energy Law

Michigan's Public Acts 341 and 342 of 2016

2017 Form 10-K

Each of CMS Energy's and Consumers' Annual Report on Form 10-K for the year ended December 31, 2017

ABATE

The Association of Businesses Advocating Tariff Equity

AOCI

Accumulated other comprehensive income (loss)

ARO

Asset retirement obligation

ASU

Financial Accounting Standards Board Accounting Standards Update

Bay Harbor

A residential/commercial real estate area located near Petoskey, Michigan, in which CMS Energy sold its interest in 2002

bcf

Billion cubic feet

Cantera Gas Company

Cantera Gas Company LLC, a non-affiliated company, formerly known as CMS Field Services

Cantera Natural Gas, Inc.

Cantera Natural Gas, Inc., a non-affiliated company that purchased CMS Field Services

CCR

Coal combustion residual

CEO

Chief Executive Officer

CERCLA

The Comprehensive Environmental Response, Compensation, and Liability Act of 1980, as amended

CFO

Chief Financial Officer

Clean Air Act

Federal Clean Air Act of 1963, as amended

Clean Water Act

Federal Water Pollution Control Act of 1972, as amended

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CMS Capital  
CMS Capital, L.L.C., a wholly owned subsidiary of CMS Energy  
CMS Energy  
CMS Energy Corporation and its consolidated subsidiaries, unless otherwise noted; the parent of Consumers and CMS Enterprises  
CMS Enterprises  
CMS Enterprises Company, a wholly owned subsidiary of CMS Energy  
CMS ERM  
CMS Energy Resource Management Company, formerly known as CMS MST, a wholly owned subsidiary of CMS Enterprises  
CMS Field Services  
CMS Field Services, Inc., a former wholly owned subsidiary of CMS Gas Transmission Company, a wholly owned subsidiary of CMS Enterprises  
CMS Land  
CMS Land Company, a wholly owned subsidiary of CMS Capital  
CMS MST  
CMS Marketing, Services and Trading Company, a wholly owned subsidiary of CMS Enterprises, whose name was changed to CMS ERM in 2004  
Consumers  
Consumers Energy Company and its consolidated subsidiaries, unless otherwise noted; a wholly owned subsidiary of CMS Energy  
CSAPR  
The Cross-State Air Pollution Rule of 2011, as amended  
DB Pension Plans  
Defined benefit pension plans of CMS Energy and Consumers, including certain present and former affiliates and subsidiaries  
DB SERP  
Defined Benefit Supplemental Executive Retirement Plan  
Dodd-Frank Act  
Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010  
EBITDA  
Earnings before interest, taxes, depreciation, and amortization  
EEI  
Edison Electric Institute, an association representing all U.S. investor-owned electric companies  
EnerBank  
EnerBank USA, a wholly owned subsidiary of CMS Capital

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energy waste reduction

The reduction of energy consumption through energy efficiency and demand-side energy conservation, as established under the 2016 Energy Law

EPA

U.S. Environmental Protection Agency

EPS

Earnings per share

Exchange Act

Securities Exchange Act of 1934

FDIC

Federal Deposit Insurance Corporation

FERC

The Federal Energy Regulatory Commission

FTR

Financial transmission right

GAAP

U.S. Generally Accepted Accounting Principles

GCR

Gas cost recovery

Genesee

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

Internal Revenue Code

Internal Revenue Code of 1986, as amended

IRP

Integrated resource plan

kWh

Kilowatt-hour, a unit of energy equal to one thousand watt-hours

Ludington

Ludington pumped-storage plant, jointly owned by Consumers and DTE Electric Company, a non-affiliated company

MATS

Mercury and Air Toxics Standards, which limit mercury, acid gases, and other toxic pollution from coal-fueled and oil-fueled power plants

MCV Partnership

Midland Cogeneration Venture Limited Partnership



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MCV PPA

PPA between Consumers and the MCV Partnership

MD&A

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

MDEQ

Michigan Department of Environmental Quality

METC

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

MGP

Manufactured gas plant

Michigan Mercury Rule

Michigan Air Pollution Control Rules of 2009, as amended, Part 15: Emission Limitations and Prohibitions – Mercury

MISO

Midcontinent Independent System Operator, Inc.

mothball

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

MPSC

Michigan Public Service Commission

MW

Megawatt, a unit of power equal to one million watts

NAAQS

National Ambient Air Quality Standards

NPDES

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

NREPA

Part 201 of Michigan's Natural Resources and Environmental Protection Act of 1994, as amended

NSR

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

OPEB

Other Post-Employment Benefits

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OPEB Plan

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

OSHA

Occupational Safety and Health Administration

PCB

Polychlorinated biphenyl

PHMSA

The U.S. Department of Transportation's Pipeline and Hazardous Materials Safety Administration

PPA

Power purchase agreement

PSCR

Power supply cost recovery

PURPA

The Public Utility Regulatory Policies Act of 1978

RCRA

The Federal Resource Conservation and Recovery Act of 1976

REC

Renewable energy credit

ROA

Retail Open Access, which allows electric generation customers to choose alternative electric suppliers pursuant to Michigan's Public Acts 141 and 142 of 2000, as amended

SEC

U.S. Securities and Exchange Commission  
securitization

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

Smart Energy

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

TCJA

Tax Cuts and Jobs Act of 2017

T.E.S. Filer City

T.E.S. Filer City Station Limited Partnership, a variable interest entity in which HYDRA-CO Enterprises, Inc., a wholly owned subsidiary of CMS Enterprises, has a 50-percent interest

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Filing Format

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

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

Available Information

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

Forward-Looking Statements and Information

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

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

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the adoption of federal or state laws or regulations or challenges to federal or state laws or regulations, or changes in applicable laws, rules, regulations, principles, or practices, or in their interpretation, such as those related to energy policy and ROA, infrastructure integrity or security, gas pipeline safety, gas pipeline capacity, energy waste reduction, the environment, regulation or deregulation, reliability, health care reforms (including comprehensive health care reform enacted in 2010), taxes, accounting matters, climate change, air emissions, renewable energy, potential effects of the Dodd-Frank Act, and other business issues that could have an impact on CMS Energy's, Consumers', or any of their affiliates' businesses or financial results

factors affecting operations, such as costs and availability of personnel, equipment, and materials; weather conditions; natural disasters; catastrophic weather-related damage; scheduled or unscheduled equipment outages; maintenance or repairs; environmental incidents; failures of equipment or materials; electric transmission and distribution or gas pipeline system constraints; and changes in trade policies or regulations

increases in demand for renewable energy by customers seeking to meet sustainability goals

the ability of Consumers to execute its cost-reduction strategies

potentially adverse regulatory or legal interpretations or decisions regarding environmental matters, or delayed regulatory treatment or permitting decisions that are or could come before the MDEQ, EPA, and/or U.S. Army Corps of Engineers, and potential environmental remediation costs associated with these interpretations or decisions, including those that may affect Bay Harbor or Consumers' routine maintenance, repair, and replacement classification under NSR regulations

changes in energy markets, including availability and price of electric capacity and the timing and extent of changes in commodity prices and availability and deliverability of coal, natural gas, natural gas liquids, electricity, oil, and certain related products

the price of CMS Energy common stock, the credit ratings of CMS Energy and Consumers, capital and financial market conditions, and the effect of these market conditions on CMS Energy's and Consumers' interest costs and access to the capital markets, including availability of financing to CMS Energy, Consumers, or any of their affiliates the investment performance of the assets of CMS Energy's and Consumers' pension and benefit plans, the discount rates used in calculating the plans' obligations, and the resulting impact on future funding requirements

- the impact of the economy, particularly in Michigan, and potential future volatility in the financial and credit markets on CMS Energy's, Consumers', or any of their affiliates' revenues, ability to collect accounts receivable from customers, or cost and availability of capital

changes in the economic and financial viability of CMS Energy's and Consumers' suppliers, customers, and other counterparties and the continued ability of these third parties, including those in bankruptcy, to meet their obligations to CMS Energy and Consumers

population changes in the geographic areas where CMS Energy and Consumers conduct business

national, regional, and local economic, competitive, and regulatory policies, conditions, and developments

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loss of customer demand for electric generation supply to alternative electric suppliers, increased use of distributed generation, or energy waste reduction

adverse consequences of employee, director, or third-party fraud or non-compliance with codes of conduct or with laws or regulations

federal regulation of electric sales and transmission of electricity, including periodic re-examination by federal regulators of CMS Energy's and Consumers' market-based sales authorizations

the impact of credit markets, economic conditions, increased competition, and any new banking and consumer protection regulations on EnerBank

the availability, cost, coverage, and terms of insurance, the stability of insurance providers, and the ability of Consumers to recover the costs of any insurance from customers

the effectiveness of CMS Energy's and Consumers' risk management policies, procedures, and strategies, including strategies to hedge risk related to interest rates and future prices of electricity, natural gas, and other energy-related commodities

- factors affecting development of electric generation projects and gas and electric transmission and distribution infrastructure replacement, conversion, and expansion projects, including factors related to project site identification, construction material pricing, schedule delays, availability of qualified construction personnel, permitting, acquisition of property rights, and government approvals

potential disruption to, interruption of, or other impacts on facilities, utility infrastructure, operations, or backup systems due to accidents, explosions, physical disasters, cyber incidents, vandalism, war, or terrorism, and the ability to obtain or maintain insurance coverage for these events

changes or disruption in fuel supply, including but not limited to supplier bankruptcy and delivery disruptions

potential costs, lost revenues, or other consequences resulting from misappropriation of assets or sensitive information, corruption of data, or operational disruption in connection with a cyber attack or other cyber incident

potential disruption to, interruption or failure of, or other impacts on information technology backup or disaster recovery systems

technological developments in energy production, storage, delivery, usage, and metering

the ability to implement technology successfully

the impact of CMS Energy's and Consumers' integrated business software system and its effects on their operations, including utility customer billing and collections

adverse consequences resulting from any past, present, or future assertion of indemnity or warranty claims associated with assets and businesses previously owned by CMS Energy or Consumers, including claims resulting from attempts by foreign or domestic governments to assess taxes on or to impose environmental liability associated with past operations or transactions

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

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

## Item 1. Financial Statements

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CMS Energy Corporation

Consumers Energy Company

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

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

Executive Overview

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

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

•regulation and regulatory matters

•state and federal legislation

•economic conditions

•weather

•energy commodity prices

•interest rates

•their securities' credit ratings

The Triple Bottom Line

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



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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

For the nine months ended September 30, 2018, CMS Energy’s net income available to common stockholders was \$549 million, and diluted EPS were \$1.94. This compares with net income available to common stockholders of \$463 million and diluted EPS of \$1.65 for the nine months ended September 30, 2017. In 2018, rate increases and higher sales were offset partially by higher depreciation and maintenance and other operating expenses. A more detailed discussion of the factors affecting CMS Energy’s and Consumers’ performance can be found in the Results of Operations section that follows this Executive Overview.

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

**Performance: Impacting the Triple Bottom Line**

CMS Energy’s and Consumers’ commitment to achieving world class performance while delivering hometown service has resulted in the companies’ best-ever performance in the areas of safety, service, and customer satisfaction.

Leveraging the Consumers Energy Way, the companies met record-breaking 2017 goals in the areas of:

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

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

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

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

Gas infrastructure  
(\$4.9 billion)

Electric distribution  
(\$3.5 billion)

Electric supply  
(\$1.7 billion)

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

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

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

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

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

Gas Rate Case: In October 2017, Consumers filed an application with the MPSC seeking an annual rate increase of \$178 million, based on a 10.5 percent authorized return on equity. In August 2018, the MPSC approved a settlement agreement authorizing an annual rate increase of \$11 million, based on a 10.0 percent authorized return on equity. The MPSC also approved two rate adjustment mechanisms: a revenue decoupling mechanism and an investment recovery mechanism. The revenue decoupling mechanism will annually reconcile Consumers' actual weather-normalized non-fuel revenues with the revenues approved by the MPSC. The investment recovery mechanism will provide for an additional annual rate increase of \$9 million beginning in July 2019 and another \$10 million beginning in July 2020 for incremental investments that Consumers plans to make in those years, subject to reconciliation. The investment recovery surcharge will remain in effect until rates are reset in a subsequent general rate case.

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

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

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

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through the rates determined in Consumers' next gas rate case and \$1.2 billion through the rates determined in Consumers' next-filed electric rate case. Consumers' total \$1.6 billion of net regulatory tax liabilities comprises: A regulatory tax liability of \$1.7 billion associated with plant assets that are subject to normalization, which is governed by the Internal Revenue Code. This requires that the regulatory tax liability be returned over the remaining book life of the related plant assets, the average of which is 44 years for gas plant assets and 36 years for electric plant assets.

A regulatory tax asset of \$0.3 billion associated with plant assets that are not subject to normalization. Consumers proposed to collect this over 44 years from gas customers and over 27 years from electric customers.

A regulatory tax liability of \$0.2 billion, which does not relate to plant assets. Consumers proposed to refund this amount to customers over 15 years.

Looking Forward

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

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## Results of Operations

## CMS Energy Consolidated Results of Operations

In Millions, Except Per Share Amounts

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

In Millions

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

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

In Millions

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



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## Consumers Electric Utility Results of Operations

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

In Millions

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

<sup>1</sup> Deliveries to end-use customers were 10.6 billion kWh in 2018 and 10.0 billion kWh in 2017.

<sup>2</sup> See Note 2, Regulatory Matters.

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

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

In Millions

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

<sup>1</sup> Deliveries to end-use customers were 29.1 billion kWh in 2018 and 28.2 billion kWh in 2017.

<sup>2</sup> See Note 2, Regulatory Matters.

<sup>3</sup> Gain at segment is eliminated on CMS Energy's consolidated statements of income.

<sup>4</sup> See Note 9, Income Taxes.

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## Consumers Gas Utility Results of Operations

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

In Millions

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

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

<sup>1</sup> Deliveries to end-use customers were 27 bcf in 2018 and 27 bcf in 2017.

<sup>2</sup> See Note 2, Regulatory Matters.

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

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

In Millions

Nine Months Ended September 30, 2017		\$ 101
Reasons for the change		
Gas deliveries <sup>1</sup> and rate increases		
Higher sales due primarily to favorable weather in 2018	\$40	
Rate increase, including the impacts of the September 2018 order	27	
Higher energy waste reduction program revenues	18	\$85
Revenue reserve and lower rates related to the TCJA <sup>2</sup>	(40 )	
Maintenance and other operating expenses		
Higher energy waste reduction program costs	(18 )	
Increased distribution, transmission, and customer operations expenses	(16 )	
Higher expenses related to pipeline integrity	(9 )	
Increased expense associated with the retirement of gas compressor stations	(3 )	
Higher other maintenance and operating expenses	(8 )	(54 )
Depreciation and amortization		
Increased plant in service, reflecting higher capital spending	(15 )	
General taxes		
Higher property taxes, reflecting higher capital spending	(8 )	
Other income, net of expenses		
Impact of OPEB Plan changes approved in November 2017	24	
2017 gain on the donation of CMS Energy stock <sup>3</sup>	(5 )	
Lower other income, net of expenses	(1 )	18
Interest charges	(4 )	
Income taxes		
Reduction of the corporate income tax rate due to the impacts of the TCJA	22	
Lower gas utility earnings	6	
Absence of a 2017 state income tax benefit	(4 )	
Higher other income taxes	(2 )	22
Nine Months Ended September 30, 2018		\$105

<sup>1</sup> Deliveries to end-use customers were 211 bcf in 2018 and 189 bcf in 2017.

<sup>2</sup> See Note 2, Regulatory Matters.

<sup>3</sup> Gain at segment is eliminated on CMS Energy's consolidated statements of income.

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## Enterprises Results of Operations

Presented in the following table are the detailed after-tax changes to the enterprises segment's net income available to common stockholders for the three months ended September 30, 2018 versus 2017:

In Millions

Three Months Ended September 30, 2017	\$8
Reason for the change	
Lower earnings from operations due in part to an unplanned plant outage	\$(5)
Write off of capital costs related to T.E.S. Filer City plant conversion	(3 )
Reduction of corporate income tax rate due to the impacts of the TCJA	4
Three Months Ended September 30, 2018	\$4

Presented in the following table are the detailed after-tax changes to the enterprises segment's net income available to common stockholders for the nine months ended September 30, 2018 versus 2017:

In Millions

Nine Months Ended September 30, 2017	\$27
Reason for the change	
Reduction of corporate income tax rate due to the impacts of the TCJA	\$8
Expiration of indemnity obligation	3
Lower earnings from operations due in part to an unplanned plant outage	(2 )
Write off of capital costs related to T.E.S. Filer City plant conversion	(3 )
Nine Months Ended September 30, 2018	\$33

## Corporate Interest and Other Results of Operations

Presented in the following table are the detailed after-tax changes to corporate interest and other results for the three months ended September 30, 2018 versus 2017:

In Millions

Three Months Ended September 30, 2017	\$(17)
Reasons for the change	
Higher earnings at EnerBank	\$3
Lower fixed charges and administrative and other expenses	3
Lower tax benefit due to impacts of the TCJA	(4 )
Three Months Ended September 30, 2018	\$(15)

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Presented in the following table are the detailed after-tax changes to corporate interest and other results for the nine months ended September 30, 2018 versus 2017:

In Millions

Nine Months Ended September 30, 2017	\$(59)
Reasons for the change	
2017 elimination of an intercompany gain on the donation of CMS Energy stock <sup>1</sup>	\$9
Lower fixed charges and administrative and other expenses	5
Higher earnings at EnerBank	4
Loss on the early extinguishment of debt	(4 )
Lower tax benefit due to impacts of the TCJA	(12 )
Nine Months Ended September 30, 2018	\$(57)

<sup>1</sup> Gain at electric and gas utility segments is eliminated on CMS Energy's consolidated statements of income.

Cash Position, Investing, and Financing

At September 30, 2018, CMS Energy had \$366 million of consolidated cash and cash equivalents, which included \$43 million of restricted cash and cash equivalents. At September 30, 2017, Consumers had \$38 million of consolidated cash and cash equivalents, which included \$29 million of restricted cash and cash equivalents. For additional details, see Note 12, Cash and Cash Equivalents.

Operating Activities

Presented in the following table are specific components of the changes to net cash provided by operating activities for the nine months ended September 30, 2018 versus 2017:

In Millions

CMS Energy, including Consumers	
Nine Months Ended September 30, 2017	\$1,199
Reasons for the change	
Higher net income	\$86
Favorable impact of changes in core working capital, <sup>1</sup> due primarily to the receipt of alternative minimum tax credit refunds	159
Favorable impact of changes in other assets and liabilities, including higher collections from customers	121
Nine Months Ended September 30, 2018	\$1,565
Consumers	
Nine Months Ended September 30, 2017	\$1,209
Reasons for the change	
Higher net income	\$78
Favorable impact of changes in core working capital, <sup>1</sup> largely due to lower average prices of gas purchased and lower purchases of coal	42
Unfavorable impact of changes in other assets and liabilities, due primarily to higher income tax payments to CMS Energy, offset partially by higher collections from customers	(74 )
Nine Months Ended September 30, 2018	\$1,255

<sup>1</sup> Core working capital comprises accounts receivable, notes receivable, accrued revenue, inventories, accounts payable, and accrued rate refunds related to PSCR and GCR overrecoveries.

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## Investing Activities

Presented in the following table are specific components of the changes to net cash used in investing activities for the nine months ended September 30, 2018 versus 2017:

In Millions

CMS Energy, including Consumers	
Nine Months Ended September 30, 2017	\$(1,354)
Reasons for the change	
Higher capital expenditures	\$(364 )
Changes in EnerBank notes receivable, reflecting growth in consumer lending	(113 )
Purchase of notes receivable by EnerBank in 2018	(87 )
Proceeds from the sale of EnerBank notes receivable in 2017	(19 )
Proceeds from DB SERP investments in 2018 <sup>1</sup>	146
Other investing activities	(24 )
Nine Months Ended September 30, 2018	\$(1,815)
Consumers	
Nine Months Ended September 30, 2017	\$(1,278)
Reasons for the change	
Higher capital expenditures	\$(143 )
Higher cost to retire property	(14 )
Nine Months Ended September 30, 2018	\$(1,435)

<sup>1</sup> See Note 6, Financial Instruments.



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## Financing Activities

Presented in the following table are specific components of net cash provided by financing activities for the nine months ended September 30, 2018 and 2017:

In Millions

CMS Energy, including

Consumers

Nine Months Ended September 30, 2017	\$	71	
Reasons for the change			
Lower debt issuances	\$	(64	)
Higher debt retirements	(37		)
Changes in EnerBank certificates of deposit, reflecting higher borrowings	248		
Lower repayments under Consumers' commercial paper program	278		
Lower issuances of common stock under the continuous equity offering program	(41		)
Higher payments of dividends on common stock	(23		)
Higher debt issuance costs and early debt retirement payments	(20		)
Nine Months Ended September 30, 2018	\$	412	
Consumers			
Nine Months Ended September 30, 2017	\$	2	
Reasons for the change			
Higher debt issuances	\$	10	
Lower debt retirements	113		
Lower repayments under Consumers' commercial paper program	278		
Lower stockholder contribution from CMS Energy	(200		)
Higher payments of dividends on common stock	(45		)
Higher debt issuance costs and early debt retirement payments	(5		)
Nine Months Ended September 30, 2018	\$	153	

## Capital Resources and Liquidity

CMS Energy uses dividends and tax-sharing payments from its subsidiaries and external financing and capital transactions to invest in its utility and non-utility businesses, retire debt, pay dividends, and fund its other obligations. The ability of CMS Energy's subsidiaries, including Consumers, to pay dividends to CMS Energy depends upon each subsidiary's revenues, earnings, cash needs, and other factors. In addition, Consumers' ability to pay dividends is restricted by certain terms included in its debt covenants and articles of incorporation and potentially by FERC

requirements and provisions under the Federal Power Act and the Natural Gas Act. For additional details on Consumers' dividend restrictions, see Note 4, *Financings and Capitalization—Dividend Restrictions*. For the nine months ended September 30, 2018, Consumers paid \$392 million in dividends on its common stock to CMS Energy. As a result of a provision in the TCJA, CMS Energy is required to recover all alternative minimum tax credits over the next four years through offsets of regular tax and through cash refunds. CMS Energy expects to be able to offset regular tax through the use of federal net operating loss carryforwards and, accordingly, receive alternative minimum tax credit refunds through 2021. Another provision in the TCJA excludes rate-regulated utilities from 100 percent cost expensing of certain property after September 27, 2017. This provision will cause Consumers to make higher tax-sharing payments to CMS Energy during that period, which in turn might permit CMS Energy to maintain lower levels of debt in order to invest in its businesses, pay dividends, and fund its general obligations. Consumers expects to have sufficient funding sources available to issue credits to customers for all impacts of the TCJA.

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In August 2018, CMS Energy entered into an equity offering program under which it may sell, from time to time, shares of CMS Energy common stock having an aggregate sales price of up to \$250 million. Under this program, CMS Energy may sell its common stock in privately negotiated “at the market” offerings, through forward purchases or otherwise.

In September 2018, CMS Energy issued and sold \$250 million of 5.875 percent junior subordinated notes due 2078 in an underwritten public offering. As part of that underwritten public offering, CMS Energy granted the underwriters a 30-day option to purchase up to an additional \$37.5 million aggregate principal amount of the subordinated notes to cover over-allotments. Under a partial exercise of the over-allotment option, in October 2018, CMS Energy issued and sold an additional \$30 million of its 5.875 percent junior subordinated notes due 2078. Also in October 2018, CMS Energy redeemed \$300 million of its 6.25 percent senior notes due 2020.

Consumers uses cash flows generated from operations and external financing transactions, as well as stockholder contributions from CMS Energy, to fund capital expenditures, retire debt, pay dividends, contribute to its employee benefit plans, and fund its other obligations. Accelerated pension funding in prior years and several initiatives to reduce costs have helped improve cash flows from operating activities. Consumers anticipates continued strong cash flows from operating activities for 2018 and beyond.

In July 2018, Consumers entered into a bond purchase agreement to issue an aggregate principal amount of \$500 million in first mortgage bonds through a private placement. In October 2018, the following first mortgage bonds were issued and funded:

\$100 million of 3.68 percent first mortgage bonds due 2027

\$215 million of 4.01 percent first mortgage bonds due 2038

\$185 million of 4.28 percent first mortgage bonds due 2057

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

At September 30, 2018, CMS Energy had \$541 million of its revolving credit facility available and Consumers had \$1,068 million of its secured revolving credit facilities available. CMS Energy and Consumers use these credit facilities for general working capital purposes and to issue letters of credit. An additional source of liquidity is Consumers’ commercial paper program, which allows Consumers to issue, in one or more placements, up to \$500 million in the aggregate in commercial paper notes with maturities of up to 365 days and that bear interest at fixed or floating rates. These issuances are supported by Consumers’ revolving credit facilities. While the amount of outstanding commercial paper does not reduce the available capacity of the revolving credit facilities, Consumers does not intend to issue commercial paper in an amount exceeding the available capacity of the facilities. At September 30, 2018, \$279 million in commercial paper notes were outstanding under this program. For additional details on CMS Energy’s and Consumers’ revolving credit facilities and commercial paper program, see Note 4, Financings and Capitalization.

Certain of CMS Energy’s and Consumers’ credit agreements, debt indentures, and other facilities contain covenants that require CMS Energy and Consumers to maintain certain financial ratios, as defined therein. At September 30, 2018, no default had occurred with respect to any financial covenants contained in CMS Energy’s and Consumers’ credit agreements, debt indentures, or other facilities. CMS Energy and

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Consumers were each in compliance with these covenants as of September 30, 2018, as presented in the following table:

Credit Agreement, Indenture, or Facility	September 30, 2018	
	Limit	Actual
CMS Energy, parent only		
Debt to EBITDA <sup>1</sup>	< 6.0 to 1.0	4.5 to 1.0
Debt to EBITDA <sup>2</sup>	<6.25 to 1.0	4.3 to 1.0
Consumers		
Debt to Capital <sup>3</sup>	<0.65 to 1.0	0.47 to 1.0

<sup>1</sup> Applies to CMS Energy's term loan agreement.

Applies to CMS Energy's revolving credit agreement. In June 2018, CMS Energy amended this revolving credit facility, eliminating the security provided by Consumers common stock, and extending the expiration date to June 2023.

<sup>2</sup> Applies to Consumers' \$850 million and \$250 million revolving credit agreements and its \$35 million and \$30 million reimbursement agreements.

Components of CMS Energy's and Consumers' cash management plan include controlling operating expenses and capital expenditures and evaluating market conditions for financing and refinancing opportunities. CMS Energy's and Consumers' present level of cash and expected cash flows from operating activities, together with access to sources of liquidity, are anticipated to be sufficient to fund the companies' contractual obligations for 2018 and beyond.

#### Off-Balance-Sheet Arrangements

CMS Energy, Consumers, and certain of their subsidiaries enter into various arrangements in the normal course of business to facilitate commercial transactions with third parties. These arrangements include indemnities, surety bonds, letters of credit, and financial and performance guarantees. Indemnities are usually agreements to reimburse a counterparty that may incur losses due to outside claims or breach of contract terms. The maximum payment that could be required under a number of these indemnity obligations is not estimable; the maximum obligation under indemnities for which such amounts were estimable was \$153 million at September 30, 2018. While CMS Energy and Consumers believe it is unlikely that they will incur any material losses related to indemnities they have not recorded as liabilities, they cannot predict the impact of these contingent obligations on their liquidity and financial condition. For additional details on these and other guarantee arrangements, see Note 3, Contingencies and Commitments—Guarantees.

#### Outlook

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

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Consumers Electric Utility Outlook and Uncertainties

Energy Resource Planning: While Consumers continues to experience increasing demand for electricity due to Michigan's growing economy and increased use of air conditioning, consumer electronics, and other electric devices, it expects that increase in demand to be offset by the effects of energy efficiency and conservation.

In June 2018, Consumers filed an IRP with the MPSC detailing its long-term strategy for delivering reliable and affordable energy to its customers through the increased use of energy efficiency and customer demand management programs and additional renewable energy. The IRP supports Consumers' clean energy breakthrough goal of reducing carbon emissions by 80 percent and eliminating the use of coal to generate electricity by 2040.

Specifically, in its IRP filing, Consumers requests the MPSC's approval of:

• the retirement of two coal-fueled generating units, totaling 515 MW, in 2023

• the retirement of two coal-fueled and two oil- and natural gas-fueled generating units, totaling 1,815 MW, in 2031

• the retirement of its remaining coal-fueled generating unit, totaling 780 MW, in 2039

Consumers proposes replacing the capacity to be retired with:

• demand response programs

• increased energy efficiency

• increased renewable energy generation

• grid modernization tools

• battery storage

The IRP proposes renewable energy levels beyond the standard set in the 2016 Energy Law, which raised the renewable energy standard from the present ten-percent requirement to 15 percent by 2021. Specifically, the IRP proposes renewable energy levels of 25 percent by 2025, over 35 percent by 2030, and over 40 percent by 2040, to be achieved mainly through the economic development of up to 6,000 MW of solar generation and 550 MW of wind generation.

The IRP filing also included plans for Consumers to purchase additional electricity from the T.E.S. Filer City plant following a proposed conversion of the plant to use natural gas as its primary fuel instead of coal and biomass. In conjunction with the proposal to convert the plant, T.E.S. Filer City and Consumers had agreed in May 2017 to amend their PPA such that Consumers would purchase the increased capacity and electricity generated by the converted facility for 15 years. In August 2018, FERC concluded that the converted plant would not continue to be an existing qualifying facility under PURPA. As a positive finding by FERC on this matter was a condition of the amendment to the PPA, the amendment is no longer effective and the PPA will continue until 2025 under its original terms.

PURPA: PURPA requires Consumers to purchase power from qualifying cogeneration and small power production facilities at a price approved by the MPSC that is meant to represent Consumers' "avoided cost" of generating power or purchasing power from another source. In November 2017, the MPSC issued an order setting a new avoided-cost formula to determine the price that Consumers must pay to purchase power under PURPA. Among other things, the MPSC's order changes the basis of Consumers' avoided cost from the cost of coal-fueled generating units to that of natural gas-fueled generating units. The MPSC order also assigns more capacity value to qualifying facilities that are consistently able to generate electricity during peak times. Although the costs Consumers incurs to purchase power from qualifying facilities are passed on to customers, the order could result in mandated purchases of

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generation, potentially at above-market prices, and reduce Consumers' need for new owned generation. This in turn could have a material adverse effect on Consumers' long-term capital investment plan and the affordability of future customer rates.

In December 2017, Consumers filed a petition with the MPSC requesting corrections to the pricing calculations and capacity purchase model set in the order. Subsequently, the MPSC suspended the implementation of the order and reopened the proceeding. In February 2018, the MPSC issued an order limiting Consumers' obligation to pay the full avoided capacity cost, which is based on the cost of a natural gas combustion turbine under the new avoided-cost formula, to existing qualifying facilities upon the expiration of outstanding contracts and to the first 150 MW of new generation projects that qualify under PURPA. In October 2018, the MPSC issued an order lifting the suspension on the November 2017 order and thereby making effective the avoided-cost formula set at that time; the use of this formula is still limited to outstanding contracts that expire and the first 150 MW of new qualifying generation projects. The MPSC also ruled that the determination of Consumers' future capacity needs shall take place in the IRP proceeding that Consumers filed in June 2018.

In its IRP filing, Consumers proposed a new method of calculating its avoided cost, based on a competitive bidding process, which will enable Consumers to purchase energy from new generation at the lowest cost and mitigate the risk of forced purchases of renewable generation. In accordance with the 2016 Energy Law, Consumers also proposed a financial compensation mechanism to recognize the financial impacts associated with procuring capacity from third parties and enable Consumers to earn a financial incentive on PPAs entered into through the proposed competitive bidding process.

**Renewable Energy Plan:** The 2016 Energy Law raised the renewable energy standard from the present ten-percent requirement to 15 percent in 2021, with an interim target of 12.5 percent in 2019. Consumers is required to submit RECs, which represent proof that the associated electricity was generated from a renewable energy resource, in an amount equal to at least the required percentage of Consumers' electric sales volume each year. Under its renewable energy plan, Consumers expects to meet its renewable energy requirement each year with a combination of newly generated RECs and previously generated RECs carried over from prior years.

In conjunction with its renewable energy plan, Consumers obtained the MPSC's approval to construct two additional phases at its Cross Winds<sup>®</sup> Energy Park. Phase II of the park, with a nameplate capacity of 44 MW, became operational in January 2018. Consumers began construction of Phase III, with a planned nameplate capacity of 76 MW, in June 2017 and expects it to be operational in 2020. Both phases of the project are expected to qualify for certain federal production tax credits, which are expected to generate cost savings that will be passed on to customers. In September 2017, Consumers filed amendments to its renewable energy plan with the MPSC, requesting approval to acquire up to 525 MW of new wind generation projects and up to 100 MW of new solar generation projects in order to meet its renewable energy requirement. In May 2018, as a result of requests for proposals issued in 2017 to acquire wind and solar generation projects within MISO's service territory, Consumers entered into an agreement to purchase a wind generation project under development, with capacity of up to 150 MW, in Gratiot County, Michigan. Consumers expects to begin construction in May 2019 and that the project will be completed and operational in 2020. The agreement is subject to MPSC approval.

In June 2018, Consumers issued additional requests for proposals to acquire up to 400 MW of wind generation projects ranging in size from 75 MW to 200 MW and up to 100 MW of solar generation projects at least 10 MW in size. The projects are required to be located in Michigan and operational by 2021. Any contracts entered into as a result of the requests for proposals would be subject to MPSC approval.

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**Voluntary Large Customer Renewable Energy Program:** In February 2018, Consumers began providing service under a program that provides large full-service electric customers with the opportunity to advance the development of renewable energy beyond the requirements of the 2016 Energy Law. Under the program, customers may match up to 100 percent of their energy use with renewable energy generated from wind resources. In August 2017, the MPSC conditionally approved the program through October 2018 and instructed Consumers to submit the program for review as a voluntary green pricing program under provisions of the 2016 Energy Law. Consumers submitted this program for review and, in October 2018, the MPSC approved it as a voluntary green pricing program.

**Electric Customer Deliveries and Revenue:** Consumers' electric customer deliveries are seasonal and largely dependent on Michigan's economy. The consumption of electric energy typically increases in the summer months, due primarily to the use of air conditioners and other cooling equipment. In addition, Consumers' electric rates, which follow a seasonal rate design, are higher in the summer months than in the remaining months of the year.

Consumers expects weather-normalized electric deliveries in 2018 and over the next five years to remain stable relative to 2017. This outlook reflects modest growth in electric demand offset by the effects of energy waste reduction programs and appliance efficiency standards. Actual delivery levels will depend on:

- energy conservation measures and results of energy waste reduction programs
- weather fluctuations

•Michigan's economic conditions, including utilization, expansion, or contraction of manufacturing facilities, population trends, and housing activity

**Electric ROA:** Under Michigan law, electric customers in Consumers' service territory are allowed to buy electric generation service from alternative electric suppliers in an aggregate amount up to ten percent of Consumers' weather-normalized retail sales for the preceding calendar year. At September 30, 2018, electric deliveries under the ROA program were at the ten-percent limit. Of Consumers' 1.8 million electric customers, 287 customers, or 0.02 percent, purchased electric generation service under the ROA program.

The 2016 Energy Law, which became effective in April 2017, established a path to ensure that forward capacity is secured for all electric customers in Michigan, including customers served by alternative electric suppliers under ROA. The new law also authorized the MPSC to ensure that alternative electric suppliers have procured enough capacity to cover their anticipated capacity requirements for the four-year forward period. In November 2017, the MPSC issued an order establishing a state reliability mechanism for Consumers. Under this mechanism, beginning June 1, 2018, if an alternative electric supplier does not demonstrate that it has procured its capacity requirements for the four-year forward period, its customers will pay a set charge to the utility for capacity that is not provided by the alternative electric supplier. For the MISO planning year beginning June 1, 2018, all alternative electric suppliers have demonstrated that they have procured their capacity requirements.

In June 2018, the MPSC issued an order requiring all electric suppliers to demonstrate that a portion of the capacity procured to serve customers during peak demand times is located in the MISO footprint in Michigan's Lower Peninsula. In July 2018, the Michigan Court of Appeals issued a decision that the MPSC does not have statutory authority to implement such a requirement for alternative electric suppliers. Consumers believes the 2016 Energy Law does give such authorization to the MPSC. The MPSC and Consumers have filed applications for leave to appeal the Court of Appeals' decision to the Michigan Supreme Court. The Michigan Supreme Court has discretion on whether to grant the applications for leave to appeal.

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

2018 Electric Rate Case: In May 2018, Consumers filed an application with the MPSC seeking an annual rate increase of \$58 million, based on a 10.75 percent authorized return on equity. In October 2018, Consumers reduced its requested annual rate increase to \$44 million. The filing requests authority to recover new investment in system reliability, environmental compliance, and technology enhancements. Presented in the following table are the components of the revised requested increase in revenue:

In Millions

Components of the requested rate increase

Investment in rate base	\$90
Cost of capital	57
Operating and maintenance costs	17
Working capital	5
Effects of TCJA	(113)
Gross margin	(12 )
Total	\$44

The filing also seeks approval of an investment recovery mechanism that would provide for an additional annual rate increase of \$49 million beginning in 2020 and another \$48 million beginning in 2021 for incremental investments that Consumers plans to make for distribution infrastructure, subject to reconciliation.

Electric Environmental Outlook: Consumers' operations are subject to various state and federal environmental laws and regulations. Consumers estimates that it will incur capital expenditures of \$0.4 billion from 2018 through 2022 to continue to comply with RCRA, the Clean Water Act, the Clean Air Act, and numerous state and federal environmental regulations. Consumers expects to recover these costs in customer rates, but cannot guarantee this result. Consumers' primary environmental compliance focus includes, but is not limited to, the following matters.

Air Quality: CSAPR, which became effective in 2015, requires Michigan and 27 other states to improve air quality by reducing power plant emissions that, according to EPA computer models, contribute to ground-level ozone and fine particle pollution in other downwind states. In 2016, the EPA finalized new ozone season standards for CSAPR, which became effective in May 2017. CSAPR is presently being litigated; however, any decision will not impact Consumers' compliance strategy, as Consumers expects its emissions to be within the CSAPR allowance allocations. In 2012, the EPA published emission standards for electric generating units, based on Section 112 of the Clean Air Act, calling the final rule MATS. Under MATS, all of Consumers' existing coal-fueled electric generating units were required to add additional controls for hazardous air pollutants. Consumers met the extended deadline of April 2016 for five coal-fueled units and two oil/gas-fueled units it continues to operate and retired its seven remaining coal-fueled units. MATS is presently being litigated and the EPA is considering additional rulemaking. Any changes resulting from that litigation or rulemaking are not expected to impact Consumers' MATS compliance strategy because Consumers is still required to comply with the Michigan Mercury Rule, which has similar requirements to MATS. In addition, Consumers must comply with its settlement agreement with the EPA entered into in 2014 concerning opacity and NSR.

In 2015, the EPA released its new rule to lower the NAAQS for ozone. The new ozone NAAQS will make it more difficult to construct or modify power plants in areas of the country that have not met the new



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ozone standard. In April 2018, the EPA designated certain areas of Michigan as not meeting the new standard with an August 2018 effective date. None of Consumers' fossil-fuel-fired generating units are located in these areas. Some of Consumers' compressor stations are located in areas impacted by the rule, but Consumers expects only minor permitting impacts if those units are modified in the future. The NAAQS for ozone are presently being litigated. Consumers does not expect that any decision will have a material adverse impact on its generating assets.

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

- a change in Consumers' fuel mix
- changes in the types of generating units Consumers may purchase or build in the future
- changes in how certain units are used
- the retirement, mothballing, or repowering with an alternative fuel of some of Consumers' generating units
- changes in Consumers' environmental compliance costs

Greenhouse Gases: There have been numerous legislative and regulatory initiatives at the state, regional, national, and international levels that involve the potential regulation of greenhouse gases. Consumers continues to monitor and comment on these initiatives and to follow litigation involving greenhouse gases.

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

Also in 2015, the EPA published final rules pursuant to Section 111(d) of the Clean Air Act to limit carbon dioxide emissions from existing electric generating units, calling the rules the "Clean Power Plan." The rules required a 32-percent nationwide reduction in carbon emissions from existing power plants by 2030 (based on 2005 levels), and states choosing not to develop their own implementation plans would be subject to the federal plan. Certain states, corporations, and industry groups initiated litigation opposing the proposed Clean Power Plan, and in 2016, the U.S. Supreme Court stayed the Clean Power Plan while the litigation proceeded. In March 2017, the EPA and other federal agencies were directed to review rules and policies that burden domestic energy production, including the Clean Power Plan. The EPA subsequently filed motions to hold the Section 111(b) and Clean Power Plan litigation in abeyance while it reconsiders the rule. In October 2017, the EPA published a proposal to repeal the Clean Power Plan and is reviewing comments received.

In August 2018, the EPA proposed the "Affordable Clean Energy" rule as a replacement for the Clean Power Plan. This proposed rule requires individual states to evaluate fossil-fuel-fired power plants for heat-rate improvements that could be undertaken to increase overall plant efficiency. There is also a proposal to modify the Clean Air Act permitting requirements to promote these efficiency projects. Consumers does not expect that the Affordable Clean Energy rule will have an adverse impact on its environmental strategy.

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In 2015, a group of 195 countries, including the U.S., finalized the Paris Agreement, which governs carbon dioxide reduction measures beginning in 2020. Although the U.S. subsequently withdrew from the Paris Agreement, it has stated a desire to renegotiate a new agreement in the future. At this time, Consumers does not expect any adverse changes to its environmental strategy as a result of these events.

While Consumers cannot predict the outcome of changes in U.S. policy or of other legislative or regulatory initiatives involving the potential regulation of greenhouse gases, it intends to continue to move forward with its clean energy plan, its present carbon reduction goal, and its emphasis on supply diversity. Consumers will continue to monitor regulatory and legislative activity and related litigation regarding greenhouse gas emissions standards that may affect electric generating units.

Severe weather events and climate change associated with increasing levels of greenhouse gases could affect the companies' facilities and energy sales and could have a material impact on the companies' future results of operations. Consumers is unable to predict these events or their financial impact; however, Consumers plans for adverse weather and takes steps to reduce its potential impact.

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

CCRs: In 2015, the EPA published a final rule regulating CCRs, such as coal ash, under RCRA. The final rule adopts minimum standards for beneficially reusing and disposing of non-hazardous CCRs. The rule establishes new minimum requirements for site location, groundwater monitoring, flood protection, storm water design, fugitive dust control, and public disclosure of information. The rule also sets out conditions under which CCR units would be forced to cease receiving CCR and non-CCR waste and initiate closure based on the inability to achieve minimum safety standards, meet a location standard, or meet minimum groundwater standards. Consumers has aligned with state regulatory authorities on closure plans and has completed work to close some existing ash ponds and replace them with double-lined ash ponds or concrete infrastructure. Consumers will continue to develop additional work plans for submission to the MDEQ to ensure coordination between federal and state requirements.

Furthermore, Congress passed legislation in 2016 that allows participating states to develop permitting programs for CCR under RCRA, and Michigan has introduced a bill that would adopt such a program. In July 2018, the EPA published preliminary rulemaking intended to amend the 2015 final rule. The rulemaking did not change Consumers' compliance strategy, but demonstrated the EPA's willingness to allow states to incorporate flexibility into their permitting processes. However, in August 2018, the D.C. Circuit Court issued a decision in CCR litigation that, while also not impacting Consumers' compliance strategy, could delay the EPA's approval of Michigan's permitting program. Consumers may need to adjust its recorded ARO associated with coal ash disposal sites depending on the outcome of its submissions to the MDEQ and on a future RCRA permitting program under MDEQ, if the EPA approves a state-level program. Consumers has historically been authorized to recover in electric rates costs incurred related to cleanup and closure of coal ash disposal sites.

Water: The EPA's rule to regulate existing electric generating plant cooling water intake systems under Section 316(b) of the Clean Water Act became effective in 2014. The rule is aimed at reducing alleged

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harmful impacts on fish and shellfish. In April 2018, Consumers submitted to the MDEQ for review and approval all required studies and recommended plans to comply with Section 316(b).

In 2015, the EPA released its final effluent limitation guidelines. These guidelines, which are presently being litigated, set stringent new requirements for the discharge from electric generating units into wastewater streams. In August 2017, the EPA announced that it will undertake a rulemaking to replace specific portions of the rule. In September 2017, the EPA proposed delaying the compliance start dates for two years, but maintained the compliance end dates. Rulemaking is expected to conclude in late 2018 or early 2019. Consumers does not expect any adverse changes to its environmental strategy as a result of any revisions to the rule.

In 2015, the EPA and the U.S. Army Corps of Engineers published a final rule redefining “waters of the United States,” which designates the EPA’s jurisdiction under the Clean Water Act. Numerous states and other interested parties, including Michigan’s Attorney General, have filed suits in federal courts to block the rule, which subsequently was stayed in 2015 while litigation ensued. In January 2018, the U.S. Supreme Court unanimously ruled that the federal district courts, not the federal appellate courts, had jurisdiction over challenges to the 2015 rule. Consequently, in February 2018, the U.S. Court of Appeals for the Sixth Circuit lifted the stay of the rule. The EPA has published a notice, called the Applicability Rule, that prevents the 2015 rule from going into effect until February 2020 in an attempt to maintain consistency and provide certainty for regulated entities while the agencies continue to consider possible revisions to the 2015 rule. In August 2018, the U.S. District Court for the District of South Carolina set aside the Applicability Rule nationally and, as a result, the 2015 rule again went into effect in 22 states, including Michigan. A revised rule is anticipated to be published in late 2018. The 2015 rule changes the scope of water and wetlands regulations; however, the EPA has delegated authority to manage the Michigan wetlands program to the MDEQ. As a result, regardless of the 2015 rule’s ultimate outcome, Consumers will continue to operate under Michigan’s wetlands regulations, and under the applicable state and federal water jurisdictional regulations. Thus, Consumers does not expect any adverse changes to its environmental strategy as a result of these events.

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

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

#### Consumers Gas Utility Outlook and Uncertainties

**Gas Deliveries:** Consumers’ gas customer deliveries are seasonal. The peak demand for natural gas occurs in the winter due to colder temperatures and the resulting use of natural gas as heating fuel. Consumers expects weather-normalized gas deliveries in 2018 and over the next five years to remain stable relative to 2017. This outlook reflects modest growth in gas demand offset by the predicted effects of energy efficiency and conservation. Actual delivery levels from year to year may vary from this expectation due to:

- weather fluctuations
- use by power producers
- availability and development of renewable energy sources
- gas price changes
- Michigan economic conditions, including population trends and housing activity

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the price of competing energy sources or fuels

energy efficiency and conservation impacts

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

Gas Pipeline and Storage Integrity and Safety: In 2016, PHMSA published a notice of proposed rulemaking that would expand federal safety standards for gas transmission pipelines. The rule could cause Consumers to incur increased capital costs to install and remediate pipelines as well as operating and maintenance costs to expand inspections, maintenance, and monitoring of its existing pipelines. PHMSA expects to publish a final rule in 2019. Also in 2016, PHMSA published an interim final rule that established minimum federal safety standards for underground natural gas storage facilities. As published, the rule could cause Consumers to incur increased capital and operating and maintenance costs to expand inspections, maintenance, and monitoring of its underground gas storage facilities. PHMSA expects to publish a final rule in 2019.

Although associated capital or operating and maintenance costs relating to these regulations could be material and cost recovery cannot be assured, Consumers would expect to recover such costs and capital expenditures in rates consistent with the recovery of other reasonable costs of complying with laws and regulations. Consumers will continue to monitor gas safety regulations.

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

Consumers Electric Utility and Gas Utility Outlook and Uncertainties

Energy Waste Reduction Plan: The 2016 Energy Law, which became effective in April 2017, authorized incentives for demand response programs and expanded existing incentives for energy efficiency programs, referring to the combined initiatives as energy waste reduction. The 2016 Energy Law:

extended the requirement to achieve annual reductions of 1.0 percent in customers' electricity use through 2021 and 0.75 percent in customers' natural gas use indefinitely

removed limits on investments under the program and provided for a higher return on those investments; together, these provisions effectively doubled the financial incentives Consumers may earn for exceeding the statutory targets established a goal of 35 percent combined renewable energy and energy waste reduction by 2025

During 2017, the MPSC approved an energy waste reduction plan for Consumers that amended and expanded its existing energy optimization plan, allowing for recovery of increased investments to meet the requirements of the 2016 Energy Law and expanding the financial incentive that Consumers may earn for exceeding savings targets during the year. Under this plan, Consumers will continue to provide its customers with incentives to reduce usage by offering energy audits, rebates and discounts on purchases of highly efficient appliances, and other incentives and programs.

Enterprises Outlook and Uncertainties

CMS Energy's primary focus with respect to its enterprises businesses is to maximize the value of generating assets, its share of which represents 1,231 MW of capacity, and to pursue opportunities for the development of renewable generation projects.

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In conjunction with a plan to convert its plant to use natural gas as its primary fuel instead of coal and biomass, T.E.S. Filer City had agreed in May 2017 to amend its PPA with Consumers such that Consumers would purchase the increased capacity and electricity generated by the converted facility for 15 years. In August 2018, FERC concluded that the converted plant would not continue to be an existing qualifying facility under PURPA. As a positive finding by FERC on this matter was a condition of the amendment to the PPA, the amendment is no longer effective and the PPA will continue until 2025 under its original terms.

In June and August 2018, CMS Enterprises completed the development and construction of two solar generation projects totaling 24 MW in Delta Township, Michigan. Energy produced by the solar generation projects will be sold under 25-year PPAs to the Lansing Board of Water and Light, a non-affiliated utility.

In August 2018, CMS Enterprises purchased a 105-MW wind generation project in northwest Ohio, and the project became operational in September 2018. Renewable energy produced by the wind generation project has been committed to General Motors LLC, a non-affiliated company, under a 15-year PPA.

The enterprises segment's assets may be affected by environmental laws and regulations. The new ozone NAAQS will make it more difficult to construct or modify power plants in areas of the country that have not met the new ozone standard. In April 2018, the EPA designated certain areas of Michigan as not meeting the new standard with an August 2018 effective date. The enterprises segment's independent power plant located in Dearborn, Michigan is in one such area and, as a result, would be subject to additional permitting restrictions in the event of any future modifications. For additional details regarding the new ozone NAAQS, see Consumers Electric Utility Outlook and Uncertainties—Electric Environmental Outlook.

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

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

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

Other Outlook and Uncertainties

EnerBank: EnerBank is a Utah state-chartered, FDIC-insured industrial bank providing unsecured consumer installment loans for financing home improvements. EnerBank represented five percent of CMS Energy's net assets at September 30, 2018 and five percent of CMS Energy's net income available to common stockholders for the nine months ended September 30, 2018. The carrying value of EnerBank's loan portfolio was \$1.6 billion at September 30, 2018. Its loan portfolio was funded primarily by certificates of deposit of \$1.5 billion. The twelve-month rolling average net default rate on loans held

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by EnerBank was 1.3 percent at September 30, 2018. CMS Energy is required both by law and by contract to provide financial support, including infusing additional capital, to ensure that EnerBank satisfies mandated capital requirements and has sufficient liquidity to operate. With its self-funding plan, EnerBank has exceeded these requirements historically and exceeded them as of September 30, 2018.

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

New Accounting Standards

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

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CMS Energy Corporation  
Consolidated Statements of Income (Unaudited)  
In Millions, Except Per Share Amounts

September 30	Three Months Ended		Nine Months Ended		
	2018	2017	2018	2017	
Operating Revenue	\$1,599	\$1,527	\$5,044	\$4,805	
Operating Expenses					
Fuel for electric generation	150	144	397	386	
Purchased and interchange power	447	426	1,222	1,132	
Purchased power – related parties	21	21	59	64	
Cost of gas sold	48	47	541	494	
Maintenance and other operating expenses	366	304	1,002	909	
Depreciation and amortization	206	193	689	652	
General taxes	67	62	222	209	
Total operating expenses	1,305	1,197	4,132	3,846	
Operating Income	294	330	912	959	
Other Income (Expense)					
Interest income	2	3	8	10	
Allowance for equity funds used during construction	2	1	4	5	
Income (loss) from equity method investees	(1	) 3	6	10	
Nonoperating retirement benefits, net	22	3	68	10	
Other income	1	2	2	4	
Other expense	(4	) (2	) (15	) (6	)
Total other income	22	10	73	33	
Interest Charges					
Interest on long-term debt	101	101	304	304	
Other interest expense	14	10	35	26	
Allowance for borrowed funds used during construction	(1	) —	(2	) (2	)
Total interest charges	114	111	337	328	
Income Before Income Taxes	202	229	648	664	
Income Tax Expense	33	57	98	200	
Net Income	169	172	550	464	
Income Attributable to Noncontrolling Interests	—	—	1	1	
Net Income Available to Common Stockholders	\$169	\$172	\$549	\$463	
Basic Earnings Per Average Common Share	\$0.60	\$0.61	\$1.95	\$1.65	
Diluted Earnings Per Average Common Share	\$0.59	\$0.61	\$1.94	\$1.65	
Dividends Declared Per Common Share	\$0.3575	\$0.3325	\$1.0725	\$0.9975	

The accompanying notes are an integral part of these statements.





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CMS Energy Corporation  
 Consolidated Statements of Comprehensive Income (Unaudited)  
 In Millions

	Three Months		Nine Months	
	Ended	Ended	Ended	Ended
September 30	2018	2017	2018	2017
Net Income	\$169	\$172	\$550	\$464
Retirement Benefits Liability				
Amortization of net actuarial loss, net of tax of \$-, \$1, \$-, and \$1	1	—	3	1
Amortization of prior service credit, net of tax of \$- for all periods	—	—	(1	) —
Investments				
Unrealized gain (loss) on investments, net of tax of \$-, \$-, \$-, and \$1	—	1	(1	) 2
Reclassification adjustments included in net income, net of tax of \$- for all periods	1	—	1	—
Other Comprehensive Income	2	1	2	3
Comprehensive Income	171	173	552	467
Comprehensive Income Attributable to Noncontrolling Interests	—	—	1	1
Comprehensive Income Attributable to CMS Energy	\$171	\$173	\$551	\$466

The accompanying notes are an integral part of these statements.

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## CMS Energy Corporation

## Consolidated Statements of Cash Flows (Unaudited)

## In Millions

Nine Months Ended September 30	2018	2017
<b>Cash Flows from Operating Activities</b>		
Net income	\$550	\$464
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	689	652
Deferred income taxes and investment tax credit	90	198
Other non-cash operating activities and reconciling adjustments	47	78
Cash provided by (used in) changes in assets and liabilities		
Accounts and notes receivable and accrued revenue	299	185
Inventories	(76 )	(161 )
Accounts payable and accrued refunds	(46 )	(6 )
Other current and non-current assets and liabilities	12	(211 )
Net cash provided by operating activities	1,565	1,199
<b>Cash Flows from Investing Activities</b>		
Capital expenditures (excludes assets placed under capital lease)	(1,572 )	(1,208 )
Increase in EnerBank notes receivable	(200 )	(87 )
Purchase of notes receivable by EnerBank	(87 )	—
Proceeds from DB SERP investments	146	—
Proceeds from the sale of EnerBank notes receivable	—	19
Cost to retire property and other investing activities	(102 )	(78 )
Net cash used in investing activities	(1,815 )	(1,354 )
<b>Cash Flows from Financing Activities</b>		
Proceeds from issuance of debt	1,044	1,108
Retirement of debt	(705 )	(668 )
Increase in EnerBank certificates of deposit	288	40
Increase (decrease) in notes payable	110	(168 )
Issuance of common stock	39	80
Payment of dividends on common and preferred stock	(305 )	(282 )
Payment of capital lease obligations and other financing costs	(59 )	(39 )
Net cash provided by financing activities	412	71
<b>Net Increase (Decrease) in Cash and Cash Equivalents, Including Restricted Amounts</b>	162	(84 )
Cash and Cash Equivalents, Including Restricted Amounts, Beginning of Period	204	257
<b>Cash and Cash Equivalents, Including Restricted Amounts, End of Period</b>	\$366	\$173
<b>Other Non-cash Investing and Financing Activities</b>		
Non-cash transactions		
Capital expenditures not paid	\$159	\$153

The accompanying notes are an integral part of these statements.

Table of ContentsCMS Energy Corporation  
Consolidated Balance Sheets (Unaudited)

## ASSETS

In Millions

	September 30 2018	December 31 2017
Current Assets		
Cash and cash equivalents	\$ 323	\$ 182
Restricted cash and cash equivalents	42	17
Accounts receivable and accrued revenue, less allowance of \$20 in both periods	710	1,032
Notes receivable, less allowance of \$23 in 2018 and \$20 in 2017	237	198
Notes receivable held for sale	26	2
Accounts receivable – related parties	15	12
Inventories at average cost		
Gas in underground storage	551	458
Materials and supplies	140	133
Generating plant fuel stock	50	81
Deferred property taxes	167	257
Regulatory assets	10	20
Prepayments and other current assets	103	83
Total current assets	2,374	2,475
Plant, Property, and Equipment		
Plant, property, and equipment, gross	23,751	22,506
Less accumulated depreciation and amortization	6,909	6,510
Plant, property, and equipment, net	16,842	15,996

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Construction work in progress	948	765
Total plant, property, and equipment	17,790	16,761
Other Non-current Assets		
Regulatory assets	1,655	1,764
Accounts and notes receivable	1,393	1,187
Investments	72	64
Other	629	799
Total other non-current assets	3,749	3,814
Total Assets	\$ 23,913	\$ 23,050

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## LIABILITIES AND EQUITY

In Millions

	September 30 2018	December 31 2017
<b>Current Liabilities</b>		
Current portion of long-term debt, capital leases, and financing obligation	\$ 1,971	\$ 1,103
Notes payable	279	170
Accounts payable	680	725
Accounts payable – related parties	9	15
Accrued rate refunds	14	33
Accrued interest	83	103
Accrued taxes	107	360
Regulatory liabilities	165	80
Other current liabilities	134	195
<b>Total current liabilities</b>	<b>3,442</b>	<b>2,784</b>
<b>Non-current Liabilities</b>		
Long-term debt	8,869	9,123
Non-current portion of capital leases and financing obligation	75	91
Regulatory liabilities	3,745	3,715
Postretirement benefits	797	766
Asset retirement obligations	421	430
Deferred investment tax credit	101	87
Deferred income taxes	1,382	1,269
Other non-current liabilities	295	307
<b>Total non-current liabilities</b>	<b>15,685</b>	<b>15,788</b>
<b>Commitments and Contingencies (Notes 2 and 3)</b>		
<b>Equity</b>		
Common stockholders' equity		
Common stock, authorized 350.0 shares; outstanding 283.3 shares in 2018 and 281.6 shares in 2017	3	3
Other paid-in capital	5,083	5,019
Accumulated other comprehensive loss	(59	) (50 )
Accumulated deficit	(278	) (531 )
<b>Total common stockholders' equity</b>	<b>4,749</b>	<b>4,441</b>
Noncontrolling interests	37	37
<b>Total equity</b>	<b>4,786</b>	<b>4,478</b>
<b>Total Liabilities and Equity</b>	<b>\$ 23,913</b>	<b>\$ 23,050</b>
The accompanying notes are an integral part of these statements.		

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CMS Energy Corporation  
Consolidated Statements of Changes in Equity (Unaudited)  
In Millions

	Three Months Ended		Nine Months Ended	
September 30	2018	2017	2018	2017
Total Equity at Beginning of Period	\$4,709	\$4,486	\$4,478	\$4,290
<b>Common Stock</b>				
At beginning and end of period	3	3	3	3
<b>Other Paid-in Capital</b>				
At beginning of period	5,076	5,006	5,019	4,916
Common stock issued	7	7	54	95
Common stock repurchased	—	—	(10)	(13)
Common stock reissued	—	—	20	15
At end of period	5,083	5,013	5,083	5,013
<b>Accumulated Other Comprehensive Loss</b>				
At beginning of period	(61)	(48)	(50)	(50)
Retirement benefits liability				
At beginning of period	(60)	(49)	(50)	(50)
Cumulative effect of change in accounting principle	—	—	(11)	—
Amortization of net actuarial loss	1	—	3	1
Amortization of prior service credit	—	—	(1)	—
At end of period	(59)	(49)	(59)	(49)
<b>Investments</b>				
At beginning of period	(1)	1	—	—
Unrealized gain (loss) on investments	—	1	(1)	2
Reclassification adjustments included in net income	1	—	1	—
At end of period	—	2	—	2
At end of period	(59)	(47)	(59)	(47)
<b>Accumulated Deficit</b>				
At beginning of period	(346)	(512)	(531)	(616)
Cumulative effect of change in accounting principle	—	—	8	—
Net income attributable to CMS Energy	169	172	549	463
Dividends declared on common stock	(101)	(94)	(304)	(281)
At end of period	(278)	(434)	(278)	(434)
<b>Noncontrolling Interests</b>				
At beginning of period	37	37	37	37
Income attributable to noncontrolling interests	—	—	1	1
Distributions and other changes in noncontrolling interests	—	—	(1)	(1)
At end of period	37	37	37	37
<b>Total Equity at End of Period</b>	<b>\$4,786</b>	<b>\$4,572</b>	<b>\$4,786</b>	<b>\$4,572</b>

The accompanying notes are an integral part of these statements.





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Consumers Energy Company  
Consolidated Statements of Income (Unaudited)  
In Millions

	Three Months Ended		Nine Months Ended		
September 30	2018	2017	2018	2017	
Operating Revenue	\$1,502	\$1,437	\$4,752	\$4,536	
Operating Expenses					
Fuel for electric generation	122	115	310	304	
Purchased and interchange power	440	424	1,206	1,124	
Purchased power – related parties	22	23	61	67	
Cost of gas sold	45	42	530	479	
Maintenance and other operating expenses	334	274	914	824	
Depreciation and amortization	203	191	681	646	
General taxes	65	60	216	203	
Total operating expenses	1,231	1,129	3,918	3,647	
Operating Income	271	308	834	889	
Other Income (Expense)					
Interest income	2	2	6	8	
Interest and dividend income – related parties	1	—	1	—	
Allowance for equity funds used during construction	2	1	4	5	
Nonoperating retirement benefits, net	21	3	63	8	
Other income	—	1	1	15	
Other expense	(4	) (2	) (9	) (6	)
Total other income	22	5	66	30	
Interest Charges					
Interest on long-term debt	69	66	203	198	
Other interest expense	5	4	14	11	
Allowance for borrowed funds used during construction	(1	) —	(2	) (2	)
Total interest charges	73	70	215	207	
Income Before Income Taxes	220	243	685	712	
Income Tax Expense	40	62	111	216	
Net Income	180	181	574	496	
Preferred Stock Dividends	—	—	1	1	
Net Income Available to Common Stockholder	\$180	\$181	\$573	\$495	

The accompanying notes are an integral part of these statements.

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Consumers Energy Company

Consolidated Statements of Comprehensive Income (Unaudited)

In Millions

	Three Months Ended		Nine Months Ended	
September 30	2018	2017	2018	2017
Net Income	\$180	\$181	\$574	\$496
Retirement Benefits Liability				
Amortization of net actuarial loss, net of tax of \$- for all periods	1	—	2	1
Investments				
Unrealized gain (loss) on investments, net of tax of \$-, \$-, \$-, and \$1	—	—	(1	) 2
Reclassification adjustments included in net income, net of tax of \$-, \$-, \$-, and \$(5)	1	—	1	(8 )
Other Comprehensive Income (Loss)				