CMS ENERGY CORP
Form 10-K
February 07, 2017
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2016

OR

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

For the transition period from_____to_____

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

Securities registered pursuant to Section 12(b) of the Act:

Registrant	**Title of Class**	**Name of Each Exchange on Which Registered___**
CMS Energy Corporation	Common Stock, $0.01 par value	New York Stock Exchange
Consumers Energy Company	Cumulative Preferred Stock, $100 par value: $4.50 Series	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

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

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

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

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

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

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

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

CMS Energy Corporation:
Large accelerated filer x Accelerated filer o
Non-Accelerated filer o (Do not check if a smaller reporting company) Smaller reporting company o
Consumers Energy Company:
Large accelerated filer o Accelerated filer o
Non-Accelerated filer x (Do not check if a smaller reporting company) Smaller reporting company o

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

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

The aggregate market value of CMS Energy voting and non-voting common equity held by non-affiliates was $12.721 billion for the 277,390,749 CMS Energy Common Stock shares outstanding on June 30, 2016 based on the closing sale price of $45.86 for CMS Energy Common Stock, as reported by the New York Stock Exchange on such date. There were no shares of Consumers common equity held by non-affiliates as of June 30, 2016.

There were 280,014,896 shares of CMS Energy Common Stock outstanding on January 10, 2017, including 443,148 shares owned by Consumers Energy Company. On January 10, 2017, CMS Energy held all 84,108,789 outstanding shares of common equity of Consumers.

Documents incorporated by reference in Part III: CMS Energy s proxy statement and Consumers information statement relating to the 2017 Annual Meeting of Shareholders to be held May 5, 2017.

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CMS Energy Corporation

Consumers Energy Company

Annual Reports on Form 10-K to the Securities and Exchange Commission for the Year Ended December 31, 2016

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GLOSSARY

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

2016 Energy Law
Comprehensive energy reform package enacted in Michigan in 2016

ABATE
Association of Businesses Advocating Tariff Equity

ABO
Accumulated benefit obligation; the liabilities of a pension plan based on service and pay to date, which differs from the PBO in that it does not reflect expected future salary increases

AFUDC
Allowance for borrowed and equity funds used during construction

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

Btu
British thermal unit

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

CAO
Chief Accounting Officer

Cash Balance Pension Plan
Cash balance pension plan of CMS Energy and Consumers

CCR
Coal combustion residual

CEO
Chief Executive Officer

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CERCLA
Comprehensive Environmental Response, Compensation, and Liability Act of 1980

CFO
Chief Financial Officer

city-gate contract
An arrangement made for the point at which a local distribution company physically receives gas from a supplier or pipeline

Clean Air Act
Federal Clean Air Act of 1963, as amended

Clean Water Act
Federal Water Pollution Control Act of 1972, as amended

CMS Capital
CMS Capital, L.L.C., a wholly owned subsidiary of CMS Energy

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

CMS Gas Transmission
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

Consumers 2014 Securitization Funding
Consumers 2014 Securitization Funding LLC, a wholly owned consolidated bankruptcy-remote subsidiary of Consumers and special-purpose entity organized for the sole purpose of purchasing and owning securitization property, issuing securitization bonds, and pledging its interest in securitization property to a trustee to collateralize the securitization bonds

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Craven
Craven County Wood Energy Limited Partnership, a variable interest entity in which HYDRA-CO Enterprises, Inc., a wholly owned subsidiary of CMS Enterprises, has a 50-percent interest

CSAPR
The Cross-State Air Pollution Rule

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

DB SERP
Defined Benefit Supplemental Executive Retirement Plan

DCCP
Defined Company Contribution Plan

DC SERP
Defined Contribution Supplemental Executive Retirement Plan

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

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

DTE Electric
DTE Electric Company, a non-affiliated company

DTE Gas
DTE Gas Company, a non-affiliated company

EBITDA
Earnings before interest, taxes, depreciation, and amortization

EnerBank
EnerBank USA, a wholly owned subsidiary of CMS Capital

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

Entergy
Entergy Corporation, a non-affiliated company

EPA
U.S. Environmental Protection Agency

EPS
Earnings per share

Exchange Act
Securities Exchange Act of 1934

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FDIC
Federal Deposit Insurance Corporation

FERC
The Federal Energy Regulatory Commission

First Mortgage Bond Indenture
The indenture dated as of September 1, 1945 between Consumers and The Bank of New York Mellon, as Trustee, as amended and supplemented

FLI Liquidating Trust
Trust formed in Missouri bankruptcy court to accomplish the liquidation of Farmland Industries, Inc., a non-affiliated entity

FTR
Financial transmission right

GAAP
U.S. Generally Accepted Accounting Principles

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

GCC
Gas Customer Choice, which allows gas customers to purchase gas from alternative suppliers

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

Grayling
Grayling Generating 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

GWh
Gigawatt-hour, a unit of energy equal to one billion watt-hours

IRS
Internal Revenue Service

kilovolts
Thousand volts, a unit used to measure the difference in electrical pressure along a current

kVA
Thousand volt-amperes, a unit used to reflect the electrical power capacity rating of equipment or a system

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

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LIBOR
The London Interbank Offered Rate

Ludington
Ludington pumped-storage plant, jointly owned by Consumers and DTE Electric

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

mcf
Thousand cubic feet

MCV Facility
A 1,647 MW natural gas-fueled, combined-cycle cogeneration facility operated by the MCV Partnership

MCV Partnership
Midland Cogeneration Venture Limited Partnership

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, Part 15, Emission Limitations and Prohibitions Mercury, addressing mercury emissions from coal-fueled electric generating units

MISO
Midcontinent Independent System Operator, Inc.

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

MPSC
Michigan Public Service Commission

MRV
Market-related value of plan assets

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MW
Megawatt, a unit of power equal to one million watts

MWh
Megawatt-hour, a unit of energy equal to one million watt-hours

NAAQS
National Ambient Air Quality Standards

NAV
Net asset value

NERC
The North American Electric Reliability Corporation, a non-affiliated company responsible for developing and enforcing reliability standards, monitoring the bulk power system, and educating and certifying industry personnel

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

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

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

OPEB
Other Post-Employment Benefits

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

Palisades
Palisades nuclear power plant, sold by Consumers to Entergy in 2007

PBO
Projected benefit obligation

PCB
Polychlorinated biphenyl

PISP
Performance Incentive Stock Plan

PPA
Power purchase agreement

PSCR
Power supply cost recovery

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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 a Michigan statute enacted in 2000

S&P
Standard & Poor s Financial Services LLC

SEC
U.S. Securities and Exchange Commission

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

Sherman Act
Sherman Antitrust Act of 1890

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

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

USW
United Steel, Paper and Forestry, Rubber, Manufacturing, Energy, Allied Industrial and Service Workers International Union, AFL-CIO-CLC

UWUA
Utility Workers Union of America, AFL-CIO

VEBA trust
Voluntary employees beneficiary association trusts accounts established specifically to set aside employer-contributed assets to pay for future expenses of the OPEB Plan

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FILING FORMAT

This combined Form 10-K is separately filed by CMS Energy and Consumers. Information in this combined Form 10-K 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.

FORWARD-LOOKING STATEMENTS AND INFORMATION

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

- the impact of new regulation by the MPSC, FERC, and other applicable governmental proceedings and regulations, including any associated impact on electric or gas rates or rate structures

- potentially adverse regulatory treatment or failure to receive timely regulatory orders affecting Consumers that are or could come before the MPSC, FERC, or other governmental authorities

- changes in the performance of or regulations applicable to MISO, METC, pipelines, railroads, vessels, or other service providers that CMS Energy, Consumers, or any of their affiliates rely on to serve their customers

- the adoption of federal or state laws or regulations or 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; and electric transmission and distribution or gas pipeline system constraints

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- 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

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

- 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, 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 future prices of electricity, natural gas, and other energy-related commodities

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- 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, or operations due to accidents, explosions, physical disasters, cyber incidents, vandalism, war, or terrorism, and the ability to obtain or maintain insurance coverage for these events

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

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

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

- the ability to implement technology successfully

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

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

- the outcome, cost, and other effects of any legal or administrative claims, proceedings, investigations, or settlements

- the reputational impact on CMS Energy and Consumers of operational incidents, violations of corporate policies, regulatory violations, inappropriate use of social media, and other events

- restrictions imposed by various financing arrangements and regulatory requirements on the ability of Consumers and other subsidiaries of CMS Energy to transfer funds to CMS Energy in the form of cash dividends, loans, or advances

- earnings volatility resulting from the application of fair value accounting to certain energy commodity contracts or interest rate contracts

- changes in financial or regulatory accounting principles or policies

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

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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 Item 1A. Risk Factors; Item 8. Financial Statements and Supplementary Data MD&A Outlook; and Item 8. Financial Statements and Supplementary Data Notes to the Consolidated Financial Statements Note 3, Regulatory Matters and Note 4, Contingencies and Commitments.

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Part I

Item 1. Business

GENERAL

CMS Energy

CMS Energy was formed as a corporation in Michigan in 1987 and 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 serves individuals and businesses operating in the alternative energy, automotive, chemical, metal, and food products industries, as well as a diversified group of other industries. CMS Enterprises, through its subsidiaries and equity investments, is engaged primarily in independent power production and owns power generation facilities fueled mostly by natural gas and renewable sources.

CMS Energy manages its businesses by the nature of services each provides, and operates principally in three business segments: electric utility, gas utility, and enterprises, its non-utility operations and investments. Consumers consolidated operations account for the substantial majority of CMS Energy s total assets, income, and operating revenue. CMS Energy s consolidated operating revenue was $6.4 billion in 2016, $6.5 billion in 2015, and $7.2 billion in 2014.

For further information about operating revenue, income, and assets and liabilities attributable to all of CMS Energy s business segments and operations, see Item 8. Financial Statements and Supplementary Data CMS Energy Selected Financial Information, CMS Energy Consolidated Financial Statements, and Notes to the Consolidated Financial Statements.

Consumers

Consumers has served Michigan customers since 1886. Consumers was incorporated in Maine in 1910 and became a Michigan corporation in 1968. Consumers owns and operates electric generation, transmission, and distribution facilities and gas transmission, storage, and distribution facilities. It provides electricity and/or natural gas to 6.7 million of Michigan s 10 million residents. Consumers rates and certain other aspects of its business are subject to the jurisdiction of the MPSC and FERC, as well as to NERC reliability standards, as described in CMS Energy and Consumers Regulation in this Item 1.

Consumers consolidated operating revenue was $6.1 billion in 2016, $6.2 billion in 2015, and $6.8 billion in 2014. For further information about operating revenue, income, and assets and liabilities attributable to Consumers electric and gas utility operations, see Item 8. Financial Statements and Supplementary Data Consumers Selected Financial Information, Consumers Consolidated Financial Statements, and Notes to the Consolidated Financial Statements.

Consumers owns its principal properties in fee, except that most electric lines and gas mains are located below or adjacent to public roads or on land owned by others and are accessed by Consumers through easements and other rights. Almost all of Consumers properties are subject to the lien of its First Mortgage Bond Indenture. For additional information on Consumers properties, see Item 1. Business Business Segments Consumers Electric Utility Electric Utility Properties and Consumers Gas Utility Gas Utility Properties.

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In 2016, Consumers served 1.8 million electric customers and 1.8 million gas customers in Michigan s Lower Peninsula. Presented in the following map are Consumers service territories:

Electric Service Territory

Gas Service Territory

Combination Electric and
Gas Service Territory

Electric Generation Facilities

BUSINESS SEGMENTS

Consumers Electric Utility

Electric Utility Operations: Consumers electric utility operations, which include the generation, purchase, transmission, distribution, and sale of electricity, generated operating revenue of $4.4 billion in 2016, $4.2 billion in 2015, and $4.4 billion in 2014. Consumers electric utility customer base consists of a mix of primarily residential, commercial, and diversified industrial customers in Michigan s Lower Peninsula.

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Presented in the following illustration is Consumers 2016 electric utility operating revenue of $4.4 billion by customer class:

Residential (45%)

Commercial (31%)

Industrial (18%)

Other (6%)

Consumers electric utility operations are not dependent on a single customer, or even a few customers, and the loss of any one or even a few of Consumers largest customers is not reasonably likely to have a material adverse effect on Consumers financial condition.

In 2016, Consumers electric deliveries were 38 billion kWh, which included ROA deliveries of four billion kWh, resulting in net bundled sales of 34 billion kWh. In 2015, Consumers electric deliveries were 37 billion kWh, which included ROA deliveries of four billion kWh, resulting in net bundled sales of 33 billion kWh.

Consumers electric utility operations are seasonal. The consumption of electric energy typically increases in the summer months, due primarily to the use of air conditioners and other cooling equipment.

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Presented in the following illustration are Consumers monthly weather-adjusted electric deliveries (deliveries adjusted to reflect normal weather conditions) to its customers, including ROA deliveries, during 2016 and 2015:

Consumers 2016 summer peak demand was 8,227 MW, which included ROA demand of 592 MW. For the 2015-2016 winter season, Consumers peak demand was 5,750 MW, which included ROA demand of 480 MW. As required by MISO reserve margin requirements, Consumers owns or controls, through long-term PPAs and short-term capacity purchases, essentially all of the capacity required to supply its projected firm peak load and necessary reserve margin for summer 2017.

Electric Utility Properties: Consumers transmission and distribution systems consist of:

- 214 miles of transmission overhead lines operating at 138 kilovolts
- 188 miles of high-voltage distribution overhead lines operating at 138 kilovolts

- four miles of high-voltage distribution underground lines operating at 138 kilovolts
- 4,430 miles of high-voltage distribution overhead lines operating at 46 kilovolts and 69 kilovolts
- 19 miles of high-voltage distribution underground lines operating at 46 kilovolts
- 56,067 miles of electric distribution overhead lines
- 10,532 miles of underground distribution lines
- substations with an aggregate transformer capacity of 25 million kVA

Consumers is interconnected to the interstate high-voltage electric transmission system owned by METC and operated by MISO. Consumers is also interconnected to neighboring utilities and to other transmission systems.

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Presented in the following table are details about Consumers electric generating system at December 31, 2016:

Name and Location (Michigan)	Number of Units and Year Entered Service	2016 Generation Capacity[1] (MW)	2016 Electric Supply (GWh)
Coal generation			
J.H. Campbell 1 & 2 West Olive	2 Units, 1962-1967	610	2,828
J.H. Campbell 3 West Olive[2]	1 Unit, 1980	755	3,353
B.C. Cobb 4 & 5 Muskegon[3]	2 Units, 1956-1957	-	556
D.E. Karn 1 & 2 Essexville	2 Units, 1959-1961	494	2,164
J.C. Weadock 7 & 8 Essexville[3]	2 Units, 1955-1958	-	418
J.R. Whiting 1-3 Erie[3]	3 Units, 1952-1953	-	420
Total coal generation		1,859	9,739
Oil/Gas steam generation			
Jackson Jackson	1 Unit, 2002	542	2,118
D.E. Karn 3 & 4 Essexville	2 Units, 1975-1977	1,208	81
Zeeland (combined cycle) Zeeland	3 Units, 2002	527	3,692
Total oil/gas steam generation		2,277	5,891
Hydroelectric			
Ludington Ludington	6 Units, 1973	1,035[4]	(316)[5]
Conventional hydro generation various locations	35 Units, 1906-1949	75	452
Total hydroelectric		1,110	136
Gas/Oil combustion turbine			
Zeeland (simple cycle) Zeeland	2 Units, 2001	316	309
Various plants various locations[6]	8 Units, 1966-1971	46	2
Total gas/oil combustion turbine		362	311
Wind generation			
Cross Winds® Energy Park Tuscola County	62 Turbines, 2014	16	373
Lake Winds® Energy Park Mason County	56 Turbines, 2012	18	254
Total wind generation		34	627
Solar generation			
Solar Gardens			
Grand Valley State University Allendale	11,200 Panels, 2016	1	4
Western Michigan University Kalamazoo	3,900 Panels, 2016	-	-
Total solar generation		1	4
Total owned generation		5,643	16,708
Purchased and interchange power[7]		2,688[8]	19,495[8]
Total supply		8,331	36,203
Generation and transmission use/loss			2,186
Total net bundled sales			34,017

1 Represents each plant s electric generation capacity during the summer months, except for Solar Gardens Western Michigan University Kalamazoo, which began operations in August 2016.

2 Represents Consumers share of the capacity of the J.H. Campbell 3 unit, net of the 6.69-percent ownership interest of the Michigan Public Power Agency and Wolverine Power Supply Cooperative, Inc.

3 Consumers retired these seven smaller coal-fueled generating units in April 2016.

4 Represents Consumers 51-percent share of the capacity of Ludington. DTE Electric holds the remaining 49-percent ownership interest.

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5 Represents Consumers share of net pumped-storage generation. The pumped-storage facility consumes electricity to pump water during off-peak hours for storage in order to generate electricity later during peak-demand hours.

6 Includes units that were mothballed beginning on various dates between October 2010 and October 2014.

7 Includes purchases under long-term PPAs and from the MISO capacity and energy markets.

8 Includes 1,240 MW of purchased generation capacity and 4,924 GWh of purchased electricity from the MCV Facility and 751 MW of purchased generation capacity and 6,927 GWh of purchased electricity from Palisades. In December 2016, Consumers and Entergy reached an agreement to terminate the Palisades PPA in May 2018, subject to timely receipt of certain MPSC approvals.

Consumers generation capacity is a measure of the maximum electric output that Consumers has available to meet peak load requirements. As shown in the following illustration, Consumers 2016 generation capacity of 8,331 MW, including purchased capacity of 2,688 MW, relied on a variety of fuel sources:

Gas (41%)

Coal (23%)

Pumped Storage (12%)

Oil (10%)

Nuclear (9%)

Renewables (5%)

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Electric Utility Supply: Presented in the following table are the sources of Consumers electric supply over the last five years:

					GWh
Years Ended December 31	2016	2015	2014	2013	2012
Owned generation					
Coal	9,739	15,833	15,684	15,951	14,027
Gas	6,194	3,601	2,012	1,415	3,003
Renewable energy	1,083	1,056	748	704	433
Oil	8	-	-	4	6
Net pumped storage[1]	(316)	(186)	(300)	(371)	(295)
Total owned generation	16,708	20,304	18,144	17,703	17,174
Purchased and interchange power					
Purchased renewable energy[2]	2,229	2,163	2,366	2,250	1,435
Purchased generation other[2]	13,578	11,720	10,073	10,871	13,104
Net interchange power[3]	3,688	1,327	4,793	3,656	4,151
Total purchased and interchange power	19,495	15,210	17,232	16,777	18,690
Total supply	36,203	35,514	35,376	34,480	35,864

1 Represents Consumers share of net pumped-storage generation. The pumped-storage facility consumes electricity to pump water during off-peak hours for storage in order to generate electricity later during peak-demand hours.

2 Includes purchases under long-term PPAs.

3 Includes purchases from the MISO energy market.

During 2016, Consumers acquired 54 percent of the electricity it provided to customers through long-term PPAs and the MISO energy market. Consumers offers its generation into the MISO energy market on a day-ahead and real-time basis and bids for power in the market to serve the demand of its customers. Consumers is a net purchaser of power and supplements its generation capability with purchases from the MISO energy market to meet its customers needs during peak demand periods.

At December 31, 2016, Consumers had unrecognized future commitments (amounts for which, in accordance with GAAP, liabilities have not been recorded on its balance sheet) to purchase capacity and energy under long-term PPAs with various generating plants. These contracts require monthly capacity payments based on the plants availability or deliverability. The payments for 2017 through 2036 are estimated to total $9 billion and, for each of the next five years, $1 billion annually. These amounts may vary depending on plant availability and fuel costs. For further information about Consumers future capacity and energy purchase obligations, see Item 8. Financial Statements and Supplementary Data MD&A Capital Resources and Liquidity and Note 4, Contingencies and Commitments Contractual Commitments.

During 2016, 27 percent of the energy Consumers provided to customers was generated by its coal-fueled generating units, which burned six million tons of coal and produced a combined total of 9,739 GWh of electricity. This percentage includes seven smaller coal-fueled generating units that Consumers retired in April 2016 and that represented four percent of the energy provided to customers in 2016.

In order to obtain the coal it needs, Consumers enters into physical coal supply contracts. At December 31, 2016, Consumers had contracts to purchase coal through 2019; payment obligations under these contracts totaled $96 million. Most of Consumers rail-supplied coal contracts have fixed prices, although some contain market-based pricing. Consumers vessel-supplied coal contracts have fixed base prices that are adjusted monthly to reflect changes to the fuel cost of vessel transportation. At

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December 31, 2016, Consumers had 86 percent of its 2017 expected coal requirements under contract, as well as a 37-day supply of coal on hand.

In conjunction with its coal supply contracts, Consumers leases a fleet of rail cars and has transportation contracts with various companies to provide rail and vessel services for delivery of purchased coal to Consumers generating facilities. Consumers coal transportation contracts expire on various dates from 2017 through 2019; payment obligations under these contracts totaled $259 million at December 31, 2016.

During 2016, 17 percent of the energy Consumers provided to customers was generated by natural gas-fueled generating units, which burned 45 bcf of natural gas and produced a combined total of 6,194 GWh of electricity.

In order to obtain the gas it needs for electric generation fuel, Consumers electric utility purchases gas from the market near the time of consumption, at prices that allow it to compete in the electric wholesale market. For units 3 and 4 of D.E. Karn and for the Jackson and Zeeland plants, Consumers utilizes an agent that owns firm transportation rights to each plant to purchase gas from the market and transport the gas to the facilities. For its smaller combustion turbines, Consumers electric utility purchases and transports gas to its facilities as a bundled-rate tariff customer of either the gas utility or DTE Gas.

Presented in the following table is the cost per million Btu of all fuels consumed, which fluctuates with the mix of fuel used.

					Cost Per Million Btu
Years Ended December 31	2016	2015	2014	2013	2012
Coal	$ 2.40	$ 2.49	$ 2.72	$ 2.90	$ 2.98
Gas	2.93	3.06	7.19	4.68	3.16
Oil	9.98	12.28	20.16	19.47	19.08
Weighted-average fuel cost	$ 2.60	$ 2.59	$ 3.17	$ 3.07	$ 3.05

Electric Utility Competition: Consumers electric utility business is subject to actual and potential competition from many sources, in both the wholesale and retail markets, as well as in electric generation, electric delivery, and retail services.

Under existing 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-adjusted retail sales for the preceding calendar year. At December 31, 2016, electric deliveries under the ROA program were at the ten-percent limit. Of Consumers 1.8 million electric customers, 305 customers, or 0.02 percent, purchased generation service under the ROA program. The 2016 Energy Law, which will become effective in April 2017, retains the ten-percent cap on ROA, with certain exceptions. For additional information see Item 8. Financial Statements and Supplementary Data MD&A Outlook Consumers Electric Utility Outlook and Uncertainties.

Consumers also faces competition or potential competition associated with industrial customers relocating all or a portion of their production capacity outside of Consumers service territory for economic reasons; municipalities owning or operating competing electric delivery systems; and customer self-generation. Consumers addresses this competition in various ways, including:

- aggressively controlling operating, maintenance, and fuel costs and passing savings on to customers
- providing competitive rate-design options, particularly for large energy-intensive customers
- offering tariff-based incentives that support economic development
- providing non-energy services and value to customers
- monitoring activity in adjacent geographical areas

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Consumers Gas Utility

Gas Utility Operations: Consumers gas utility operations, which include the purchase, transmission, storage, distribution, and sale of natural gas, generated operating revenue of $1.7 billion in 2016, $1.9 billion in 2015, and $2.4 billion in 2014. Consumers gas utility customer base consists of a mix of primarily residential, commercial, and diversified industrial customers in Michigan s Lower Peninsula.

Presented in the following illustration is Consumers 2016 gas utility operating revenue of $1.7 billion by customer class:

Residential (58%)

GCC (21%)

Commercial (11%)

Industrial (4%)

Other (6%)

Consumers gas utility operations are not dependent on a single customer, or even a few customers, and the loss of any one or even a few of Consumers largest customers is not reasonably likely to have a material adverse effect on Consumers financial condition.

In 2016, deliveries of natural gas through Consumers pipeline and distribution network, including off-system transportation deliveries, totaled 358 bcf, which included GCC deliveries of 46 bcf. In 2015, deliveries of natural gas, including off-system transportation deliveries, through Consumers pipeline and distribution network, totaled 356 bcf, which included GCC deliveries of 57 bcf. Consumers gas utility operations are seasonal. Consumers injects natural gas into storage during the summer months for use during the winter months when the demand for natural gas is higher. Peak demand occurs in the winter due to colder temperatures and the resulting use of natural gas as a heating fuel. During 2016, 48 percent of the natural gas supplied to all customers during the winter months was supplied from storage.

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Presented in the following illustration are Consumers monthly weather-adjusted gas deliveries (deliveries adjusted to reflect normal weather conditions) to its customers, including GCC deliveries, during 2016 and 2015:

Gas Utility Properties: Consumers gas transmission, storage, and distribution system consists of:

- 1,670 miles of transmission lines
- 15 gas storage fields with a total storage capacity of 309 bcf and a working gas volume of 151 bcf
- 27,920 miles of distribution mains
- eight compressor stations with a total of 166,474 installed and available horsepower

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Gas Utility Supply: In 2016, Consumers purchased 73 percent of the gas it delivered from U.S. producers and five percent from Canadian producers. The remaining 22 percent was purchased from authorized GCC suppliers and delivered by Consumers to customers in the GCC program. Presented in the following illustration are the supply arrangements for the gas Consumers delivered to GCC and GCR customers during 2016:

GCR firm city-gate

contracts (44%)

GCR firm gas transportation

contracts (34%)

GCC suppliers (22%)

Firm gas transportation or firm city-gate contracts are those that define a fixed amount, price, and delivery time frame. Consumers firm gas transportation contracts are with ANR Pipeline Company, Great Lakes Gas Transmission Limited Partnership, Panhandle Eastern Pipe Line Company, and Trunkline Gas Company, LLC, each a non-affiliated company. Under these contracts, Consumers purchases and transports gas to Michigan for ultimate delivery to its customers. Consumers firm gas transportation contracts expire on various dates from 2017 through 2023 and provide for the delivery of 39 percent of Consumers total gas supply requirements in 2017. Consumers purchases the balance of its required gas supply under firm city-gate contracts and through authorized suppliers under the GCC program.

Gas Utility Competition: Competition exists in various aspects of Consumers gas utility business. Competition comes from GCC and from alternative fuels and energy sources, such as propane, oil, and electricity.

Enterprises Segment Non-Utility Operations and Investments

CMS Energy s enterprises segment, through various subsidiaries and certain equity investments, is engaged primarily in domestic independent power production, the marketing of independent power production, and the development of renewable generation. The enterprises segment s operating revenue was $215 million in 2016, $190 million in 2015, and $299 million in 2014.

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Independent Power Production: At December 31, 2016, CMS Energy had ownership interests in independent power plants totaling 1,177 MW or 1,077 net MW. (Net MW reflects that portion of the capacity relating to CMS Energy s ownership interests.) Presented in the following table are CMS Energy s interests in independent power plants at December 31, 2016:

Location	Ownership Interest (%)	Primary Fuel Type	Gross Capacity[1] (MW)	2016 Net Generation (GWh)
Dearborn, Michigan	100	Natural gas	752	4,878
Gaylord, Michigan	100	Natural gas	156	4
Comstock, Michigan	100	Natural gas	68	3
Filer City, Michigan	50	Coal and biomass	73	506
New Bern, North Carolina	50	Biomass	50	323
Flint, Michigan	50	Biomass	40	110
Grayling, Michigan	50	Biomass	38	130
Total			1,177	5,954

1 Represents the intended full-load sustained output of each plant.

The operating revenue from independent power production was $16 million in 2016, $17 million in 2015, and $18 million in 2014.

Energy Resource Management: CMS ERM purchases and sells energy commodities in support of CMS Energy s generating facilities with a focus on optimizing CMS Energy s independent power production portfolio. In 2016, CMS ERM marketed seven bcf of natural gas and 5,906 GWh of electricity. Electricity marketed by CMS ERM was generated by independent power production of the enterprises segment and by unrelated third parties. CMS ERM s operating revenue was $199 million in 2016, $173 million in 2015, and $281 million in 2014.

Enterprises Segment Competition: The enterprises segment competes with other independent power producers. The needs of this market are driven by electric demand and the generation available.

Other Businesses

EnerBank: EnerBank is a Utah state-chartered, FDIC-insured industrial bank providing unsecured consumer installment loans for financing home improvements. EnerBank s operating revenue was $120 million in 2016, $101 million in 2015, and $80 million in 2014.

CMS ENERGY AND CONSUMERS REGULATION

CMS Energy, Consumers, and their subsidiaries are subject to regulation by various federal, state, and local governmental agencies, including those described in the following sections.

FERC and NERC

FERC has exercised limited jurisdiction over several independent power plants and exempt wholesale generators in which CMS Enterprises has ownership interests, as well as over CMS ERM, CMS Gas Transmission, and DIG. FERC s jurisdiction includes, among other things, acquisitions, operations, disposals of certain assets and facilities, services provided and rates charged, and conduct among affiliates. FERC also has limited jurisdiction over holding company matters with respect to CMS Energy. FERC, in connection with NERC and with regional reliability organizations, also regulates generation and transmission owners and operators, load serving entities, purchase and sale entities, and others with regard to reliability of the bulk power system.

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FERC regulates limited aspects of Consumers gas business, principally compliance with FERC capacity release rules, shipping rules, the prohibition against certain buy/sell transactions, and the price-reporting rule.

FERC also regulates certain aspects of Consumers electric operations, including compliance with FERC accounting rules, wholesale and transmission rates, operation of licensed hydroelectric generating plants, transfers of certain facilities, corporate mergers, and issuances of securities.

MPSC

Consumers is subject to the jurisdiction of the MPSC, which regulates public utilities in Michigan with respect to retail utility rates, accounting, utility services, certain facilities, certain asset transfers, corporate mergers, and other matters.

The Michigan Attorney General, ABATE, the MPSC Staff, and certain other parties typically participate in MPSC proceedings concerning Consumers. These parties often challenge various aspects of those proceedings, including the prudence of Consumers policies and practices, and seek cost disallowances and other relief. The parties also have appealed significant MPSC orders.

Rate Proceedings: For information regarding open rate proceedings, see Item 8. Financial Statements and Supplementary Data MD&A Outlook and Notes to the Consolidated Financial Statements Note 3, Regulatory Matters.

Other Regulation

The U.S. Secretary of Energy regulates imports and exports of natural gas and has delegated various aspects of this jurisdiction to FERC and the U.S. Department of Energy s Office of Fossil Fuels.

The U.S. Department of Transportation Office of Pipeline Safety regulates the safety and security of gas pipelines through the Natural Gas Pipeline Safety Act of 1968 and subsequent laws.

EnerBank is regulated by the Utah Department of Financial Institutions and the FDIC.

Energy Legislation

In December 2016, Michigan s governor signed the 2016 Energy Law, which will become effective in April 2017. Among other things, the 2016 Energy Law:

- raises the renewable energy standard from the present ten-percent requirement to 12.5 percent by 2019 and 15 percent by 2021
- establishes a goal of 35 percent combined renewable energy and energy waste reduction by 2025
- authorizes incentives for demand response programs and expands existing incentives for energy efficiency programs
- authorizes incentives for new PPAs with non-affiliates
- establishes an integrated planning process for new generation resources
- shortens from twelve months to ten months the time by which the MPSC must issue a final order in general rate cases, but prohibits electric and gas utilities from filing general rate cases for increases in rates more often than once every twelve months
- eliminates utilities self-implementation of rates under general rate cases
- requires the MPSC to implement equitable cost-of-service rates for customers participating in a net metering program

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The 2016 Energy Law also establishes a path to ensure that forward capacity is secured for all electric customers in Michigan, including customers served by alternative electric suppliers under ROA. Under existing 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-adjusted retail sales for the preceding calendar year. For additional information see Item 8. Financial Statements and Supplementary Data MD&A Outlook Consumers Electric Utility Outlook and Uncertainties.

CMS ENERGY AND CONSUMERS ENVIRONMENTAL COMPLIANCE

CMS Energy, Consumers, and their subsidiaries are subject to various federal, state, and local regulations for environmental quality, including air and water quality, solid waste management, and other matters. Consumers expects to recover costs to comply with environmental regulations in customer rates, but cannot guarantee this result. For additional information concerning environmental matters, see Item 1A. Risk Factors and Item 8. Financial Statements and Supplementary Data Notes to the Consolidated Financial Statements Note 4, Contingencies and Commitments and Note 11, Asset Retirement Obligations.

CMS Energy has recorded a $51 million liability for its subsidiaries obligations associated with Bay Harbor and Consumers has recorded a $107 million liability for its obligations at a number of MGP sites. For additional information, see Item 1A. Risk Factors and Item 8. Financial Statements and Supplementary Data Notes to the Consolidated Financial Statements Note 4, Contingencies and Commitments.

Air: Consumers continues to install state-of-the-art emissions control equipment at its electric generating plants. Consumers estimates that it will incur capital expenditures of $22 million from 2017 through 2021 to comply with present and future federal and state environmental regulations that require extensive reductions in nitrogen oxides, sulfur dioxides, particulate matter, and mercury emissions. Consumers estimate may increase or decrease depending on future legislation or rulemaking, including regulations regarding greenhouse gases, that could become either more or less stringent.

Solid Waste Disposal: Costs related to the construction, operation, and closure of solid waste disposal facilities for coal ash are significant. Consumers solid waste disposal areas are regulated under Michigan s solid waste rules. In April 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 converted all of its fly ash handling systems to dry systems to minimize applicable requirements. In addition, all of Consumers ash facilities have programs designed to protect the environment and are subject to quarterly MDEQ inspections. Consumers preliminary estimate of capital and cost of removal expenditures to comply with regulations relating to ash disposal is $255 million from 2017 through 2021.

Water: Consumers uses substantial amounts of water to operate and cool its electric generating plants. Water discharge quality is regulated and administered by the MDEQ under the federal NPDES program. To comply with such regulation, Consumers facilities have discharge monitoring programs. The EPA issued final regulations for wastewater discharges from electric generating plants in 2015. Consumers preliminary estimate of capital expenditures to comply with these regulations is $109 million from 2017 through 2021.

In 2014, the EPA finalized its cooling water intake rule, which requires Consumers to evaluate the biological impact of its cooling water intake systems and ensure that it is using the best technology

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available to minimize adverse environmental impacts. Consumers preliminary estimate of capital expenditures to comply with these regulations is $62 million from 2017 through 2021.

For further information concerning estimated capital expenditures related to air, solid waste disposal, and water see Item 8. Financial Statements and Supplementary Data MD&A Outlook Consumers Electric Utility Outlook and Uncertainties Electric Environmental Outlook.

INSURANCE

CMS Energy and its subsidiaries, including Consumers, maintain insurance coverage generally similar to comparable companies in the same lines of business. The insurance policies are subject to terms, conditions, limitations, and exclusions that might not fully compensate CMS Energy or Consumers for all losses. A portion of each loss is generally assumed by CMS Energy or Consumers in the form of deductibles and self-insured retentions that, in some cases, are substantial. As CMS Energy or Consumers renews its policies, it is possible that some of the present insurance coverage may not be renewed or obtainable on commercially reasonable terms due to restrictive insurance markets.

CMS Energy s and Consumers present insurance program does not cover the risks of certain environmental costs, such as the cleanup of sites owned by CMS Energy or Consumers, or claims for the long-term storage or disposal of pollutants or for air pollution.

EMPLOYEES

Presented in the following table are the number of employees of CMS Energy and Consumers:

December 31	2016	2015	2014
CMS Energy, including Consumers[1]			
Full-time employees	7,699	7,711	7,671
Seasonal employees[2]	52	39	33
Part-time employees	49	54	43
Total employees	7,800	7,804	7,747
Consumers[1]			
Full-time employees	7,301	7,339	7,336
Seasonal employees[2]	52	39	33
Part-time employees	13	16	19
Total employees	7,366	7,394	7,388

1 For information about CMS Energy s and Consumers collective bargaining agreements, see Item 8. Financial Statements and Supplementary Data Notes to the Consolidated Financial Statements Note 12, Retirement Benefits.

2 Consumers seasonal workforce peaked at 522 employees during 2016, 477 employees during 2015, and 394 employees during 2014. Seasonal employees work primarily during the construction season and are subject to yearly layoffs.

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CMS ENERGY AND CONSUMERS EXECUTIVE OFFICERS

Presented in the following table are the company positions held during the last five years for each of CMS Energy s and Consumers executive officers as of February 1, 2017:

Name, Age, Position(s)	Period	
Patricia K. Poppe (age 48)		
CMS Energy		
President and CEO	7/2016	Present
Director	5/2016	Present
Senior Vice President	3/2015	7/2016
Consumers		
President and CEO	7/2016	Present
Director	5/2016	Present
Senior Vice President	3/2015	7/2016
Vice President	1/2011	3/2015
CMS Enterprises		
Chairman of the Board, President, CEO and Director	7/2016	Present
Thomas J. Webb (age 64)		
CMS Energy		
Executive Vice President and CFO	8/2002	Present
Consumers		
Executive Vice President and CFO	8/2002	Present
CMS Enterprises		
Executive Vice President, CFO, and Director	8/2002	Present
John M. Butler (age 52)		
CMS Energy		
Senior Vice President	7/2006	Present
Consumers		
Senior Vice President	7/2006	Present
CMS Enterprises		
Senior Vice President	9/2006	Present
Daniel J. Malone (age 56)		
CMS Energy		
Senior Vice President	3/2015	Present
Consumers		
Senior Vice President	5/2010	Present
David G. Mengebier (age 59)		
CMS Energy		
Senior Vice President	11/2006	Present
Chief Compliance Officer	11/2006	1/2016
Consumers		
Senior Vice President	11/2006	Present
Chief Compliance Officer	11/2006	1/2016
CMS Enterprises		
Senior Vice President	3/2003	Present

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Name, Age, Position(s)	Period	
Venkat Dhenuvakonda Rao (age 46)		
CMS Energy		
Senior Vice President	9/2016	Present
Vice President	7/2012	9/2016
Executive Director of Financial Planning and Forecasting	2/2009	7/2012
Consumers		
Senior Vice President	9/2016	Present
Vice President	7/2012	9/2016
Executive Director of Financial Planning and Forecasting	2/2009	7/2012
CMS Enterprises		
Senior Vice President	9/2016	Present
Vice President	7/2012	9/2016
Catherine M. Reynolds (age 59)		
CMS Energy		
Senior Vice President and General Counsel	10/2013	Present
Vice President, Deputy General Counsel, and Corporate Secretary	1/2012	10/2013
Vice President and Corporate Secretary	9/2006	1/2012
Consumers		
Senior Vice President and General Counsel	10/2013	Present
Vice President, Deputy General Counsel, and Corporate Secretary	1/2012	10/2013
Vice President and Corporate Secretary	9/2006	1/2012
CMS Enterprises		
Senior Vice President, General Counsel, and Director	1/2014	Present
Vice President and Secretary	9/2006	1/2014
Glenn P. Barba (age 51)		
CMS Energy		
Vice President, Controller, and CAO	2/2003	Present
Consumers		
Vice President, Controller, and CAO	1/2003	Present
CMS Enterprises		
Vice President, Controller, and CAO	11/2007	Present
Brian F. Rich (age 42)[1]		
CMS Energy		
Senior Vice President and Chief Information Officer	7/2016	Present
Vice President and Chief Information Officer	7/2014	7/2016
Consumers		
Senior Vice President and Chief Information Officer	7/2016	Present
Vice President and Chief Information Officer	7/2014	7/2016
Garrick J. Rochow (age 42)		
CMS Energy		
Senior Vice President	7/2016	Present
Vice President	3/2015	7/2016
Consumers		
Senior Vice President	7/2016	Present
Vice President	10/2010	7/2016

1 Prior to joining CMS Energy and Consumers, Mr. Rich was vice president of business technology for Pacific Gas and Electric Company, a non-affiliated company. Mr. Rich started with Pacific Gas and Electric Company in 2010.

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There are no family relationships among executive officers and directors of CMS Energy or Consumers. The term of office of each of the executive officers extends to the first meeting of the Board of Directors of CMS Energy and Consumers after the next annual election of Directors of CMS Energy and Consumers (to be held on May 5, 2017).

AVAILABLE INFORMATION

CMS Energy s internet address is www.cmsenergy.com. CMS Energy routinely posts important information on its website and considers the Investor Relations section, www.cmsenergy.com/investor-relations, a channel of distribution. Information contained on CMS Energy s website is not incorporated herein. CMS Energy s and Consumers annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and any amendments to those reports filed pursuant to Section 13(a) or 15(d) of the Exchange Act are accessible free of charge on CMS Energy s website. These reports are available soon after they are electronically filed with the SEC. Also on CMS Energy s website are:

- Corporate Governance Principles
- Articles of Incorporation
- Bylaws
- Charters and Codes of Conduct (including the Audit, Compensation and Human Resources, Finance, and Governance and Public Responsibility Committee Charters, as well as the Employee, Boards of Directors, EnerBank, and Third Party Codes of Conduct)

CMS Energy will provide this information in print to any stockholder who requests it.

Any materials CMS Energy files with the SEC may also be read and copied at the SEC s Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. Information on the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330. The SEC also maintains an internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. The address is www.sec.gov.

Item 1A. Risk Factors

Actual results in future periods for CMS Energy and Consumers could differ materially from historical results and the forward-looking statements contained in this report. Factors that might cause or contribute to these differences include those discussed in the following sections. CMS Energy s and Consumers businesses are influenced by many factors that are difficult to predict, that involve uncertainties that may materially affect results, and that are often beyond their control. Additional risks and uncertainties not presently known or that management believes to be immaterial may also adversely affect CMS Energy or Consumers. The risk factors described in the following sections, as well as the other information included in this report and in other documents filed with the SEC, should be considered carefully before making an investment in securities of CMS Energy or Consumers. Risk factors of Consumers are also risk factors of CMS Energy. All of these risk factors are potentially significant.

CMS Energy depends on dividends from its subsidiaries to meet its debt service obligations.

Due to its holding company structure, CMS Energy depends on dividends from its subsidiaries to meet its debt service and other payment obligations. If sufficient dividends were not paid to CMS Energy by its subsidiaries, CMS Energy might not be able to generate the funds necessary to fulfill its payment obligations, which could have a material adverse effect on CMS Energy s liquidity and financial condition.

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Consumers ability to pay dividends or acquire its own stock from CMS Energy is limited by restrictions contained in Consumers preferred stock provisions and potentially by other legal restrictions, such as certain terms in its articles of incorporation and FERC requirements.

CMS Energy has indebtedness that could limit its financial flexibility and its ability to meet its debt service obligations.

The level of CMS Energy s present and future indebtedness could have several important effects on its future operations, including, among others, that:

- a significant portion of CMS Energy s cash flow from operations could be dedicated to the payment of principal and interest on its indebtedness and would not be available for other purposes
- covenants contained in CMS Energy s existing debt arrangements, which require it to meet certain financial tests, could affect its flexibility in planning for, and reacting to, changes in its business
- CMS Energy s ability to obtain additional financing for working capital, capital expenditures, acquisitions, and general corporate and other purposes could become limited
- CMS Energy could be placed at a competitive disadvantage to its competitors that are less leveraged
- CMS Energy s vulnerability to adverse economic and industry conditions could increase
- CMS Energy s future credit ratings could fluctuate

CMS Energy s ability to meet its debt service obligations and to reduce its total indebtedness will depend on its future performance, which will be subject to general economic conditions, industry cycles, changes in laws or regulatory decisions, and financial, business, and other factors affecting its operations, many of which are beyond its control. CMS Energy cannot make assurances that its businesses will continue to generate sufficient cash flow from operations to service its indebtedness. If CMS Energy were unable to generate sufficient cash flows from operations, it could be required to sell assets or obtain additional financing.

CMS Energy and Consumers have financing needs and could be unable to obtain bank financing or access the capital markets.

CMS Energy and Consumers may be subject to liquidity demands under commercial commitments, guarantees, indemnities, letters of credit, and other contingent liabilities. Consumers capital requirements are expected to be substantial over the next several years as it invests in the Smart Energy program, construction or acquisition of power generation, environmental controls, decommissioning of older facilities, conversions and expansions, and other electric and gas infrastructure to upgrade delivery systems. Those requirements may increase if additional laws or regulations are adopted or implemented.

CMS Energy and Consumers rely on the capital markets, particularly for publicly offered debt, as well as on bank syndications, to meet their financial commitments and short-term liquidity needs if sufficient internal funds are not available from Consumers operations and, in the case of CMS Energy, from dividends paid by Consumers and its other subsidiaries. CMS Energy and Consumers also use letters of credit issued under certain of their revolving credit facilities to support certain operations and investments.

Disruptions in the capital and credit markets as a result of uncertainty, changing or increased regulation, reduced alternatives, or failures of significant financial institutions could adversely affect CMS Energy s and Consumers access to liquidity needed for their businesses. Consumers inability to obtain prior FERC authorization for any securities issuances, including publicly offered debt, as is required under the Federal Power Act, could adversely affect Consumers access to liquidity. Any liquidity disruption could require CMS Energy and Consumers to take measures to conserve cash. These measures could include,

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but are not limited to, deferring capital expenditures, changing CMS Energy s and Consumers commodity purchasing strategy to avoid collateral-posting requirements, and reducing or eliminating future share repurchases, dividend payments, or other discretionary uses of cash.

CMS Energy continues to explore financing opportunities to supplement its financial strategy. These potential opportunities include refinancing and/or issuing new debt, preferred stock and/or common equity, commercial paper, and bank financing. Similarly, Consumers may seek funds through the capital markets, commercial lenders, and leasing arrangements. Entering into new financings is subject in part to capital market receptivity to utility industry securities in general and to CMS Energy s and Consumers securities in particular. CMS Energy and Consumers cannot guarantee the capital markets acceptance of their securities or predict the impact of factors beyond their control, such as actions of rating agencies.

Certain of CMS Energy s and Consumers securities and those of their affiliates are rated by various credit rating agencies. Any reduction or withdrawal of one or more of its credit ratings could have a material adverse impact on CMS Energy s or Consumers ability to access capital on acceptable terms and maintain commodity lines of credit, could increase its cost of borrowing, and could cause CMS Energy or Consumers to reduce capital expenditures. If it were unable to maintain commodity lines of credit, CMS Energy or Consumers might have to post collateral or make prepayments to certain suppliers under existing contracts. Further, since Consumers provides dividends to CMS Energy, any adverse developments affecting Consumers that result in a lowering of its credit ratings could have an adverse effect on CMS Energy s credit ratings. CMS Energy and Consumers cannot guarantee that any of their present ratings will remain in effect for any given period of time or that a rating will not be lowered or withdrawn entirely by a rating agency.

If CMS Energy or Consumers were unable to obtain bank financing or access the capital markets to incur or refinance indebtedness, or were unable to obtain commercially reasonable terms for any financing, this could have a material adverse effect on its liquidity, financial condition, and results of operations.

There are risks associated with Consumers substantial capital investment program planned for the next five years.

Consumers planned investments include the Smart Energy program, construction or acquisition of power generation, gas and electric infrastructure, conversions and expansions, environmental controls, decommissioning of older facilities, and other electric and gas investments to upgrade delivery systems. The success of these capital investments depends on or could be affected by a variety of factors that include, but are not limited to:

- effective pre-acquisition evaluation of asset values, future operating costs, potential environmental and other liabilities, and other factors beyond Consumers control
- effective cost and schedule management of new capital projects
- availability of qualified construction personnel
- changes in commodity and other prices
- governmental approvals and permitting

- operational performance
- changes in environmental, legislative, and regulatory requirements
- regulatory cost recovery

It is possible that adverse events associated with these factors could have a material adverse effect on Consumers liquidity, financial condition, and results of operations.

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Changes to ROA could have a material adverse effect on CMS Energy s and Consumers businesses.

The 2016 Energy Law allows electric customers in Consumers service territory to buy electric generation service from alternative electric suppliers in an aggregate amount capped at ten percent, with certain exceptions, of Consumers weather-adjusted retail sales of the preceding calendar year. Lower natural gas prices due to a large supply of natural gas on the market, coupled with low capacity prices in the electric supply market, are placing increasing competitive pressure on the cost of Consumers electric supply. Presently, Consumers electric rates are above the Midwest average, while the ROA level on Consumers system is at the ten-percent limit and the proportion of Consumers electric deliveries under the ROA program and on the ROA waiting list is 24 percent. If the ROA limit were increased or if electric generation service in Michigan were deregulated, it could have a material adverse effect on Consumers financial results and operations.

CMS Energy and Consumers are subject to rate regulation, which could have an adverse effect on financial results.

CMS Energy and Consumers are subject to rate regulation. Consumers electric and gas retail rates are set by the MPSC and cannot be changed without regulatory authorization. Consumers is presently permitted to self-implement rate changes six months after a rate filing with the MPSC, although the MPSC may delay, deny, or limit self-implementation upon a showing of good cause. If Consumers self-implements rates that result in higher revenues than would have resulted from rates that the MPSC authorizes in its final order, Consumers must refund the difference, with interest. The 2016 Energy Law, which will become effective in April 2017, removes the right to self-implementation for rate cases filed after the effective date and sets a ten-month schedule for a final decision in a general rate case.

In addition, if rate regulators fail to provide timely rate relief, it could have a material adverse effect on Consumers or Consumers plans for making significant capital investments could be materially adversely affected. Regulators seeking to avoid or minimize rate increases could resist raising customer rates sufficiently to permit Consumers to recover the full cost of these investments. In addition, because there are statutory requirements mandating that regulators allow Consumers to recover from customers certain costs, such as resource additions to meet Michigan s renewable resource standard, energy optimization, and environmental compliance, regulators could be more inclined to oppose rate increases for other requested items and investments. Rate regulators could also face pressure to avoid or limit rate increases for a number of reasons, including an economic downturn in the state or diminishment of Consumers customer base. In addition to its potential effects on Consumers investment program, any limitation of cost recovery through rates could have a material adverse effect on Consumers liquidity, financial condition, and results of operations.

Orders of the MPSC could limit recovery of costs of providing service including, but not limited to, environmental and safety related expenditures for coal-fueled plants and other utility properties, regulatory assets, power supply and natural gas supply costs, operating and maintenance expenses, additional utility-based investments, sunk investment in mothballed or retired generating plants, costs associated with the proposed retirement and decommissioning of facilities, depreciation expense, MISO energy and transmission costs, costs associated with energy waste reduction investments and state or federally mandated renewable resource standards, Smart Energy program costs, or expenditures subject to tracking mechanisms. These orders could also result in adverse regulatory treatment of other matters. For example, MPSC orders could prevent or curtail Consumers from shutting off non-paying customers, could prevent or curtail Consumers from self-implementing rate changes, could prevent or curtail the implementation of a gas revenue mechanism, or could require Consumers to refund previously self-implemented rates.

FERC authorizes certain subsidiaries of CMS Energy to sell electricity at market-based rates. Failure of these subsidiaries to maintain this FERC authority could have a material adverse effect on CMS Energy s

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and Consumers liquidity, financial condition, and results of operations. Transmission rates are also set by FERC. FERC orders related to transmission costs could have a material adverse effect on Consumers liquidity, financial condition, and results of operations.

The various risks associated with the MPSC and FERC regulation of CMS Energy s and Consumers businesses, which include the risk of adverse decisions in any number of rate or regulatory proceedings before either agency, as well as judicial proceedings challenging any agency decisions, could have a material adverse effect on CMS Energy s and Consumers liquidity, financial condition, investment plans, and results of operations.

Utility regulation, state or federal legislation, and compliance could have a material adverse effect on CMS Energy s and Consumers businesses.

CMS Energy and Consumers are subject to, or affected by, extensive utility regulation and state and federal legislation. CMS Energy and Consumers believe that they comply with applicable laws and regulations. If it were determined that they failed to comply, CMS Energy or Consumers could become subject to fines, penalties, or disallowed costs, or be required to implement additional compliance, cleanup, or remediation programs, the cost of which could be material. Adoption of new laws, rules, regulations, principles, or practices by federal or state agencies, or challenges or changes to present laws, rules, regulations, principles, or practices and the interpretation of any adoption or change, could have a material adverse effect on CMS Energy s and Consumers liquidity, financial condition, and results of operations. Furthermore, any state or federal legislation concerning CMS Energy s or Consumers operations could have a similar effect.

Utility regulation could be impacted by various matters, such as electric industry restructuring, hydro relicensing, asset reclassification, gas pipeline capacity and gas storage, new generation facilities or investments, environmental controls, climate change, air emissions, renewable energy, energy policy and ROA, regulation or deregulation, energy capacity standards or markets, reliability, and safety. CMS Energy and Consumers cannot predict the impact of these matters on their liquidity, financial condition, and results of operations.

FERC, through NERC, oversees reliability of certain portions of the electric facilities owned by CMS Energy and Consumers. FERC orders regarding electric system reliability could have a material adverse effect on CMS Energy s or Consumers liquidity, financial condition, and results of operations.

CMS Energy and Consumers could incur substantial costs to comply with environmental requirements.

CMS Energy and Consumers are subject to costly and stringent environmental regulations that will likely require additional significant capital expenditures for emissions control equipment, CCR disposal and storage, cooling water intake equipment, effluent treatment, and PCB remediation. Present and reasonably anticipated state and federal environmental statutes and regulations, including but not limited to the Clean Air Act, the Clean Water Act, RCRA, and CERCLA, will continue to have a material effect on CMS Energy and Consumers.

CMS Energy and Consumers have interests in fossil-fuel-fired power plants and other types of power plants that produce greenhouse gases. Federal and state environmental laws and rules, as well as international accords and treaties, could require CMS Energy and Consumers to install additional equipment for emission controls, purchase carbon emissions allowances, curtail operations, invest in generating capacity with fewer carbon dioxide emissions, or take other significant steps to manage or lower the emission of greenhouse gases. In October 2015, the EPA published 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, which are being challenged in court, require a

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32 percent nationwide reduction in carbon emissions from existing power plants by 2030 (based on 2005 levels). The Trump administration has also indicated that it intends to re-examine the Clean Power Plan.

The following risks related to climate change, emissions, and environmental regulations could also have a material adverse impact on CMS Energy s and Consumers liquidity, financial condition, and results of operations:

- litigation originated by third parties against CMS Energy or Consumers due to CMS Energy s or Consumers greenhouse gas or other emissions or CCR disposal and storage
- impairment of CMS Energy s or Consumers reputation due to their greenhouse gas or other emissions and public perception of their response to potential environmental regulations, rules, and legislation
- extreme weather conditions, such as severe storms, that may affect customer demand, company operations, or assets

Consumers retired seven smaller coal-fueled electric generating units in 2016. Consumers may encounter previously unknown environmental conditions that will need to be addressed in a timely fashion with state and federal environmental regulators as facilities and equipment on these sites are taken out of service.

Consumers expects to collect fully from its customers, through the ratemaking process, expenditures incurred to comply with environmental regulations, but cannot guarantee this outcome. If Consumers were unable to recover these expenditures from customers in rates, it could negatively affect CMS Energy s and/or Consumers liquidity, results of operations, and financial condition and CMS Energy and/or Consumers could be required to seek significant additional financing to fund these expenditures.

For additional information regarding compliance with environmental regulations, see Item 1. Business CMS Energy and Consumers Environmental Compliance and Item 8. Financial Statements and Supplementary Data MD&A Outlook Consumers Electric Utility Outlook and Uncertainties.

CMS Energy s and Consumers businesses could be affected adversely by any delay in meeting environmental requirements.

A delay or failure by CMS Energy or Consumers to obtain or maintain any necessary environmental permits or approvals to satisfy any applicable environmental regulatory requirements or install emission control equipment could:

- prevent the construction of new facilities
- prevent the continued operation and sale of energy from existing facilities

- prevent the suspension of operations at existing facilities
- prevent the modification of existing facilities
- result in significant additional costs that could have a material adverse effect on their liquidity, financial condition, and results of operations

CMS Energy and Consumers expect to incur additional substantial costs related to remediation of legacy environmental sites.

Consumers expects to incur additional substantial costs related to the remediation of its former MGP sites. Based upon prior MPSC orders, Consumers expects to be able to recover the costs of these cleanup activities through its gas rates, but cannot guarantee that outcome.

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Consumers also expects to incur remediation and other response activity costs at a number of other sites under NREPA and CERCLA. Consumers believes these costs should be recoverable in rates, but cannot guarantee that outcome.

In addition, certain CMS Energy subsidiaries retained environmental remediation obligations for the collection, treatment, and discharge of leachate at Bay Harbor after selling their interests in the development in 2002. Leachate is produced when water enters into cement kiln dust piles left over from former cement plant operations at the site. Certain CMS Energy subsidiaries have signed agreements with the EPA and the MDEQ relating to Bay Harbor. If these CMS Energy subsidiaries were unable to meet their commitments under these agreements, or if unanticipated events occurred, these CMS Energy subsidiaries could incur additional material costs relating to their Bay Harbor remediation obligations.

CMS Energy and Consumers could be affected adversely by legacy litigation and retained liabilities.

CMS Energy, CMS MST, CMS Field Services, Cantera Natural Gas, Inc., and Cantera Gas Company were named as defendants in various lawsuits arising as a result of alleged inaccurate natural gas price reporting. Allegations include price-fixing conspiracies, restraint of trade, and artificial inflation of natural gas retail prices in Kansas, Missouri, and Wisconsin. CMS Energy cannot predict the outcome of the lawsuits or the amount of damages for which CMS Energy may be liable. It is possible that the outcome in one or more of the lawsuits could have a material adverse effect on CMS Energy s liquidity, financial condition, and results of operations.

The agreements that CMS Energy and Consumers enter into for the sale of assets customarily include provisions whereby they are required to:

- retain specified preexisting liabilities, such as for taxes, pensions, or environmental conditions
- indemnify the buyers against specified risks, including the inaccuracy of representations and warranties that CMS Energy and Consumers make
- make payments to the buyers depending on the outcome of post-closing adjustments, litigation, audits, or other reviews, including claims resulting from attempts by foreign or domestic governments to assess taxes on past operations or transactions

Many of these contingent liabilities can remain open for extended periods of time after the sales are closed. Depending on the extent to which the buyers might ultimately seek to enforce their rights under these contractual provisions, and the resolution of any disputes concerning them, there could be a material adverse effect on CMS Energy s or Consumers liquidity, financial condition, and results of operations.

In 2002, CMS Energy sold its oil, gas, and methanol investments in Equatorial Guinea. The government of Equatorial Guinea claims that CMS Energy owes $152 million in taxes, plus significant penalties and interest, in connection with the sale. The matter is proceeding to formal arbitration. CMS Energy is contesting the claim, but cannot predict the financial impact or outcome of the matter. An unfavorable outcome could have a material adverse effect on CMS Energy s liquidity, financial condition, and results of operations.

CMS Energy s and Consumers energy sales and operations are affected by seasonal factors and varying weather conditions from year to year.

CMS Energy s and Consumers utility operations are seasonal. The consumption of electric energy typically increases in the summer months, due primarily to the use of air conditioners and other cooling equipment, while peak demand for natural gas occurs in the winter due to colder temperatures and the resulting use of natural gas as heating fuel. In addition, Consumers electric rates, which follow a seasonal rate design, are higher in the summer months than in the remaining months of the year. Accordingly, CMS Energy s and Consumers overall results may fluctuate substantially on a seasonal basis. Mild

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temperatures during the summer cooling season and winter heating season as well as the impact of extreme weather events on Consumers system could have a material adverse effect on CMS Energy s and Consumers liquidity, financial condition, and results of operations.

Consumers is exposed to risks related to general economic conditions in its service territories.

Consumers electric and gas utility businesses are affected by the economic conditions impacting the customers they serve. If the Michigan economy becomes sluggish or declines, Consumers could experience reduced demand for electricity or natural gas that could result in decreased earnings and cash flow. In addition, economic conditions in Consumers service territory affect its collections of accounts receivable and levels of lost or stolen gas, which in turn impact its liquidity, financial condition, and results of operations.

CMS Energy and Consumers are subject to information security risks, risks of unauthorized access to their systems, and technology failures.

In the regular course of business, CMS Energy and Consumers handle a range of sensitive security and customer information. CMS Energy and Consumers are subject to laws and rules issued by various agencies concerning safeguarding and maintaining the confidentiality of this information. A security breach of CMS Energy s and Consumers information or control systems could involve theft or the inappropriate release of certain types of information, such as confidential customer information or, separately, system operating information. These events could disrupt operations, subject CMS Energy and Consumers to possible financial liability, damage their reputation and diminish the confidence of customers, and have a material adverse effect on CMS Energy s and Consumers liquidity, financial conditions, and results of operations.

CMS Energy and Consumers operate in a highly regulated industry that requires the continued operation of sophisticated information and control technology systems and network infrastructure. Despite implementation of security measures, technology systems are vulnerable to being disabled, failures, cyber crime, and unauthorized access. These events could impact the reliability of electric generation and electric and gas delivery and also subject CMS Energy and Consumers to financial harm. Cyber crime, which includes the use of malware, computer viruses, and other means for disruption or unauthorized access against companies, including CMS Energy and Consumers, has increased in frequency, scope, and potential impact in recent years. While CMS Energy and Consumers have not been subject to cyber crime incidents that have had a material impact on their operations to date, their security measures in place may be insufficient to prevent a major cyber incident in the future. If technology systems were to fail or be breached, CMS Energy and Consumers might not be able to fulfill critical business functions, and sensitive confidential and proprietary data could be compromised, which could have a material adverse effect on CMS Energy s and Consumers liquidity, financial condition, and results of operations. In addition, because CMS Energy s and Consumers generation, transmission, and distribution systems are part of an interconnected system, a disruption caused by a cyber incident at another utility, electric generator, system operator, or commodity supplier could also adversely affect CMS Energy s or Consumers businesses, financial condition, and results of operations.

A variety of technological tools and systems, including both company-owned information technology and technological services provided by outside parties, support critical functions. The failure of these technologies, or the inability of CMS Energy and Consumers to have these technologies supported, updated, expanded, or integrated into other technologies, could hinder their business operations and materially adversely affect their liquidity, financial condition, and results of operations.

CMS Energy s and Consumers businesses have liability risks.

Consumers electric and gas delivery systems, power plants, gas infrastructure including storage facilities, wind energy or solar equipment, energy products, and the independent power plants owned in whole or in

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part by CMS Energy could be involved in incidents, failures, or accidents that result in injury, loss of life, or property loss to customers, employees, or the public. Although CMS Energy and Consumers have insurance coverage for many potential incidents (subject to deductibles and self-insurance amounts that could be material), depending upon the nature or severity of any incident, failure, or accident, CMS Energy or Consumers could suffer financial loss, reputational damage, and negative repercussions from regulatory agencies or other public authorities.

CMS Energy s and Consumers revenues and results of operations are subject to risks that are beyond their control, including but not limited to natural disasters, terrorist attacks and related acts of war, cyber incidents, vandalism, and other catastrophic events.

The impact of natural disasters, severe weather, wars, terrorist acts, vandalism, cyber incidents, pandemics, and other catastrophic events on the facilities and operations of CMS Energy and Consumers could have a material adverse effect on CMS Energy s and Consumers liquidity, financial condition, and results of operations. These events could result in severe damage to CMS Energy s and Consumers assets beyond what could be recovered through insurance policies, could require CMS Energy and Consumers to incur significant upfront costs, and could severely disrupt operations, resulting in loss of service to customers. There is also a risk that regulators could, after the fact, conclude that Consumers preparedness or response to such an event was inadequate and take adverse actions as a result.

CMS Energy and Consumers are exposed to significant reputational risks.

CMS Energy and Consumers could suffer negative impacts to their reputations as a result of operational incidents, violations of corporate policies, regulatory violations, inappropriate use of social media, or other events. Reputational damage could have a material adverse effect on CMS Energy s and Consumers liquidity, financial condition, and results of operations. It could also result in negative customer perception and increased regulatory oversight.

Consumers is exposed to changes in customer usage that could impact financial results.

Distributed electricity generation: Technology advances and government incentives and subsidies could increase the cost effectiveness of customer-owned methods of producing electricity, such as fuel cells, microturbines, wind turbines, and solar photovoltaics, resulting in reduced load, cross subsidization, and increased costs. This could have a material adverse effect on CMS Energy s and Consumers liquidity, financial condition, and results of operations.

Energy waste reduction: Customers could reduce their consumption through demand-side energy conservation and energy waste reduction programs. These reductions could have a material adverse effect on CMS Energy s and Consumers liquidity, financial condition, and results of operations.

Energy risk management strategies might not be effective in managing fuel and electricity pricing risks, which could result in unanticipated liabilities to CMS Energy and Consumers or increased volatility in their earnings.

Consumers is exposed to changes in market prices for natural gas, coal, electric capacity, electric energy, emission allowances, gasoline, diesel fuel, and RECs. Prices for these commodities may fluctuate substantially over relatively short periods of time and expose Consumers to price risk. A substantial portion of Consumers operating expenses for its electric generating plants and vehicle fleet consists of the costs of obtaining these commodities. The contracts associated with Consumers fuel and purchased power costs are executed in conjunction with the PSCR mechanism, which is designed to allow Consumers to recover prudently incurred costs associated with those positions. If the MPSC determined that any of these contracts or related contracting policies were imprudent, recovery of these costs could be disallowed. Consumers manages commodity price risk using established policies and procedures, and it may use various contracts to manage this risk, including swaps, options, futures, and forward contracts.

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No assurance can be made that these strategies will be successful in managing Consumers pricing risk or that they will not result in net liabilities to Consumers as a result of future volatility in these markets.

Natural gas prices in particular have been historically volatile. Consumers routinely enters into contracts to mitigate exposure to the risks of demand, market effects of weather, and changes in commodity prices associated with its gas distribution business. These contracts are executed in conjunction with the GCR mechanism, which is designed to allow Consumers to recover prudently incurred costs associated with those positions. If the MPSC determined that any of these contracts or related contracting policies were imprudent, recovery of these costs could be disallowed. Consumers does not always hedge the entire exposure of its operations from commodity price volatility. Furthermore, the ability to hedge exposure to commodity price volatility depends on liquid commodity markets. As a result, to the extent the commodity markets are illiquid, Consumers might not be able to execute its risk management strategies, which could result in larger unhedged positions than preferred at a given time. To the extent that unhedged positions exist, fluctuating commodity prices could have a negative effect on CMS Energy s and Consumers liquidity, financial condition, and results of operations. Changes in laws that limit Consumers ability to hedge could also have a negative effect on CMS Energy s and Consumers liquidity, financial condition, and results of operations.

CMS Energy and Consumers are exposed to counterparty risk.

Adverse economic conditions or financial difficulties experienced by counterparties with whom CMS Energy and Consumers do business could impair the ability of these counterparties to pay for CMS Energy s and Consumers services and/or fulfill their contractual obligations, including performance and payment of damages. CMS Energy and Consumers depend on these counterparties to remit payments and perform contracted services in a timely fashion. Any delay or default in payment or performance of contractual obligations could have a material adverse effect on CMS Energy s and Consumers liquidity, financial condition, and results of operations.

Volatility and disruptions in capital and credit markets could have a negative impact on CMS Energy s and Consumers lenders, vendors, contractors, suppliers, customers, and other counterparties, causing them to fail to meet their obligations. Adverse economic conditions could also have a negative impact on the loan portfolio of CMS Energy s banking subsidiary, EnerBank.

Consumers might not be able to obtain an adequate supply of natural gas or coal, which could limit its ability to operate its electric generation facilities or serve its natural gas customers.

Consumers has natural gas and coal supply and transportation contracts in place for the natural gas and coal it requires for its electric generating capacity. Consumers also has interstate transportation and supply agreements in place to facilitate delivery of natural gas to its customers. Apart from the contractual and monetary remedies available to Consumers in the event of a counterparty s failure to perform under any of these contracts, there can be no assurances that the counterparties to these contracts will fulfill their obligations to provide natural gas or coal to Consumers. The counterparties under the agreements could experience financial or operational problems that inhibit their ability to fulfill their obligations to Consumers. In addition, counterparties under these contracts might not be required to supply natural gas or coal to Consumers under certain circumstances, such as in the event of a natural disaster or severe weather.

If, for its electric generating capacity, Consumers were unable to obtain its natural gas or coal requirements under existing or future natural gas and coal supply and transportation contracts, or to obtain resources under existing or future PPAs, it could be required to purchase natural gas or coal at higher prices or forced to purchase electricity from higher-cost generating resources in the MISO energy market. If, for natural gas delivery to its customers, Consumers were unable to obtain its natural gas supply requirements under existing or future natural gas supply and transportation contracts, it could be required to purchase natural gas at higher prices from other sources or implement its natural gas curtailment

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program filed with the MPSC. These alternatives could increase Consumers working capital requirements and could decrease its revenues.

Market performance and other changes could decrease the value of employee benefit plan assets, which then could require substantial funding.

The performance of the capital markets affects the values of assets that are held in trust to satisfy future obligations under CMS Energy s and Consumers pension and postretirement benefit plans. CMS Energy and Consumers have significant obligations under these plans and hold significant assets in these trusts. These assets are subject to market fluctuations and will yield uncertain returns, which could fall below CMS Energy s and Consumers forecasted return rates. A decline in the market value of the assets or a change in the level of interest rates used to measure the required minimum funding levels could significantly increase the funding requirements of these obligations. Also, changes in demographics, including an increased number of retirements or changes in life expectancy assumptions, could significantly increase the funding requirements of the obligations related to the pension and postretirement benefit plans. If CMS Energy and Consumers were unable to manage their pension and postretirement plan assets successfully, it could have a material adverse effect on their liquidity, financial condition, and results of operations.

A work interruption or other union actions could adversely affect Consumers.

Over 40 percent of Consumers employees are represented by unions. In 2015, both of Consumers unions, representing all union employees, ratified three separate five-year agreements, expiring in 2020. If these employees were to engage in a strike, work stoppage, or other slowdown, Consumers could experience a significant disruption in its operations and higher ongoing labor costs.

Failure to attract and retain an appropriately qualified workforce could adversely impact CMS Energy s and Consumers results of operations.

The workforce of CMS Energy and Consumers is aging and a number of employees will become eligible to retire within the next few years. If CMS Energy and Consumers were unable to match skill sets to future needs, they could encounter operating challenges and increased costs. These challenges could include a lack of resources, loss of knowledge, and delays in skill development. Additionally, higher costs could result from the use of contractors to replace employees, loss of productivity, and safety incidents. Failing to train replacement employees adequately and to transfer internal knowledge and expertise could adversely affect CMS Energy s and Consumers ability to manage and operate their businesses. If CMS Energy and Consumers were unable to attract and retain an appropriately qualified workforce, their financial condition and results of operations could be affected negatively.

Unplanned power plant outages could be costly for Consumers.

Unforeseen maintenance of Consumers power plants may be required for many reasons, including catastrophic events such as fires, explosions, extreme weather, floods or other acts of God, failures of equipment or materials, operator error, or the need to comply with environmental or safety regulations. When unplanned maintenance work is required on power plants or other equipment, Consumers will not only incur unexpected maintenance expenses, but it may also have to make spot market purchases of replacement electricity that exceed Consumers costs of generation or be forced to retire a given unit if the cost or timing of the maintenance is not reasonable and prudent. Additionally, unplanned maintenance work could reduce the capacity credit Consumers receives from MISO and could cause Consumers to incur additional capacity costs in future years. If Consumers were unable to recover any of these increased costs in rates, it could have a material adverse effect on Consumers liquidity, financial condition, and results of operations.

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Changes in taxation, including potential federal tax reform, as well as the inherent difficulty in quantifying potential tax effects of business decisions could negatively impact CMS Energy and Consumers.

CMS Energy and Consumers are required to make judgments regarding the potential tax effects of various financial transactions and results of operations in order to estimate their obligations to taxing authorities. The tax obligations include income, real estate, sales and use taxes, employment-related taxes, and ongoing issues related to these tax matters. The judgments include determining reserves for potential adverse outcomes regarding tax positions that have been taken and may be subject to challenge by the IRS and/or other taxing authorities. Unfavorable settlements of any of the issues related to these reserves or other tax matters at CMS Energy or Consumers could have a material adverse effect on their liquidity, financial condition, and results of operations.

CMS Energy and Consumers are subject to changing tax laws. Changes in federal, state, or local tax rates or other changes in tax laws could have adverse impacts on their liquidity, financial condition, and results of operations.

CMS Energy and its subsidiaries, including Consumers and EnerBank, must comply with the Dodd-Frank Act and its related regulations, which are subject to change and could involve material costs or affect operations.

Regulations that are intended to implement the Dodd-Frank Act have been and are still being adopted by the appropriate agencies. The Dodd-Frank Act added a new Section 13 to the Bank Holding Company Act. Known as the Volcker Rule, it generally restricts certain banking entities (such as EnerBank) and their subsidiaries or affiliates from engaging in proprietary trading activities and from owning equity in or sponsoring any private equity or hedge fund. Under the statute, the activities of CMS Energy and its subsidiaries (including EnerBank) are not expected to be materially affected; however, they will be restricted from engaging in proprietary trading, investing in third-party hedge or private equity funds, and sponsoring these funds in the future unless CMS Energy qualifies for an exemption from the rule. CMS Energy and its subsidiaries are also subject to certain ongoing compliance requirements pursuant to the regulations. CMS Energy cannot predict the full impact of the Volcker Rule on CMS Energy s or EnerBank s operations or financial condition.

Effective July 2011, all companies that directly or indirectly control an FDIC-insured bank are required to serve as a source of financial strength for that institution. As a result, CMS Energy could be called upon by the FDIC to infuse additional capital into EnerBank to the extent that EnerBank fails to satisfy its capital requirements. In addition, CMS Energy is contractually required (i) to make cash capital contributions to EnerBank in the event that EnerBank does not maintain required minimum capital ratios and (ii) to provide EnerBank financial support, in an amount and duration as may be necessary for EnerBank to meet the cash needs of its depositors and other operations. EnerBank has exceeded these requirements historically and exceeds them as of February 2017.

In addition, the Dodd-Frank Act provides for regulation by the Commodity Futures Trading Commission of certain commodity-related contracts. Although CMS Energy, Consumers, and CMS ERM qualify for an end-user exception from mandatory clearing of commodity-related swaps, these regulations could affect the ability of these entities to participate in these markets and could add additional regulatory oversight over their contracting activities.

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Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Descriptions of CMS Energy s and Consumers properties are found in the following sections of Item 1. Business, all of which are incorporated by reference in this Item 2:

- General CMS Energy
- General Consumers
- Business Segments Consumers Electric Utility Electric Utility Properties
- Business Segments Consumers Gas Utility Gas Utility Properties
- Business Segments Enterprises Segment Non-Utility Operations and Investments Independent Power Production

Item 3. Legal Proceedings

For information regarding CMS Energy s and Consumers significant pending administrative and judicial proceedings involving regulatory, operating, transactional, environmental, and other matters, see Item 8. Financial Statements and Supplementary Data Notes to the Consolidated Financial Statements Note 3, Regulatory Matters and Note 4, Contingencies and Commitments.

CMS Energy, Consumers, and certain of their affiliates are also parties to routine lawsuits and administrative proceedings incidental to their businesses involving, for example, claims for personal injury and property damage, contractual matters, various taxes, and rates and licensing.

Item 4. Mine Safety Disclosures

Not applicable.

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Part II

Item 5. Market For Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

CMS ENERGY

CMS Energy s common stock is traded on the New York Stock Exchange. Market prices for CMS Energy s common stock and related security holder matters are contained in Item 8. Financial Statements and Supplementary Data MD&A and Notes to the Consolidated Financial Statements Note 21, Quarterly Financial and Common Stock Information (Unaudited), which are incorporated by reference herein. At January 10, 2017, the number of registered holders of CMS Energy s common stock totaled 32,056, based on the number of record holders. Presented in the following table are CMS Energy s dividends on its common stock:

				Per Share
Period	February	May	August	November
2016	$ 0.31	$ 0.31	$ 0.31	$ 0.31
2015	0.29	0.29	0.29	0.29

For additional information regarding securities authorized for issuance under equity compensation plans, see Item 8. Financial Statements and Supplementary Data Notes to the Consolidated Financial Statements Note 13, Stock-Based Compensation and Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters. For additional information regarding dividends and dividend restrictions, see Item 8. Financial Statements and Supplementary Data Notes to the Consolidated Financial Statements Note 5, Financings and Capitalization.

CONSUMERS

Consumers common stock is privately held by its parent, CMS Energy, and does not trade in the public market. Presented in the following table are Consumers cash dividends on its common stock:

				In Millions
Period	February	May	August	November
2016	$ 155	$ 58	$ 148	$ 138
2015	122	132	105	115

For additional information regarding dividends and dividend restrictions, see Item 8. Financial Statements and Supplementary Data Notes to the Consolidated Financial Statements Note 5, Financings and Capitalization.

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ISSUER REPURCHASES OF EQUITY SECURITIES

Presented in the following table are CMS Energy s repurchases of equity securities for the three months ended December 31, 2016:

Period	Total Number of Shares Purchased1		Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares That May Yet Be Purchased Under Publicly Announced Plans or Programs
October 1, 2016 to October 31, 2016	395	$	42.01	-	-
November 1, 2016 to November 30, 2016	-		-	-	-
December 1, 2016 to December 31, 2016	-		-	-	-
Total	395	$	42.01	-	-

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

UNREGISTERED SALES OF EQUITY SECURITIES

None.

Item 6. Selected Financial Data

Selected financial information for CMS Energy and Consumers is contained in Item 8. Financial Statements and Supplementary Data Selected Financial Information, which is incorporated by reference herein.

Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations

Management s discussion and analysis of financial condition and results of operations for CMS Energy and Consumers is contained in Item 8. Financial Statements and Supplementary Data MD&A, which is incorporated by reference herein.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Quantitative and qualitative disclosures about market risk for CMS Energy and Consumers are contained in Item 8. Financial Statements and Supplementary Data MD&A Critical Accounting Policies and Estimates Market Risk Information, which is incorporated by reference herein.

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Item 8. Financial Statements and Supplementary Data

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CMS Energy Corporation

Selected Financial Information

			2016	2015	2014	2013	2012
Operating revenue (in millions)		($)	6,399	6,456	7,179	6,566	6,253
Income from equity method investees (in millions)		($)	13	14	15	13	17
Income from continuing operations (in millions)1		($)	553	525	479	454	377
Income from discontinued operations (in millions)		($)	-	-	-	-	7
Net income available to common stockholders (in millions)		($)	551	523	477	452	382
Average common shares outstanding (in thousands)			277,851	275,600	270,580	264,511	260,678
Earnings from continuing operations per average common share							
CMS Energy	Basic	($)	1.99	1.90	1.76	1.71	1.43
	Diluted	($)	1.98	1.89	1.74	1.66	1.39
Earnings per average common share							
CMS Energy	Basic	($)	1.99	1.90	1.76	1.71	1.46
	Diluted	($)	1.98	1.89	1.74	1.66	1.42
Cash provided by operations (in millions)2		($)	1,629	1,640	1,481	1,448	1,257
Capital expenditures, excluding assets placed under capital lease (in millions)		($)	1,672	1,564	1,577	1,325	1,227
Total assets (in millions)2		($)	21,622	20,299	19,143	17,249	17,092
Long-term debt, excluding current portion (in millions)2		($)	8,640	8,400	7,974	7,060	6,671
Non-current portion of capital leases and financing obligation (in millions)		($)	110	118	123	138	153
Cash dividends declared per common share		($)	1.24	1.16	1.08	1.02	0.96
Market price of common stock at year-end		($)	41.62	36.08	34.75	26.77	24.38

Book value per common share at year-end	($)	15.23	14.21	13.33	12.98	12.09
Total employees at year-end		7,800	7,804	7,747	7,781	7,541
Electric Utility Statistics						
Sales (billions of kWh)		38	37	38	37	38
Customers (in thousands)		1,805	1,803	1,793	1,793	1,786
Average sales rate per kWh	(¢)	11.63	11.39	12.04	11.52	10.94
Gas Utility Statistics						
Sales and transportation deliveries (bcf)		358	356	373	352	329
Customers (in thousands)[3]		1,772	1,741	1,733	1,724	1,715
Average sales rate per mcf	($)	7.31	7.89	8.83	8.51	9.55

1 Includes income attributable to noncontrolling interests of $2 million in each period.

2 Prior period amounts have been adjusted as required to reflect the implementation of ASU 2015-03, *Simplifying the Presentation of Debt Issuance Costs*, and ASU 2016-15, *Classification of Certain Cash Receipts and Cash Payments*. For further details on the adoption of these standards, see Note 2, New Accounting Standards.

3 Excludes off-system transportation customers.

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Consumers Energy Company

Selected Financial Information

		2016	2015	2014	2013	2012
Operating revenue (in millions)	($)	6,064	6,165	6,800	6,321	6,013
Net income (in millions)	($)	616	594	567	534	439
Net income available to common stockholder (in millions)	($)	614	592	565	532	437
Cash provided by operations (in millions)[1]	($)	1,681	1,794	1,354	1,375	1,369
Capital expenditures, excluding assets placed under capital lease (in millions)	($)	1,656	1,537	1,573	1,320	1,222
Total assets (in millions)[1]	($)	19,946	18,635	17,824	16,157	16,257
Long-term debt, excluding current portion (in millions)[1]	($)	5,253	5,183	5,131	4,557	4,279
Non-current portion of capital leases and financing obligation (in millions)	($)	110	118	123	138	153
Total preferred stock (in millions)	($)	37	37	37	37	44
Number of preferred stockholders at year-end		1,095	1,156	1,191	1,248	1,378
Total employees at year-end		7,366	7,394	7,388	7,435	7,221
Electric Utility Statistics						
Sales (billions of kWh)		38	37	38	37	38
Customers (in thousands)		1,805	1,803	1,793	1,793	1,786
Average sales rate per kWh	(¢)	11.63	11.39	12.04	11.52	10.94
Gas Utility Statistics						
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2 Excludes off-system transportation customers.

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CMS Energy Corporation

Consumers Energy Company

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

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

EXECUTIVE OVERVIEW

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

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

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

- regulation and regulatory matters
- economic conditions
- weather

- energy commodity prices
- interest rates
- their securities credit ratings

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

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CMS Energy and Consumers are committed to sustainable business practices and to pursuing the goals of safe and excellent operations, a strong ethical culture, environmental quality, and social responsibility. Consumers 2016 Sustainability Report, which is available to the public, provides an overview of Consumers efforts to continue meeting Michigan s energy needs safely, efficiently, affordably, and reliably. The report also highlights Consumers commitment to Michigan businesses, its corporate citizenship, and its role in reducing the state s air emissions. In a 2016 report published by Sustainalytics, a global leader in sustainability research and analysis, CMS Energy scored the highest among 54 U.S. utilities in environmental, social, and governance performance.

Safe, Excellent Operations

The safety of employees, customers, and the general public remains a priority of CMS Energy and Consumers. Accordingly, CMS Energy and Consumers have worked to integrate a set of safety principles into their business operations and culture. These principles include complying with applicable safety, health, and security regulations and implementing programs and processes aimed at continually improving safety and security conditions. In 2016, Consumers reduced recordable safety incidents by 31 percent compared with 2015. The number of recordable safety incidents in 2016 was the lowest in Consumers history.

Customer Value

Consumers places a high priority on customer value. Consumers capital investment program is aimed at improving safety and increasing electric and gas reliability, which has resulted in measureable improvements in customer satisfaction.

Additionally, Consumers has undertaken several initiatives to keep electricity and natural gas affordable for its customers. These initiatives include the adoption of a lean operations model that is focused on completing work safely and correctly the first time, thus minimizing rework and waste, while delivering services on time. Other cost-saving initiatives undertaken by Consumers include accelerated pension funding, employee and retiree health care cost sharing, replacement of coal-fueled generation with more efficient gas-fueled generation, targeted infrastructure investment, including the installation of smart meters, negotiated labor agreements, information and control system efficiencies, and productivity improvements. In addition, Consumers gas commodity costs declined by 68 percent from 2006 through 2016, 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 savings are all passed on to customers.

In December 2016, Consumers and Entergy reached an agreement to terminate their PPA in May 2018, four years ahead of schedule. Under the PPA, Consumers purchases virtually all of the capacity and energy produced by Palisades, up to the annual average capacity of 798 MW. The prices that Consumers pays under the PPA, and which it recovers from its electric customers, are presently higher than the cost to purchase electricity from the market. The early termination of the PPA is expected to result in an estimated $344 million of savings to be shared equally between Consumers electric customers and Entergy. Under the agreement, Consumers will make a termination payment of $172 million to Entergy, with the remaining $172 million in estimated savings expected to lower the future energy and capacity costs of Consumers electric customers. Actual savings will depend on market conditions. The agreement is contingent on the MPSC s approval of Consumers recovery in electric rates of the termination payment. The MPSC has indicated that it will make a final determination on this recovery by September 2017, after full evaluation of the prudency of the termination payment and of how the termination will impact Michigan s electric reliability and resource adequacy.

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Utility Investment

Consumers expects to make capital investments of $18 billion from 2017 through 2026. While Consumers has substantially more investment opportunities that would add customer value, Consumers has limited its capital investment program to those investments it believes are needed to provide safe, reliable, and efficient service to its customers. Consumers capital investment program is expected to result in annual rate-base growth of six to eight percent beginning in 2017. This rate-base growth, together with Consumers cost-control initiatives, should allow Consumers to maintain sustainable customer base rate increases (excluding PSCR and GCR charges) at or below the rate of inflation.

Presented in the following illustration are planned capital investments of $9.0 billion that Consumers expects to make from 2017 through 2021:

Electric base ($2.6 billion)

Gas base ($2.0 billion)

Gas reliability enhancements ($1.8 billion)

Electric reliability

enhancements ($0.7 billion)

Environmental ($0.5 billion)

Smart Energy and Gas AMR ($0.3 billion)

Other ($1.1 billion)

Consumers planned base capital investments of $4.6 billion represent projects to maintain Consumers system and comprise $2.6 billion at the electric utility to preserve reliability and capacity and $2.0 billion at the gas utility to sustain deliverability and enhance pipeline integrity. An additional $2.5 billion of planned reliability investments at Consumers are aimed at reducing outages and improving customer satisfaction; these investments comprise $1.8 billion at the gas utility to replace mains and enhance transmission and storage systems and $0.7 billion at the electric utility to strengthen circuits and substations and replace poles. Consumers also expects to spend $0.5 billion on environmental investments needed to comply with state and federal laws and regulations.

Consumers Smart Energy program also represents a major capital investment. Consumers began the full-scale deployment of advanced metering infrastructure for electric and combination customers in 2012 and plans to complete it in 2017. Consumers has spent $0.6 billion through 2016 on its Smart Energy program, and expects to spend an additional $0.2 billion in 2017. In addition, Consumers expects to spend $0.1 billion through 2019 in deploying Gas AMR technology for gas-only customers beginning in 2017.

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Regulation

Regulatory matters are a key aspect of CMS Energy s and Consumers businesses, particularly Consumers rate cases and regulatory proceedings before the MPSC. Important regulatory events and developments are summarized below.

- **Electric Rate Case:** In March 2016, Consumers filed an application with the MPSC seeking an annual rate increase of $225 million, based on a 10.7 percent authorized return on equity. The filing also seeks approval of an investment recovery mechanism that would provide for additional annual rate increases of $38 million beginning in 2017, $92 million beginning in 2018, and $92 million beginning in 2019 for incremental investments that Consumers plans to make in those years, subject to reconciliation. In September 2016, Consumers self-implemented an annual rate increase of $170 million, subject to refund with interest. In October 2016, Consumers reduced its requested annual rate increase to $208 million. A final order is due in late February 2017.

- **Gas Rate Case:** In August 2016, Consumers filed an application with the MPSC seeking an annual rate increase of $90 million, based on a 10.6 percent authorized return on equity. The filing seeks approval of two rate adjustment mechanisms: one that would reconcile annually Consumers actual nonfuel revenues with the revenues approved by the MPSC, and another that would provide for additional annual rate increases of $35 million beginning in 2018 and another $35 million beginning in 2019 for incremental investments that Consumers plans to make in those years, subject to reconciliation. The MPSC issued an order in January 2017, limiting Consumers self-implementation to an annual rate increase of $20 million. Accordingly, in January 2017, Consumers self-implemented an annual rate increase of $20 million, subject to refund with interest.

In December 2016, Michigan s governor signed the 2016 Energy Law, which will become effective in April 2017. Among other things, the 2016 Energy Law:

- raises the renewable energy standard from the present ten-percent requirement to 12.5 percent by 2019 and 15 percent by 2021
- establishes a goal of 35 percent combined renewable energy and energy waste reduction by 2025
- authorizes incentives for demand response programs and expands existing incentives for energy efficiency programs
- authorizes incentives for new PPAs with non-affiliates
- establishes an integrated planning process for new generation resources
- shortens from twelve months to ten months the time by which the MPSC must issue a final order in general rate cases, but prohibits electric and gas utilities from filing general rate cases for increases in rates more often than once every twelve months
- eliminates utilities self-implementation of rates under general rate cases
- requires the MPSC to implement equitable cost-of-service rates for customers participating in a net metering program

The 2016 Energy Law also establishes a path to ensure that forward capacity is secured for all electric customers in Michigan, including customers served by alternative electric suppliers under ROA. Under existing 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-adjusted retail sales for the preceding calendar year. The 2016 Energy Law retains the ten percent cap on ROA, with certain exceptions. The new law also authorizes the MPSC to ensure that alternative electric suppliers have procured enough capacity to cover their anticipated capacity requirements for the subsequent three-year period. The MPSC may require that alternative electric suppliers cover their requirements through participation in a MISO three-year forward capacity auction, by demonstrating to the MPSC that they have procured capacity, or through an MPSC mechanism under

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which ROA customers would pay a charge to the utility for capacity that is not provided by the alternative electric supplier.

Environmental and health and safety regulations are other areas of importance for CMS Energy and Consumers, and they are monitoring numerous legislative and regulatory initiatives, including those to regulate greenhouse gases, and related litigation. CMS Energy and Consumers believe that these laws and regulations related to their operations will continue to become more stringent and require them to make additional substantial capital expenditures for emissions control equipment, CCR disposal and storage, cooling water intake equipment, effluent treatment, PCB remediation, and gas pipeline safety. Present and reasonably anticipated state and federal environmental statutes and regulations, including but not limited to the Clean Air Act, including the Clean Power Plan, as well as the Clean Water Act, RCRA, CERCLA, and the Pipeline Safety, Regulatory Certainty, and Job Creation Act of 2011, will continue to have a material effect on CMS Energy and Consumers.

Financial Performance

In 2016, CMS Energy s net income available to common stockholders was $551 million, and diluted EPS were $1.98. This compares with net income available to common stockholders of $523 million and diluted EPS of $1.89 in 2015. Among the primary factors contributing to CMS Energy s increased earnings in 2016 were benefits from electric and gas rate increases and higher electric sales due mainly to warmer-than-normal summer weather. These changes were offset partially by higher depreciation and property taxes on increased plant in service and by lower gas deliveries, reflecting warmer-than-normal winter weather in early 2016.

Consumers utility operations are seasonal. The consumption of electric energy typically increases in the summer months, due primarily to the use of air conditioners and other cooling equipment, while peak demand for natural gas occurs in the winter due to colder temperatures and the resulting use of natural gas as heating fuel. In addition, Consumers electric rates, which follow a seasonal rate design, are higher in the summer months than in the remaining months of the year. A more detailed discussion of the factors affecting CMS Energy s and Consumers performance can be found in the Results of Operations section that follows this Executive Overview.

Consumers expects that a continued rise in industrial production in its service territory will drive its total electric deliveries to increase annually by about one-half percent on average through 2021. Excluding the impacts of energy efficiency programs, Consumers expects its total electric deliveries to increase by about one percent annually through 2021. Consumers is projecting that its gas deliveries will remain stable through 2021. This outlook reflects growth in gas demand offset by energy efficiency and conservation.

As Consumers seeks to continue to receive fair and timely regulatory treatment, delivering customer value will remain a key strategic priority. In order to minimize increases in customer base rates, Consumers will continue to pursue cost savings through its lean operations model, and will continue to give priority to capital investments that increase customer value or lower costs.

Consumers expects to continue to have sufficient borrowing capacity to fund its investment-based growth plans. CMS Energy also expects its sources of liquidity to remain sufficient to meet its cash requirements. To identify potential implications for CMS Energy s and Consumers businesses and future financial needs, the companies will continue to monitor developments in the financial and credit markets, as well as government policy responses to those developments.

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RESULTS OF OPERATIONS

CMS Energy Consolidated Results of Operations

			In Millions, Except Per Share Amounts
Years Ended December 31	2016	2015	2014
Net Income Available to Common Stockholders	$ 551	$ 523	$ 477
Basic Earnings Per Share	$ 1.99	$ 1.90	$ 1.76
Diluted Earnings Per Share	$ 1.98	$ 1.89	$ 1.74

						In Millions
Years Ended December 31	2016	2015	Change	2015	2014	Change
Electric utility	$ 458	$ 437	$ 21	$ 437	$ 384	$ 53
Gas utility	155	154	1	154	179	(25)
Enterprises	17	4	13	4	(1)	5
Corporate interest and other	(79)	(72)	(7)	(72)	(85)	13
Net Income Available to Common Stockholders	$ 551	$ 523	$ 28	$ 523	$ 477	$ 46

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

						In Millions
Reasons for the change	2016 better/(worse) than 2015			2015 better/(worse) than 2014		
Consumers electric utility and gas utility						
Electric sales						
Weather	$ 29			$ (2)		
Non-weather	9	$ 38		1	$ (1)	
Gas sales						
Weather	(29)			(49)		
Non-weather	8	(21)		3	(46)	
Electric rate increase		66			38	
Gas rate increase		24			27	
Employee benefit costs		23			(24)	
Operating and maintenance costs		18			27	
Depreciation and property taxes		(71)			(43)	
Donations		(28)			15	
State of Michigan use tax settlement		(10)			14	
Voluntary separation program costs		(7)			-	
Other		(10)	$ 22		21	$ 28
Enterprises						
Subsidiary earnings		17			(4)	

Increase in Bay Harbor environmental liability in 2014	-		9	
Other	(4)	13	-	5
Corporate interest and other				
Tax-related items		11		-
Early extinguishment of debt in 2016 and 2014		(11)		12
EnerBank earnings		1		7
Interest expense		(8)		-
Other		-		(6)
Total change		$ 28		$ 46

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Consumers Electric Utility Results of Operations

							In Millions
Years Ended December 31	2016	2015	Change		2015	2014	Change
Net Income Available to Common Stockholders	$ 458	$ 437	$ 21		$ 437	$ 384	$ 53
Reasons for the change							
Electric deliveries and rate increases			$ 122				$ 78
Power supply costs and related revenue			(3)				1
Maintenance and other operating expenses			38				8
Depreciation and amortization			(36)				(45)
General taxes			(15)				(4)
Other income, net of expenses			(44)				25
Interest charges			(19)				3
Income taxes			(22)				(13)
Total change			$ 21				$ 53

Following is a discussion of significant changes to net income available to common stockholders for 2016 versus 2015 and for 2015 versus 2014.

Electric Deliveries and Rate Increases: For 2016, electric delivery revenues increased $122 million compared with 2015. This change reflected $91 million from a December 2015 rate increase and a September 2016 self-implemented rate increase, and a $62 million increase in sales due primarily to favorable weather. These increases were offset partially by a $25 million net decrease in securitization revenue, reflecting the conclusion in October 2015 of Consumers 2001 securitization program, and a $6 million decrease in other revenues. Deliveries to end-use customers were 37.9 billion kWh in 2016 and 37.3 billion kWh in 2015.

For 2015, electric delivery revenues increased $78 million compared with 2014. This change reflected $67 million from a rate increase that Consumers self-implemented in June 2015, a $9 million increase in revenues related to the renewable energy program, and a $2 million increase in other revenues. Deliveries to end-use customers were 37.3 billion kWh in 2015 and 37.6 billion kWh in 2014.

Maintenance and Other Operating Expenses: For 2016, maintenance and other operating expenses decreased $38 million compared with 2015. This change was due to a $27 million reduction in expenses at the seven coal-fueled electric generating units that Consumers retired in April 2016 and a $25 million decrease in postretirement benefit costs. The decrease in postretirement benefit costs was attributable primarily to the change to a full-yield-curve approach to calculate the service cost and interest cost components of net periodic benefit costs for the DB Pension and OPEB Plans. Also contributing to the change was a $13 million reduction in uncollectible accounts expense due primarily to the successful implementation of new collection practices and a $4 million benefit associated with a State of Michigan use tax settlement. These decreases were offset partially by a $14 million increase in forestry expenses, $9 million of expenses at the Jackson plant acquired in December 2015, a $6 million charge associated with a voluntary separation program, and a $2 million increase in other operating and maintenance expenses.

For 2015, maintenance and other operating expenses decreased $8 million compared with 2014. This decrease was due to an $8 million reduction in maintenance costs at the seven coal-fueled electric generating units that Consumers retired in April 2016, a $5 million reduction in uncollectible accounts expense, and $11 million of other operating and maintenance expenses. Additionally, there was a $9 million reduction in service restoration costs, reflecting in part the increased capitalization of utility pole units, consistent with a change in regulatory treatment. These decreases were offset largely by a

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$25 million increase in postretirement benefits expense attributable to changes in benefit plan assumptions.

Depreciation and Amortization: For 2016, depreciation and amortization expense increased $36 million compared with 2015. This change reflected a $94 million increase in depreciation expense related to increased plant in service and an increase in depreciation rates that became effective in December 2015, offset partially by a $58 million decrease in amortization of securitized assets, reflecting the conclusion in October 2015 of Consumers 2001 securitization program.

For 2015, depreciation and amortization expense increased $45 million compared with 2014. This change was due to higher depreciation expense from increased plant in service and higher amortization of securitized assets.

General Taxes: For 2016, general taxes increased $15 million compared with 2015. This change was due primarily to increased property taxes, reflecting higher capital spending, and the absence, in 2016, of a reduction in general taxes associated with a State of Michigan use tax settlement reached in 2015.

For 2015, general taxes increased $4 million compared with 2014, due primarily to increased property taxes, reflecting higher capital spending. This increase was offset partially by a reduction in general taxes associated with a State of Michigan use tax settlement reached in 2015.

Other Income, Net of Expenses: For 2016, other income, net of expenses, decreased $44 million compared with 2015. This change was due primarily to a $30 million increase in donations and a $2 million increase in other expenses. This change also reflected the absence, in 2016, of a $6 million benefit related to a State of Michigan use tax settlement reached in 2015, and a $6 million gain on a donation of CMS Energy stock by Consumers. The gain was eliminated on CMS Energy s consolidated statements of income.

For 2015, other income, net of expenses, increased $25 million compared with 2014. This change was due to a $13 million decrease in donations, a $6 million benefit related to a State of Michigan use tax settlement reached in 2015, and a $6 million gain on a donation of CMS Energy stock by Consumers. The gain was eliminated on CMS Energy s consolidated statements of income.

Interest Charges: For 2016, interest charges increased $19 million compared with 2015. This change was due to the absence, in 2016, of a $12 million reduction in interest expense associated with a State of Michigan use tax settlement reached in 2015. The change also reflected $7 million attributable primarily to higher average debt levels.

For 2015, interest charges decreased $3 million compared with 2014. This change was due primarily to a $12 million reduction in interest expense associated with a State of Michigan use tax settlement reached in 2015, offset largely by $4 million attributable to higher average debt levels and a $5 million increase in other interest charges related primarily to securitization bonds.

Income Taxes: For 2016, income taxes increased $22 million compared with 2015. This change reflected $17 million attributable to higher electric utility earnings, a $6 million increase due to higher non-deductible donations, and $3 million of other tax-related items. These increases were offset partially by a $4 million decrease due to a change in the treatment of excess tax benefits on restricted stock awards as a result of the early adoption of a new accounting standard. For additional details on the implementation of this standard, see Note 2, New Accounting Standards.

For 2015, income taxes increased $13 million compared with 2014. This change reflected $23 million attributable to higher electric utility earnings, offset partially by an $8 million benefit associated with Cross Winds® Energy Park production tax credits and a $2 million decrease in other tax-related items.

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Consumers Gas Utility Results of Operations

						In Millions
Years Ended December 31	2016	2015	Change	2015	2014	Change
Net Income Available to Common Stockholders	$ 155	$ 154	$ 1	$ 154	$ 179	$ (25)
Reasons for the change						
Gas deliveries and rate increases			$ 15			$ (11)
Maintenance and other operating expenses			23			(9)
Depreciation and amortization			(23)			(21)
General taxes			(7)			(6)
Other income, net of expenses			(10)			9
Interest charges			(1)			(4)
Income taxes			4			17
Total change			$ 1			$ (25)

Following is a discussion of significant changes to net income available to common stockholders for 2016 versus 2015 and for 2015 versus 2014.

Gas Deliveries and Rate Increases: For 2016, gas delivery revenues increased $15 million compared with 2015. This change reflected $33 million from a January 2016 rate increase, offset partially by an $18 million decrease in sales due primarily to milder winter weather. Deliveries to end-use customers were 282 bcf in 2016 and 299 bcf in 2015.

For 2015, gas delivery revenues decreased $11 million compared with 2014. This change reflected a $57 million decrease in sales due primarily to colder winter weather in 2014, offset largely by $43 million from a rate increase implemented in January 2015 and a $3 million increase in other revenues. Deliveries to end-use customers were 299 bcf in 2015 and 331 bcf in 2014.

Maintenance and Other Operating Expenses: For 2016, maintenance and other operating expenses decreased $23 million compared with 2015. This change was due to a $15 million decrease in postretirement benefit costs, an $8 million reduction in pipeline integrity expenses, and a $7 million decrease in uncollectible accounts expense due primarily to the successful implementation of new collection practices. The decrease in postretirement benefit costs was attributable primarily to the change to a full-yield-curve approach to calculate the service cost and interest cost components of net periodic benefit costs for the DB Pension and OPEB Plans. These decreases were offset partially by a $4 million charge associated with a voluntary separation program and a $3 million increase in other gas operating and maintenance expenses.

For 2015, maintenance and other operating expenses increased $9 million compared with 2014. This change was due to a $15 million increase in postretirement benefits expense, attributable to changes in benefit plan assumptions, and a $10 million increase in pipeline integrity expenses. These increases were offset partially by a $16 million reduction in uncollectible accounts expense due primarily to the successful implementation of new collection practices.

Depreciation and Amortization: For 2016, depreciation and amortization expense increased $23 million compared with 2015, and for 2015, depreciation and amortization expense increased $21 million compared with 2014. Both increases were due to higher depreciation expense from increased plant in service.

General Taxes: For 2016, general taxes increased $7 million compared with 2015, and for 2015, general taxes increased $6 million compared with 2014. Both increases were due to increased property taxes, reflecting higher capital spending.

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Other Income, Net of Expenses: For 2016, other income, net of expenses, decreased $10 million compared with 2015. This change was due primarily to an $8 million increase in donations and to the absence, in 2016, of a $3 million gain on a donation of CMS Energy stock by Consumers, offset partially by $1 million in other expenses. The gain was eliminated on CMS Energy s consolidated statements of income.

For 2015, other income, net of expenses, increased $9 million compared with 2014 due primarily to a $4 million decrease in donations, $3 million from a gain on a donation of CMS Energy stock by Consumers, and a $2 million increase in other income. The gain was eliminated on CMS Energy s consolidated statements of income.

Interest Charges: For 2015, interest charges increased $4 million compared with 2014 due to higher average debt levels.

Income Taxes: For 2016, income taxes decreased $4 million compared with 2015. This reduction was due primarily to a change in the treatment of excess tax benefits on restricted stock awards as a result of the early adoption of a new accounting standard. For additional details on the implementation of this standard, see Note 2, New Accounting Standards.

For 2015, income taxes decreased $17 million compared with 2014, attributable to lower gas utility earnings.

Enterprises Results of Operations

						In Millions
Years Ended December 31	2016	2015	Change	2015	2014	Change
Net Income (Loss) Available to Common Stockholders	$ 17	$ 4	$ 13	$ 4	$ (1)	$ 5

For 2016, net income of the enterprises segment increased $13 million compared with 2015, due primarily to higher prices for capacity and demand revenue from DIG.

For 2015, net income of the enterprises segment increased $5 million compared with 2014, due to the absence, in 2015, of a $9 million after-tax increase in the environmental remediation liability associated with Bay Harbor, offset partially by $4 million of higher costs associated primarily with planned major maintenance at DIG.

Corporate Interest and Other Results of Operations

							In Millions
Years Ended December 31	2016	2015	Change		2015	2014	Change
Net Loss Available to Common Stockholders	$ (79)	$ (72)	$ (7)		$ (72)	$ (85)	$ 13

For 2016, corporate interest and other net expenses increased $7 million compared with 2015. This increase was due primarily to an $11 million after-tax loss on the early extinguishment of debt and $8 million of higher interest expense, reflecting higher debt levels. These increases were offset partially by a settlement reached with the Michigan Department of Treasury that resulted in a $2 million after-tax reduction in general taxes and a $3 million reduction in income tax expense, and by $1 million of higher earnings at EnerBank. Also contributing to the change were the absence, in 2016, of $6 million of additional income tax expense attributable to higher Michigan Corporate Income Tax and to the establishment of a valuation allowance for certain tax credits.

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For 2015, corporate interest and other net expenses decreased $13 million compared with 2014, due to the absence, in 2015, of a $12 million after-tax loss on the early extinguishment of debt and $7 million of higher earnings at EnerBank. These decreases were offset partially by $6 million of additional income tax expense attributable to higher Michigan Corporate Income Tax and to the establishment of a valuation allowance for certain tax credits.

CASH POSITION, INVESTING, AND FINANCING

At December 31, 2016, CMS Energy had $257 million of consolidated cash and cash equivalents, which included $22 million of restricted cash and cash equivalents. At December 31, 2016, Consumers had $152 million of consolidated cash and cash equivalents, which included $21 million of restricted cash and cash equivalents.

Operating Activities

Presented in the following table are specific components of net cash provided by operating activities for 2016, 2015, and 2014:

In Millions

Years Ended December 31	2016	2015	Change	2015	2014	Change
CMS Energy, including Consumers						
Net income	$ 553	$ 525	$ 28	$ 525	$ 479	$ 46
Non-cash transactions1	1,177	1,155	22	1,155	1,050	105
Postretirement benefits contributions	(108)	(262)	154	(262)	(32)	(230)
Changes in core working capital2	50	241	(191)	241	(17)	258
Changes in other assets and liabilities, net	(43)	(19)	(24)	(19)	1	(20)
Net cash provided by operating activities	$ 1,629	$ 1,640	$ (11)	$ 1,640	$ 1,481	$ 159
Consumers						
Net income	$ 616	$ 594	$ 22	$ 594	$ 567	$ 27
Non-cash transactions1	1,148	1,096	52	1,096	1,047	49
Postretirement benefits contributions	(98)	(243)	145	(243)	(29)	(214)
Changes in core working capital2	64	226	(162)	226	(5)	231
Changes in other assets and liabilities, net	(49)	121	(170)	121	(226)	347
Net cash provided by operating activities	$ 1,681	$ 1,794	$ (113)	$ 1,794	$ 1,354	$ 440

1 Non-cash transactions comprise depreciation and amortization, changes in deferred income taxes, bad debt expense, and other non-cash operating activities and reconciling items.

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

For 2016, net cash provided by operating activities at CMS Energy decreased $11 million compared with 2015 and net cash provided by operating activities at Consumers decreased $113 million compared with 2015. These changes were due primarily to lower customer collections, reflecting lower gas prices and sales volumes, offset partially by lower postretirement benefits contributions and higher net income. At Consumers, higher income tax payments to CMS Energy also contributed to the decrease in cash provided by operations in 2016.

For 2015, net cash provided by operating activities at CMS Energy increased $159 million compared with 2014, and net cash provided by operating activities at Consumers increased $440 million compared with 2014. These changes were due primarily to gas purchases at lower prices, improved customer collections, and higher net income, offset partially by higher postretirement benefits contributions. At Consumers, lower income tax payments to CMS Energy also contributed to the improvement in 2015.

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Investing Activities

Presented in the following table are specific components of net cash used in investing activities for 2016, 2015, and 2014:

In Millions

Years Ended December 31	2016	2015	Change	2015	2014	Change
CMS Energy, including Consumers						
Capital expenditures	$ (1,672)	$ (1,564)	$ (108)	$ (1,564)	$ (1,577)	$ 13
Jackson plant acquisition	-	(154)	154	(154)	-	(154)
Change in EnerBank notes receivable	(136)	(279)	143	(279)	(255)	(24)
Proceeds from the sale of EnerBank notes receivable	-	48	(48)	48	-	48
DB SERP fund contribution	-	(25)	25	(25)	-	(25)
Costs to retire property and other	(107)	(90)	(17)	(90)	(66)	(24)
Net cash used in investing activities	$ (1,915)	$ (2,064)	$ 149	$ (2,064)	$ (1,898)	$ (166)
Consumers						
Capital expenditures	$ (1,656)	$ (1,537)	$ (119)	$ (1,537)	$ (1,573)	$ 36
Jackson plant acquisition	-	(154)	154	(154)	-	(154)
DB SERP fund contribution	-	(17)	17	(17)	-	(17)
Costs to retire property and other	(112)	(93)	(19)	(93)	(70)	(23)
Net cash used in investing activities	$ (1,768)	$ (1,801)	$ 33	$ (1,801)	$ (1,643)	$ (158)

For 2016, net cash used in investing activities at CMS Energy decreased $149 million compared with 2015 and net cash used in investing activities at Consumers decreased $33 million compared with 2015. The changes were due primarily to the absence, in 2016, of the acquisition of the Jackson power plant and, at CMS Energy, decreased growth in EnerBank consumer lending. These changes were offset partially by increased capital expenditures.

For 2015, net cash used in investing activities at CMS Energy increased $166 million compared with 2014, and net cash used in investing activities at Consumers increased $158 million compared with 2014. The changes were due primarily to the acquisition of the Jackson power plant and, at CMS Energy, faster growth in EnerBank consumer lending.

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Financing Activities

Presented in the following table are specific components of net cash provided by (used in) financing activities for 2016, 2015, and 2014:

In Millions

Years Ended December 31	2016	2015	Change	2015	2014	Change
CMS Energy, including Consumers						
Issuance of debt	$ 1,049	$ 599	$ 450	$ 599	$ 1,428	$ (829)
Net increase in EnerBank certificates of deposit	100	214	(114)	214	233	(19)
Issuance of common stock	72	43	29	43	43	-
Retirement of long-term debt	(728)	(224)	(504)	(224)	(750)	526
Payment of dividends on common and preferred stock	(347)	(322)	(25)	(322)	(295)	(27)
Change in notes payable	149	189	(40)	189	(110)	299
Other financing activities	(40)	(36)	(4)	(36)	(87)	51
Net cash provided by financing activities	$ 255	$ 463	$ (208)	$ 463	$ 462	$ 1
Consumers						
Issuance of debt	$ 446	$ 250	$ 196	$ 250	$ 878	$ (628)
Stockholder contribution from CMS Energy, net	275	150	125	150	317	(167)
Payment of dividends on common and preferred stock	(501)	(476)	(25)	(476)	(459)	(17)
Retirement of long-term debt	(198)	(124)	(74)	(124)	(220)	96
Change in notes payable	149	189	(40)	189	(110)	299
Other financing activities	(3)	(23)	20	(23)	(54)	31
Net cash provided by (used in) financing activities	$ 168	$ (34)	$ 202	$ (34)	$ 352	$ (386)

For 2016, net cash provided by financing activities at CMS Energy decreased $208 million compared with 2015 and net cash provided by financing activities at Consumers increased $202 million compared with 2015. At CMS Energy, these changes were due primarily to an increase in debt retirements offset partially by debt issuances, lower certificate issuances at EnerBank, and by higher repayments under Consumers commercial paper program. Higher stockholder contributions from CMS Energy and an increase in debt issuances, offset partially by debt retirements also contributed to the increase in net cash provided by financing activities in 2016 at Consumers.

For 2015, net cash provided by financing activities at CMS Energy increased $1 million compared with 2014 and net cash used in financing activities at Consumers increased $386 million compared with 2014. A decrease in debt issuances was offset partially by a decrease in debt retirements and by lower repayments under Consumers commercial paper program. Lower stockholder contributions from CMS Energy also contributed to the increase in net cash used in financing activities in 2015 at Consumers.

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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 5, Financings and Capitalization Dividend Restrictions. For the year ended December 31, 2016, Consumers paid $499 million in dividends on its common stock to CMS Energy.

As a result of federal tax legislation passed in December 2015 that extends bonus depreciation, CMS Energy expects to be able to extend the use of federal net operating loss carryforwards and, accordingly, defer its federal income tax payments through 2020. As a consequence, however, CMS Energy expects to receive lower tax-sharing payments from Consumers during that period. This may require CMS Energy to maintain higher levels of debt in order to invest in its businesses, pay dividends, and fund its general obligations. Despite this, CMS Energy does not anticipate a need for a block equity offering.

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

Consumers uses cash flows generated from operations and external financing transactions, as well as stockholder contributions from CMS Energy, to fund capital expenditures, retire debt, pay dividends, contribute to its employee benefit plans, and fund its other obligations. As a result of accelerated pension funding in recent years and several initiatives to reduce costs, Consumers anticipates continued strong cash flows from operating activities in 2017.

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 December 31, 2016, CMS Energy had $549 million of its secured revolving credit facility available and Consumers had $893 million available. CMS Energy and Consumers use these credit facilities for general working capital purposes and to issue letters of credit. An additional source of liquidity is Consumers commercial paper program, which allows Consumers to issue, in one or more placements, up to $500 million in the aggregate in commercial paper notes with maturities of up to 365 days and that bear interest at fixed or floating rates. These issuances are supported by one of Consumers revolving credit facilities. While the amount of outstanding commercial paper does not reduce the revolving credit facility s available capacity, Consumers does not intend to issue commercial paper in an amount exceeding the available facility capacity. At December 31, 2016, $398 million of commercial paper notes were outstanding under this program. For additional details on CMS Energy s and Consumers secured revolving credit facilities and commercial paper program, see Note 5, Financings and Capitalization.

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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 December 31, 2016, no default had occurred with respect to any financial covenants contained in CMS Energy s and Consumers credit agreements, debt indentures, or other facilities. CMS Energy and Consumers were each in compliance with these covenants as of December 31, 2016, as presented in the following table:

		December 31, 2016	
Credit Agreement, Indenture, or Facility		Limit	Actual
CMS Energy, parent only			
Debt to EBITDA[1]	≤	6.0 to 1.0	4.2 to 1.0
Consumers			
Debt to Capital[2]	≤	0.65 to 1.0	0.49 to 1.0

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

2 Applies to Consumers $650 million and $250 million revolving credit agreements and $68 million, $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 2017 and beyond.

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Contractual Obligations: Presented in the following table are CMS Energy s and Consumers contractual obligations. The table excludes all amounts classified as current liabilities on CMS Energy s and Consumers consolidated balance sheets, other than the current portion of long-term debt, capital leases, and financing obligation.

In Millions

		Payments Due			
December 31, 2016	Total	Less Than One Year	One to Three Years	Three to Five Years	More Than Five Years
CMS Energy, including Consumers					
Long-term debt	$ 9,564	$ 864	$ 2,301	$ 953	$ 5,446
Interest payments on long-term debt	4,281	385	679	450	2,767
Capital leases and financing obligation	132	25	45	40	22
Interest payments on capital leases and financing obligation	38	7	14	11	6
Operating leases	81	20	26	20	15
Asset retirement obligations	1,361	44	50	54	1,213
Deferred investment tax credit	73	4	9	8	52
Environmental liabilities	182	40	41	23	78
Purchase obligations					
Total PPAs	9,356	1,008	2,052	2,095	4,201
Other[1]	1,922	931	563	164	264
Total contractual obligations	$ 26,990	$ 3,328	$ 5,780	$ 3,818	$ 14,064
Consumers					
Long-term debt	$ 5,661	$ 375	$ 1,399	$ 453	$ 3,434
Interest payments on long-term debt	2,984	247	429	279	2,029
Capital leases and financing obligation	132	25	45	40	22
Interest payments on capital leases and financing obligation	38	7	14	11	6
Operating leases	81	20	26	20	15
Asset retirement obligations	1,360	44	50	54	1,212
Deferred investment tax credit	73	4	9	8	52
Environmental liabilities	117	35	33	15	34
Purchase obligations					
PPAs					
MCV PPA	3,010	326	661	669	1,354
Palisades PPA[2]	1,994	354	741	786	113
Related-party PPAs[3]	899	81	168	176	474
Other PPAs	3,453	247	482	464	2,260
Total PPAs	9,356	1,008	2,052	2,095	4,201
Other[1]	1,651	895	504	121	131
Total contractual obligations	$ 21,453	$ 2,660	$ 4,561	$ 3,096	$ 11,136

1 Long-term contracts for purchase of commodities and related services, and construction and service agreements. The commodities and related services include natural gas and coal with associated transportation.

2 In December 2016, Consumers and Entergy reached an agreement to terminate the Palisades PPA in May 2018, subject to timely receipt of certain MPSC approvals. The payments due reflect the original terms of the PPA. For further details about Palisades, see Note 10, Leases and Palisades Financing.

3 Long-term PPAs from certain affiliates of CMS Enterprises.

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CMS Energy and Consumers also have recognized non-current liabilities for which the timing of payments cannot be reasonably estimated. These items, which are excluded from the table above, include regulatory liabilities, deferred income taxes, workers compensation liabilities, accrued liabilities under renewable energy programs, and other liabilities. Retirement benefits are also excluded from the table above. For details related to benefit payments, see Note 12, Retirement Benefits.

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 December 31, 2016. While CMS Energy and Consumers believe it is unlikely that they will incur any material losses related to indemnities they have not recorded as liabilities, they cannot predict the impact of these contingent obligations on their liquidity and financial condition. For additional details on these and other guarantee arrangements, see Note 4, Contingencies and Commitments Guarantees. For additional details on operating leases, see Note 10, Leases and Palisades Financing.

Capital Expenditures: Over the next five years, CMS Energy and Consumers expect to make substantial capital investments. CMS Energy and Consumers may revise their forecasts of capital expenditures periodically due to a number of factors, including environmental regulations, business opportunities, market volatility, economic trends, and the ability to access capital. Presented in the following table are CMS Energy s and Consumers estimated capital expenditures, including lease commitments, for 2017 through 2021:

												In Billions
		2017		2018		2019		2020		2021		Total
CMS Energy, including Consumers												
Consumers	$	1.8	$	1.8	$	1.8	$	1.8	$	1.8	$	9.0
Enterprises		-		0.1		0.1		-		-		0.2
Total CMS Energy	$	1.8	$	1.9	$	1.9	$	1.8	$	1.8	$	9.2
Consumers												
Electric utility operations	$	1.0	$	0.8	$	1.1	$	1.1	$	1.0	$	5.0
Gas utility operations		0.8		1.0		0.7		0.7		0.8		4.0
Total Consumers	$	1.8	$	1.8	$	1.8	$	1.8	$	1.8	$	9.0

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; Item 1A. Risk Factors; Note 3, Regulatory Matters; and Note 4, Contingencies and Commitments.

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Consumers Electric Utility and Gas Utility Outlook and Uncertainties

Energy Waste Reduction Plan: The 2016 Energy Law, which will become effective in April 2017, expands the existing energy optimization program to include demand response programs, calling the combined initiatives energy waste reduction. The 2016 Energy Law:

- extends 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
- increases the financial incentives Consumers may earn for exceeding the statutory targets
- establishes a goal of 35 percent combined renewable energy and energy waste reduction by 2025

Under its existing energy optimization plan, Consumers provides 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. Consumers estimates that, through its gas and electric energy optimization programs, its customers realized $370 million in savings during 2016.

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

Consumers expects that under its Smart Energy program it will have installed a total of 1.8 million smart meters and 600,000 communication modules throughout its service territory by the end of 2017. As of December 31, 2016, Consumers had upgraded 1.4 million electric customers to smart meters and had installed 370,000 communication modules on gas meters.

In areas where it provides only natural gas to customers, Consumers will begin the deployment of Gas AMR technology in 2017 and expects to complete it in 2019. Under this program, communication modules are expected to be installed on 1.2 million gas meters, allowing Consumers to conduct drive-by meter reading.

Consumers Electric Utility Outlook and Uncertainties

Energy Resource Planning: 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, offset partially by the predicted effects of energy efficiency and conservation.

In April 2016, Consumers retired seven of its coal-fueled electric generating units, representing 950 MW of capacity. In December 2016, Consumers and Entergy reached an agreement to terminate their PPA under which Consumers purchases virtually all of the capacity and energy produced by Palisades, up to the annual average capacity of 798 MW. Under the agreement, which is contingent on the MPSC s approval of Consumers recovery in electric rates of the termination payment, the PPA would terminate in May 2018, four years ahead of schedule. For additional details on this agreement, see Note 10, Leases and Palisades Financing.

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Even with the retirements of seven of its coal-fueled units and the expected termination of the Palisades PPA, Consumers expects to meet the capacity requirements of its full-service customers through:

- energy waste reduction
- expanded use of renewable energy
- the use of the Jackson plant, a 540-MW natural gas-fueled electric generating plant purchased in December 2015
- construction or purchase of electric generating units
- continued operation or upgrade of existing units, including upgrades at Ludington
- renegotiations of existing PPAs
- purchases of short-term market capacity

In October 2016, Consumers completed an auction to purchase generation capacity and secure its capacity requirements for 2017. The MSPC approved the contracts entered into as a result of the auction in January 2017. As demand forecasts become more certain, Consumers may take additional actions to meet the capacity requirements of its full-service customers.

Renewable Energy Plan: The 2016 Energy Law raises 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 signed a 15-year agreement in September 2015 to purchase renewable capacity, energy, and RECs from a 100-MW wind park to be constructed in Huron County, Michigan. The wind park is expected to be operational in 2017. In September 2016, Consumers applied for a special land use permit for the construction of two additional phases at its Cross Winds® Energy Park: Phase II, with a nameplate capacity of 44 MW, and Phase III, with a nameplate capacity of 76 MW. Both phases of the project will qualify for certain federal production tax credits, which are expected to generate cost savings that will be passed on to customers. Consumers also completed construction of two community solar projects in 2016. Together, these solar projects provide a combined four MW of nameplate capacity.

Electric Customer Deliveries and Revenue: Consumers electric customer deliveries are largely dependent on Michigan s economy. Consumers expects weather-adjusted electric deliveries to increase in 2017 by one-half percent compared with 2016.

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

- energy conservation measures and results of energy 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 existing 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-adjusted retail sales for the preceding calendar year. At December 31, 2016, electric deliveries under the ROA program were at the ten-percent limit. Of

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Consumers 1.8 million electric customers, 305 customers, or 0.02 percent, purchased electric generation service under the ROA program.

The 2016 Energy Law, which will become effective in April 2017, retains the ten percent cap on ROA, with certain exceptions, but establishes 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 authorizes the MPSC to ensure that alternative electric suppliers have procured enough capacity to cover their anticipated capacity requirements for the subsequent three-year period. The MPSC may require that alternative electric suppliers cover their requirements through participation in a MISO three-year forward capacity auction, by demonstrating to the MPSC that they have procured capacity, or through an MPSC mechanism under which ROA customers would pay a charge to the utility for capacity that is not provided by the alternative electric supplier.

Electric Rate Matters: Rate matters are critical to Consumers electric utility business. For additional details on rate matters, including the 2016 electric rate case, see Note 3, Regulatory Matters.

PSCR Plan: Consumers submitted its 2017 PSCR plan to the MPSC in September 2016 and, in accordance with its proposed plan, self-implemented the 2017 PSCR charge beginning in January 2017.

FERC Transmission Order: In September 2016, FERC issued an order reducing the rate of return on equity earned by transmission owners operating within MISO to a base of 10.32 percent from 12.38 percent. FERC ordered MISO and transmission owners to provide refunds, with interest, to transmission customers such as Consumers for the period from November 2013 through February 2015. Consumers will return to its electric customers the transmission refunds that it receives as a result of this order, which is subject to further legal proceedings.

As a transmission owner since April 2016, which is subsequent to the period covered by this order, Consumers would provide no refund to its transmission customers. In addition, Consumers is eligible for a 50-basis-point increase to its transmission return on equity as a transmission-owning member of MISO.

Depreciation Rate Case: In November 2016, Consumers filed a depreciation rate case related to its Ludington electric utility property, requesting to increase depreciation expense by $15 million annually.

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 $0.5 billion from 2017 through 2021 to continue to comply with the Clean Air Act, Clean Water Act, and numerous state and federal environmental regulations. Consumers expects to recover these costs in customer rates, but cannot guarantee this result. Consumers primary environmental compliance focus includes, but is not limited to, the following matters.

Air Quality: CSAPR, which became effective in January 2015, requires Michigan and 27 other states to improve air quality by reducing power plant emissions that, according to EPA computer models, contribute to ground-level ozone and fine particle pollution in other downwind states. In September 2016, the EPA finalized new ozone season standards for CSAPR, which will begin 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, but any decision is not expected to impact Consumers MATS compliance strategy. In addition, Consumers must

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still comply with the Michigan Mercury Rule and with its settlement agreement with the EPA entered into in November 2014 concerning opacity and NSR.

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

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

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

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

The rules would require a 32 percent nationwide reduction in carbon emissions from existing power plants by 2030 (based on 2005 levels). Initial state implementation plans would have been due September 2016 with extensions available until 2018. It is expected that these deadlines will be extended as a result of the rules being stayed. States choosing not to develop their own implementation plans would be subject to the federal plan. The Trump administration has indicated that it intends to re-examine the Clean Power Plan.

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

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should it survive judicial scrutiny. The Trump administration has indicated that it intends to re-examine the Paris Agreement.

Consumers believes that it is favorably positioned to deal with the impact of carbon regulation through its clean energy plan, its present carbon reduction target, and its emphasis on supply diversity. Consumers cannot, however, predict the outcome of these EPA rules in court, of changes in policy under the new Trump administration, or of Michigan s potential implementation plan. Consumers will continue to monitor regulatory activity regarding greenhouse gas emissions standards that may affect electric generating units.

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

CCRs: In April 2015, the EPA published a final rule regulating CCRs, such as coal ash, under 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 continues to develop work plans for submission to the MDEQ for concurrence to ensure coordination between federal and state requirements. Furthermore, Congress passed legislation in December 2016 that allows states to develop a permitting program for CCR under RCRA, and Michigan may adopt such a program. As a result, 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 October 2014. The rule is aimed at reducing alleged harmful impacts on fish and shellfish. In November 2015, the EPA released its final effluent limitation guidelines, which set stringent new requirements for the discharge from electric generating units into wastewater streams. Consumers believes its environmental strategy will allow it to achieve compliance with these final rules.

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

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

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

Other electric environmental matters could have a material impact on Consumers outlook. For additional details on other electric environmental matters, see Note 4, Contingencies and Commitments Consumers Electric Utility Contingencies Electric Environmental Matters.

Consumers Gas Utility Outlook and Uncertainties

Gas Deliveries: Consumers expects weather-adjusted gas deliveries in 2017 to decrease by one percent compared with 2016. Over the next five years, Consumers plans conservatively for stable deliveries. This outlook reflects modest growth in gas demand offset by the predicted effects of energy efficiency and conservation. Actual delivery levels from year to year may vary from this expectation due to:

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

Gas Rate Matters: Rate matters are critical to Consumers gas utility business. For additional details on rate matters, see Note 3, Regulatory Matters.

Gas Rate Case: In August 2016, Consumers filed an application with the MPSC seeking an annual rate increase of $90 million, based on a 10.6 percent authorized return on equity. The largest component of the request is an annual revenue requirement of $84 million related to new investments that will allow Consumers to strengthen infrastructure and improve system capacity and deliverability.

The filing also seeks approval of two rate adjustment mechanisms: one that would reconcile annually Consumers actual nonfuel revenues with the revenues approved by the MPSC, and another that would provide for additional annual rate increases of $35 million beginning in 2018 and another $35 million beginning in 2019 for incremental investments that Consumers plans to make in those years, subject to reconciliation. These future investments are intended to help ensure adequate system capacity and deliverability.

The MPSC issued an order in January 2017, limiting Consumers self-implementation to an annual rate increase of $20 million. Accordingly, in January 2017, Consumers self-implemented an annual rate increase of $20 million, subject to refund with interest.

Depreciation Rate Case: In August 2016, Consumers filed a depreciation rate case related to its gas utility property, requesting to decrease depreciation expense by $3 million annually.

Gas Transmission: In September 2016, Consumers filed an application with to the MPSC to invest $610 million in the construction of a 95-mile, 24-inch-diameter natural gas pipeline in Saginaw and Oakland Counties, Michigan. Consumers expects the pipeline, if approved, to be operational by the end of 2022.

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GCR Plan: Consumers submitted its 2017-2018 GCR plan to the MPSC in December 2016 and, in accordance with its proposed plan, expects to self-implement the 2017-2018 GCR charge beginning in April 2017.

Gas Pipeline Safety: In October 2016, the U.S. Department of Transportation s Pipeline and Hazardous Materials Safety Administration published a final rule that will require the installation of additional safety valves on certain gas distribution service lines beginning in 2017. Consumers is evaluating the cost of complying with this rule, but expects that it will be able to recover the cost in rates, consistent with the recovery of other reasonable costs of complying with laws and 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 4, Contingencies and Commitments Consumers Gas Utility Contingencies Gas Environmental Matters.

Enterprises Outlook and Uncertainties

The primary focus with respect to CMS Energy s non-utility businesses is to maximize the value of their generating assets, which represent 1,077 MW of capacity, and to pursue opportunities for the development of renewable generation projects.

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

- changes in energy and capacity prices
- changes in commodity prices and interest rates on certain derivative contracts that do not qualify for hedge accounting and must be marked to market through earnings
- changes in various environmental laws, regulations, principles, or practices, or in their interpretation
- the outcome of certain legal proceedings
- 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 4, 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 four percent of CMS Energy s net assets at December 31, 2016, and five percent of CMS Energy s net income available to common stockholders for the year ended December 31, 2016. The carrying value of EnerBank s loan portfolio was $1.3 billion at December 31, 2016. Its loan portfolio was funded primarily by certificates of deposit of $1.2 billion. The twelve-month rolling average net default rate on loans held by EnerBank was one percent at December 31, 2016. CMS Energy is required both by law and by contract to provide financial support, including infusing additional capital, to ensure that EnerBank satisfies mandated capital requirements and has sufficient liquidity to operate. With its self-funding plan, EnerBank has exceeded these requirements historically and exceeded them as of December 31, 2016.

Employee Separation Program: In June 2016, CMS Energy and Consumers announced a voluntary separation program for non-union employees. CMS Energy and Consumers recorded a charge of $11 million related to this program, under which 176 employees accepted and were approved for early

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separation. After hiring replacements for certain positions, CMS Energy and Consumers expect a net reduction of 126 employees. This will result in future cost savings, as employee staffing levels will be better matched to workload demand, which reflects CMS Energy s and Consumers ongoing productivity and quality improvements.

Litigation: CMS Energy, Consumers, and certain of their subsidiaries are named as parties in various litigation matters, as well as in administrative proceedings before various courts and governmental agencies, arising in the ordinary course of business. For additional details regarding these and other legal matters, see Note 3, Regulatory Matters and Note 4, Contingencies and Commitments.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The following accounting policies and related information are important to an understanding of CMS Energy s and Consumers results of operations and financial condition. For additional accounting policies, see Note 1, Significant Accounting Policies.

Use of Estimates and Assumptions

In the preparation of CMS Energy s and Consumers consolidated financial statements, estimates and assumptions are used that may affect reported amounts and disclosures. CMS Energy and Consumers use accounting estimates for asset valuations, unbilled revenue, depreciation, amortization, financial and derivative instruments, employee benefits, stock-based compensation, the effects of regulation, indemnities, and contingencies. Actual results may differ from estimated results due to changes in the regulatory environment, regulatory decisions, lawsuits, competition, and other factors. CMS Energy and Consumers consider all relevant factors in making these assessments.

Accounting for the Effects of Industry Regulation: Because Consumers has regulated operations, it uses regulatory accounting to recognize the effects of the regulators decisions on its financial statements. Consumers continually assesses whether future recovery of its regulatory assets is probable by considering communications and experience with its regulators and changes in the regulatory environment. If Consumers determined that recovery of a regulatory asset were not probable, Consumers would be required to write off the asset and immediately recognize the expense in earnings.

Contingencies: CMS Energy and Consumers make judgments regarding the future outcome of various matters that give rise to contingent liabilities. For such matters, they record liabilities when they are considered probable and reasonably estimable, based on all available information. In particular, CMS Energy and Consumers are participating in various environmental remediation projects for which they have recorded liabilities. The recorded amounts represent estimates that may take into account such considerations as the number of sites, the anticipated scope, cost, and timing of remediation work, the available technology, applicable regulations, and the requirements of governmental authorities. For remediation projects in which the timing of estimated expenditures is considered reliably determinable, CMS Energy and Consumers record the liability at its net present value, using a discount rate equal to the interest rate on monetary assets that are essentially risk-free and have maturities comparable to that of the environmental liability. The amount recorded for any contingency may differ from actual costs incurred when the contingency is resolved. For additional details, see Note 4, Contingencies and Commitments.

Derivative Instruments: CMS Energy and Consumers account for certain contracts as derivative instruments. If a contract is a derivative and does not qualify for the normal purchases and sales exception, it is recorded on the consolidated balance sheets at its fair value. Each quarter, the resulting asset or liability is adjusted to reflect any change in the fair value of the contract.

The criteria used to determine if an instrument qualifies for derivative accounting or for an exception from derivative accounting are complex and often require judgment in application. Changes in business

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strategies or market conditions, as well as a requirement to apply different interpretations of the derivative accounting literature, could result in changes in accounting for a single contract or groups of contracts, which could have a material impact on CMS Energy s and Consumers financial statements. For additional details on CMS Energy s and Consumers derivatives and how the fair values of derivatives are determined, see Note 6, Fair Value Measurements.

Income Taxes: The amount of income taxes paid by CMS Energy is subject to ongoing audits by federal, state, and foreign tax authorities, which can result in proposed assessments. An estimate of the potential outcome of any uncertain tax issue is highly judgmental. CMS Energy believes adequate reserves have been provided for these exposures; however, future results may include favorable or unfavorable adjustments to the estimated tax liabilities in the period the assessments are made or resolved or when statutes of limitation on potential assessments expire. Additionally, CMS Energy s judgment as to the ability to recover its deferred tax assets may change. CMS Energy believes the valuation allowances related to its deferred tax assets are adequate, but future results may include favorable or unfavorable adjustments. As a result, CMS Energy s effective tax rate may fluctuate significantly over time. For additional details, see Note 14, Income Taxes.

Pension and OPEB: CMS Energy and Consumers provide retirement pension benefits to certain employees under a non-contributory DB Pension Plan, and they provide postretirement health and life benefits to qualifying retired employees under an OPEB Plan.

CMS Energy and Consumers record liabilities for pension and OPEB on their consolidated balance sheets at the present value of the future obligations, net of any plan assets. The calculation of the liabilities and associated expenses requires the expertise of actuaries, and requires many assumptions, including:

- life expectancies
- discount rates
- expected long-term rate of return on plan assets
- rate of compensation increases
- expected health care costs

A change in these assumptions could change significantly CMS Energy s and Consumers recorded liabilities and associated expenses.

Presented in the following table are estimates of CMS Energy s and Consumers DB Pension Plan and OPEB Plan costs (credits) through 2019. Neither CMS Energy nor Consumers plans to contribute to the DB Pension Plan or OPEB Plan through 2019. Actual future costs and contributions will depend on future investment performance, discount rates, and various factors related to the DB Pension Plan and OPEB Plan participants.

		In Millions
	DB Pension Plan Cost	OPEB Plan Cost (Credit)
CMS Energy, including Consumers		
2017	$ 65	$ (21)
2018	78	(21)
2019	82	(23)
Consumers[1]		
2017	$ 63	$ (16)
2018	75	(16)
2019	79	(18)

1 Consumers pension and OPEB costs are recoverable through its general ratemaking process.

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In January 2016, CMS Energy and Consumers changed the method they use to determine the discount rate used to calculate the service cost and interest cost components of net periodic benefit costs for the DB Pension and OPEB Plans. For further details, see Note 12, Retirement Benefits.

Lowering the expected long-term rate of return on the DB Pension Plan assets by 25 basis points (from 7.25 percent to 7.00 percent) would increase estimated DB Pension Plan cost for 2017 by $5 million for both CMS Energy and Consumers. Lowering the PBO discount rate by 25 basis points (from 4.30 percent to 4.05 percent) would increase estimated DB Pension Plan cost for 2017 by $6 million for both CMS Energy and Consumers.

Pension and OPEB plan assets are accounted for and disclosed at fair value. Fair value measurements incorporate assumptions that market participants would use in pricing an asset or liability, including assumptions about risk. Development of these assumptions may require judgment.

For additional details on postretirement benefits, including the fair value measurements for the DB Pension Plan and OPEB Plan assets, see Note 12, Retirement Benefits.

Revenue Subject to Refund: Unless prohibited by the MPSC upon a showing of good cause, Consumers is allowed to self-implement new energy rates six months after a new rate case filing; however, the rates that Consumers self-implements may be subject to refund, with interest. Consumers recognizes revenue associated with self-implemented rates. If Consumers considers it probable that it will be required to refund a portion of its self-implemented rates, it records a provision for revenue subject to refund. A final rate order could differ materially from Consumers estimates underlying its self-implemented rates, giving rise to accounting adjustments. Under accounting rules for prior period adjustments, CMS Energy and Consumers may need to record such differences, if they are specifically identifiable to prior interim periods, as revisions to those periods. The 2016 Energy Law, which will become effective in April 2017, eliminates utilities self-implementation of rates under general rate cases, but provides for more timely processing of general rate cases.

Unbilled Revenues: Consumers customers are billed monthly in cycles having billing dates that do not generally coincide with the end of a calendar month. This results in customers having received electricity or gas that they have not been billed for as of the month-end. Consumers estimates its unbilled revenues by applying an average billed rate to total unbilled deliveries for each customer class. Unbilled revenues, which are recorded as accounts receivable on CMS Energy s and Consumers consolidated balance sheets, were $361 million at December 31, 2016 and $325 million at December 31, 2015.

Market Risk Information

CMS Energy and Consumers are exposed to market risks including, but not limited to, changes in interest rates, commodity prices, and investment security prices. They may enter into various risk management contracts to mitigate exposure to these risks, including swaps, options, futures, and forward contracts. CMS Energy and Consumers enter into these contracts using established policies and procedures, under the direction of an executive oversight committee consisting of certain officers and a risk committee consisting of those and other officers and business managers.

The following risk sensitivities illustrate the potential loss in fair value, cash flows, or future earnings from financial instruments, assuming a hypothetical adverse change in market rates or prices of ten percent. Potential losses could exceed the amounts shown in the sensitivity analyses if changes in market rates or prices were to exceed ten percent.

Interest-Rate Risk: CMS Energy and Consumers are exposed to interest-rate risk resulting from issuing fixed-rate and variable-rate financing instruments. CMS Energy and Consumers use a combination of these instruments, and may also enter into interest-rate swap agreements, in order to manage this risk and to achieve a reasonable cost of capital.

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Presented in the following table is a sensitivity analysis of interest-rate risk (assuming an adverse change in market interest rates of ten percent):

		In Millions
December 31	2016	2015
Fixed-rate financing potential loss in fair value		
CMS Energy, including Consumers	$ 291	$ 263
Consumers	175	161

The fair value losses in the above table could be realized only if CMS Energy and Consumers transferred all of their fixed-rate financing to other creditors. The annual earnings exposure related to variable-rate financing was insignificant for both CMS Energy and Consumers at December 31, 2016 and 2015, assuming an adverse change in market interest rates of ten percent.

Investment Securities Price Risk: Through investments in equity securities, CMS Energy and Consumers are exposed to equity price fluctuations. The following table shows the potential effect of adverse changes in equity prices on CMS Energy s and Consumers available-for-sale investments.

Presented in the following table is a sensitivity analysis of investment securities price risk (assuming an adverse change in market prices of ten percent):

		In Millions
December 31	2016	2015
CMS Energy, including Consumers		
Potential reduction in fair value of available-for-sale securities		
DB SERP		
Mutual funds	$ 14	$ 15
Consumers		
Potential reduction in fair value of available-for-sale securities		
DB SERP		
Mutual funds	$ 10	$ 10
CMS Energy common stock	3	3

Notes Receivable Risk: CMS Energy is exposed to interest-rate risk resulting from EnerBank s fixed-rate installment loans. EnerBank provides these loans to homeowners to finance home improvements.

Presented in the following table is a sensitivity analysis of notes receivable (assuming an adverse change in market interest rates of ten percent):

		In Millions
December 31	2016	2015
CMS Energy, including Consumers		

Potential reduction in fair value		
Notes receivable	$ 30	$ 23

The fair value losses in the above table could be realized only if EnerBank sold its loans to other parties. For additional details on financial instruments, see Note 7, Financial Instruments.

NEW ACCOUNTING STANDARDS

For details regarding new accounting standards issued but not yet effective, see Note 2, New Accounting Standards.

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CMS Energy Corporation

Consolidated Statements of Income

			In Millions
Years Ended December 31	2016	2015	2014
Operating Revenue	$ 6,399	$ 6,456	$ 7,179
Operating Expenses			
Fuel for electric generation	499	593	673
Purchased and interchange power	1,508	1,406	1,602
Purchased power related parties	86	83	90
Cost of gas sold	710	961	1,493
Maintenance and other operating expenses	1,207	1,238	1,232
Depreciation and amortization	811	750	685
General taxes	281	262	252
Total operating expenses	5,102	5,293	6,027
Operating Income	1,297	1,163	1,152
Other Income (Expense)			
Interest income	6	12	5
Allowance for equity funds used during construction	12	10	8
Income from equity method investees	13	14	15
Other income	8	10	11
Other expense	(75)	(17)	(55)
Total other income (expense)	(36)	29	(16)
Interest Charges			
Interest on long-term debt	411	386	393
Other interest expense	29	14	17
Allowance for borrowed funds used during construction	(5)	(4)	(3)
Total interest charges	435	396	407
Income Before Income Taxes	826	796	729
Income Tax Expense	273	271	250
Net Income	553	525	479
Income Attributable to Noncontrolling Interests	2	2	2
Net Income Available to Common Stockholders	$ 551	$ 523	$ 477
Basic Earnings Per Average Common Share	$ 1.99	$ 1.90	$ 1.76
Diluted Earnings Per Average Common Share	$ 1.98	$ 1.89	$ 1.74

The accompanying notes are an integral part of these statements.

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CMS Energy Corporation

Consolidated Statements of Comprehensive Income

			In Millions
Years Ended December 31	2016	2015	2014
Net Income	$ 553	$ 525	$ 479
Retirement Benefits Liability			
Net gain (loss) arising during the period, net of tax of $(5), $-, and $(18)	(8)	1	(29)
Amortization of net actuarial loss, net of tax of $-, $4, and $1	2	5	3
Amortization of prior service credit, net of tax of $- for all periods	(1)	(1)	(1)
Investments			
Unrealized gain (loss) on investments, net of tax of $-, $(1), and $(1)	1	(3)	(1)
Other-than-temporary impairment included in net income, net of tax of $2, $-, and $-	3	-	-
Derivative Instruments			
Reclassification adjustments included in net income, net of tax of $- for all periods	-	-	1
Other Comprehensive Income (Loss)	(3)	2	(27)
Comprehensive Income	550	527	452
Comprehensive Income Attributable to Noncontrolling Interests	2	2	2
Comprehensive Income Attributable to CMS Energy	$ 548	$ 525	$ 450

The accompanying notes are an integral part of these statements.

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CMS Energy Corporation

Consolidated Statements of Cash Flows

			In Millions
Years Ended December 31	2016	2015	2014
Cash Flows from Operating Activities			
Net income	$ 553	$ 525	$ 479
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation and amortization	811	750	685
Deferred income taxes and investment tax credit	264	247	227
Bad debt expense	50	58	80
Other non-cash operating activities and reconciling adjustments	52	100	58
Postretirement benefits contributions	(108)	(262)	(32)
Cash provided by (used in) changes in assets and liabilities			
Accounts and notes receivable and accrued revenue	(155)	120	(31)
Inventories	146	147	(36)
Accounts payable and accrued refunds	59	(26)	50
Other current and non-current assets and liabilities	(43)	(19)	1
Net cash provided by operating activities	1,629	1,640	1,481
Cash Flows from Investing Activities			
Capital expenditures (excludes assets placed under capital lease)	(1,672)	(1,564)	(1,577)
Jackson plant acquisition	-	(154)	-
Increase in EnerBank notes receivable	(136)	(279)	(255)
Proceeds from the sale of EnerBank notes receivable	-	48	-
Cost to retire property and other investing activities	(107)	(115)	(66)
Net cash used in investing activities	(1,915)	(2,064)	(1,898)
Cash Flows from Financing Activities			
Proceeds from issuance of long-term debt	1,049	599	1,428
Net increase in EnerBank certificates of deposit	100	214	233
Issuance of common stock	72	43	43
Retirement of long-term debt	(728)	(224)	(750)
Debt prepayment costs	(18)	-	(36)
Payment of dividends on common and preferred stock	(347)	(322)	(295)
Change in notes payable	149	189	(110)
Payment of capital lease obligations and other financing costs	(22)	(36)	(51)
Net cash provided by financing activities	255	463	462
Net Increase (Decrease) in Cash and Cash Equivalents, Including Restricted Amounts	(31)	39	45
Cash and Cash Equivalents, Including Restricted Amounts, Beginning of Period	288	249	204
Cash and Cash Equivalents, Including Restricted Amounts, End of Period	$ 257	$ 288	$ 249

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			In Millions
Years Ended December 31	2016	2015	2014
Other cash flow activities and non-cash investing and financing activities			
Cash transactions			
Interest paid (net of amounts capitalized)	$ 427	$ 386	$ 380
Income taxes paid, net	32	10	22
Non-cash transactions			
Capital expenditures not paid	138	201	201
Note receivable recorded for future refund of use taxes paid and capitalized	29	-	-
Other assets placed under capital lease	13	17	7

The accompanying notes are an integral part of these statements.

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CMS Energy Corporation

Consolidated Balance Sheets

ASSETS

		In Millions
December 31	2016	2015
Current Assets		
Cash and cash equivalents	$ 235	$ 266
Restricted cash and cash equivalents	19	19
Accounts receivable and accrued revenue, less allowances of $24 in 2016 and $28 in 2015	821	774
Notes receivable, less allowances of $16 in 2016 and $9 in 2015	180	128
Notes receivable held for sale	39	16
Accounts receivable related parties	12	11
Inventories at average cost		
Gas in underground storage	446	568
Materials and supplies	119	126
Generating plant fuel stock	61	84
Deferred property taxes	250	235
Regulatory assets	17	16
Prepayments and other current assets	81	77
Total current assets	2,280	2,320
Plant, Property, and Equipment		
Plant, property, and equipment, gross	21,010	18,943
Less accumulated depreciation and amortization	6,056	5,747
Plant, property, and equipment, net	14,954	13,196
Construction work in progress	761	1,509
Total plant, property, and equipment	15,715	14,705
Other Non-current Assets		
Regulatory assets	2,091	1,840
Accounts and notes receivable	1,118	1,027
Investments	65	64
Other	353	343
Total other non-current assets	3,627	3,274
Total Assets	$ 21,622	$ 20,299

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LIABILITIES AND EQUITY

December 31	2016	2015
		In Millions
Current Liabilities		
Current portion of long-term debt, capital leases, and financing obligation	$ 886	$ 706
Notes payable	398	249
Accounts payable	598	633
Accounts payable related parties	12	9
Accrued rate refunds	21	26
Accrued interest	98	106
Accrued taxes	348	349
Regulatory liabilities	95	82
Other current liabilities	199	142
Total current liabilities	2,655	2,302
Non-current Liabilities		
Long-term debt	8,640	8,400
Non-current portion of capital leases and financing obligation	110	118
Regulatory liabilities	2,041	2,088
Postretirement benefits	789	591
Asset retirement obligations	447	439
Deferred investment tax credit	73	56
Deferred income taxes	2,287	2,017
Other non-current liabilities	290	313
Total non-current liabilities	14,677	14,022
Commitments and Contingencies (Notes 3, 4, and 5)		
Equity		
Common stockholders equity		
Common stock, authorized 350.0 shares; outstanding 279.2 shares in 2016 and 277.2 shares in 2015	3	3
Other paid-in capital	4,916	4,837
Accumulated other comprehensive loss	(50)	(47)
Accumulated deficit	(616)	(855)
Total common stockholders equity	4,253	3,938
Noncontrolling interests	37	37
Total equity	4,290	3,975
Total Liabilities and Equity	$ 21,622	$ 20,299

The accompanying notes are an integral part of these statements.

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CMS Energy Corporation

Consolidated Statements of Changes in Equity

In Millions, Except Number of Shares in Thousands

	Number of Shares					
Years Ended December 31	2016	2015	2014	2016	2015	2014
Total Equity at Beginning of Period				$ 3,975	$ 3,707	$ 3,491
Common Stock						
At beginning and end of period				3	3	3
Other Paid-in Capital						
At beginning of period	277,163	275,184	266,137	4,837	4,774	4,715
Common stock issued	2,580	2,062	9,371	90	65	59
Common stock repurchased	(292)	(306)	(271)	(11)	(12)	(7)
Common stock reissued	-	288	-	-	10	-
Conversion option on convertible debt	-	-	-	-	-	7
Common stock reacquired	(245)	(65)	(53)	-	-	-
At end of period	279,206	277,163	275,184	4,916	4,837	4,774
Accumulated Other Comprehensive Loss						
At beginning of period				(47)	(49)	(22)
Retirement benefits liability						
At beginning of period				(43)	(48)	(21)
Net gain (loss) arising during the period				(8)	1	(29)
Amortization of net actuarial loss				2	5	3
Amortization of prior service credit				(1)	(1)	(1)
At end of period				(50)	(43)	(48)
Investments						
At beginning of period				(4)	(1)	-
Unrealized gain (loss) on investments				1	(3)	(1)
Other-than-temporary impairment included in net income				3	-	-
At end of period				-	(4)	(1)
Derivative instruments						
At beginning of period				-	-	(1)
Reclassification adjustments included in net income				-	-	1
At end of period				-	-	-
At end of period				(50)	(47)	(49)

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			In Millions
Years Ended December 31	2016	2015	2014
Accumulated Deficit			
At beginning of period	(855)	(1,058)	(1,242)
Cumulative effect of change in accounting principle	33	-	-
Net income attributable to CMS Energy	551	523	477
Dividends declared on common stock	(345)	(320)	(293)
At end of period	(616)	(855)	(1,058)
Noncontrolling Interests			
At beginning of period	37	37	37
Income attributable to noncontrolling interests	2	2	2
Distributions and other changes in noncontrolling interests	(2)	(2)	(2)
At end of period	37	37	37
Total Equity at End of Period	$ 4,290	$ 3,975	$ 3,707

The accompanying notes are an integral part of these statements.

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Consumers Energy Company

Consolidated Statements of Income

Years Ended December 31	2016	2015	*In Millions* 2014
Operating Revenue	$ 6,064	$ 6,165	$ 6,800
Operating Expenses			
Fuel for electric generation	393	497	567
Purchased and interchange power	1,486	1,376	1,564
Purchased power related parties	88	83	89
Cost of gas sold	693	939	1,375
Maintenance and other operating expenses	1,090	1,149	1,146
Depreciation and amortization	803	744	678
General taxes	277	255	246
Total operating expenses	4,830	5,043	5,665
Operating Income	1,234	1,122	1,135
Other Income (Expense)			
Interest income	4	11	4
Interest and dividend income related parties	1	1	1
Allowance for equity funds used during construction	12	10	8
Other income	8	19	10
Other expense	(55)	(17)	(35)
Total other income (expense)	(30)	24	(12)
Interest Charges			
Interest on long-term debt	261	252	243
Other interest expense	12	2	10
Allowance for borrowed funds used during construction	(5)	(4)	(3)
Total interest charges	268	250	250
Income Before Income Taxes	936	896	873
Income Tax Expense	320	302	306
Net Income	616	594	567
Preferred Stock Dividends	2	2	2
Net Income Available to Common Stockholder	$ 614	$ 592	$ 565

The accompanying notes are an integral part of these statements.

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Consumers Energy Company

Consolidated Statements of Comprehensive Income

						In Millions
Years Ended December 31		2016		2015		2014
Net Income	$	616	$	594	$	567
Retirement Benefits Liability						
Net gain (loss) arising during the period, net of tax of $(1), $2, and $(7)		(3)		3		(11)
Amortization of net actuarial loss, net of tax of $-, $2, and $1		1		4		2
Investments						
Unrealized gain (loss) on investments, net of tax of $2, $(1), and $2		3		(1)		4
Reclassification adjustments included in net income, net of tax of $-, $(3), and $-		-		(5)		-
Other-than-temporary impairment included in net income, net of tax of $2, $-, and $-		2		-		-
Other Comprehensive Income (Loss)		3		1		(5)
Comprehensive Income	$	619	$	595	$	562

The accompanying notes are an integral part of these statements.

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Consumers Energy Company

Consolidated Statements of Cash Flows

Years Ended December 31	2016	2015	*In Millions* 2014
Cash Flows from Operating Activities			
Net income	$ 616	$ 594	$ 567
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation and amortization	803	744	678
Deferred income taxes and investment tax credit	289	204	263
Bad debt expense	31	50	72
Other non-cash operating activities and reconciling adjustments	25	98	34
Postretirement benefits contributions	(98)	(243)	(29)
Cash provided by (used in) changes in assets and liabilities			
Accounts and notes receivable and accrued revenue	(138)	104	(16)
Inventories	145	144	(36)
Accounts payable and accrued refunds	57	(22)	47
Other current and non-current assets and liabilities	(49)	121	(226)
Net cash provided by operating activities	1,681	1,794	1,354
Cash Flows from Investing Activities			
Capital expenditures (excludes assets placed under capital lease)	(1,656)	(1,537)	(1,573)
Jackson plant acquisition	-	(154)	-
Cost to retire property and other investing activities	(112)	(110)	(70)
Net cash used in investing activities	(1,768)	(1,801)	(1,643)
Cash Flows from Financing Activities			
Proceeds from issuance of long-term debt	446	250	878
Retirement of long-term debt	(198)	(124)	(220)
Debt prepayment costs	-	-	(16)
Payment of dividends on common and preferred stock	(501)	(476)	(459)
Stockholder contribution	275	150	495
Return of stockholder contribution	-	-	(178)
Payment of capital lease obligations and other financing costs	(3)	(23)	(38)
Change in notes payable	149	189	(110)
Net cash provided by (used in) financing activities	168	(34)	352
Net Increase (Decrease) in Cash and Cash Equivalents, Including Restricted Amounts	81	(41)	63
Cash and Cash Equivalents, Including Restricted Amounts, Beginning of Period	71	112	49
Cash and Cash Equivalents, Including Restricted Amounts, End of Period	$ 152	$ 71	$ 112

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			In Millions
Years Ended December 31	2016	2015	2014
Other cash flow activities and non-cash investing and financing activities			
Cash transactions			
Interest paid (net of amounts capitalized)	$ 256	$ 245	$ 233
Income taxes paid (refunds received), net	50	(84)	266
Non-cash transactions			
Capital expenditures not paid	127	182	201
Note receivable recorded for future refund of use taxes paid and capitalized	29	-	-
Other assets placed under capital lease	13	17	7

The accompanying notes are an integral part of these statements.

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Consumers Energy Company

Consolidated Balance Sheets

ASSETS

		In Millions
December 31	2016	2015
Current Assets		
Cash and cash equivalents	$ 131	$ 50
Restricted cash and cash equivalents	19	19
Accounts receivable and accrued revenue, less allowances of $24 in 2016 and $28 in 2015	800	758
Notes receivable	29	-
Accounts receivable related parties	9	17
Inventories at average cost		
Gas in underground storage	446	568
Materials and supplies	114	120
Generating plant fuel stock	57	80
Deferred property taxes	250	235
Regulatory assets	17	16
Prepayments and other current assets	70	66
Total current assets	1,942	1,929
Plant, Property, and Equipment		
Plant, property, and equipment, gross	20,838	18,797
Less accumulated depreciation and amortization	5,994	5,676
Plant, property, and equipment, net	14,844	13,121
Construction work in progress	759	1,467
Total plant, property, and equipment	15,603	14,588
Other Non-current Assets		
Regulatory assets	2,091	1,840
Accounts and notes receivable	27	10
Investments	33	29
Other	250	239
Total other non-current assets	2,401	2,118
Total Assets	$ 19,946	$ 18,635

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LIABILITIES AND EQUITY

		In Millions
December 31	2016	2015
Current Liabilities		
Current portion of long-term debt, capital leases, and financing obligation	$ 397	$ 220
Notes payable	398	249
Accounts payable	580	613
Accounts payable related parties	18	15
Accrued rate refunds	21	26
Accrued interest	67	65
Accrued taxes	354	352
Regulatory liabilities	95	82
Other current liabilities	164	109
Total current liabilities	2,094	1,731
Non-current Liabilities		
Long-term debt	5,253	5,183
Non-current portion of capital leases and financing obligation	110	118
Regulatory liabilities	2,041	2,088
Postretirement benefits	730	529
Asset retirement obligations	446	438
Deferred investment tax credit	73	56
Deferred income taxes	3,042	2,710
Other non-current liabilities	218	236
Total non-current liabilities	11,913	11,358
Commitments and Contingencies (Notes 3, 4, and 5)		
Equity		
Common stockholder s equity		
Common stock, authorized 125.0 shares; outstanding 84.1 shares for both periods	841	841
Other paid-in capital	3,999	3,724
Accumulated other comprehensive loss	(3)	(6)
Retained earnings	1,065	950
Total common stockholder s equity	5,902	5,509
Preferred stock	37	37
Total equity	5,939	5,546
Total Liabilities and Equity	$ 19,946	$ 18,635

The accompanying notes are an integral part of these statements.

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Consumers Energy Company

Consolidated Statements of Changes in Equity

						In Millions
Years Ended December 31		2016		2015		2014
Total Equity at Beginning of Period	$	5,546	$	5,277	$	4,857
Common Stock						
At beginning and end of period		841		841		841
Other Paid-in Capital						
At beginning of period		3,724		3,574		3,257
Stockholder contribution		275		150		495
Return of stockholder contribution		-		-		(178)
At end of period		3,999		3,724		3,574
Accumulated Other Comprehensive Loss						
At beginning of period		(6)		(7)		(2)
Retirement benefits liability						
At beginning of period		(19)		(26)		(17)
Net gain (loss) arising during the period		(3)		3		(11)
Amortization of net actuarial loss		1		4		2
At end of period		(21)		(19)		(26)
Investments						
At beginning of period		13		19		15
Unrealized gain (loss) on investments		3		(1)		4
Reclassification adjustments included in net income		-		(5)		-
Other-than-temporary impairment included in net income		2		-		-
At end of period		18		13		19
At end of period		(3)		(6)		(7)
Retained Earnings						
At beginning of period		950		832		724
Net income		616		594		567
Dividends declared on common stock		(499)		(474)		(457)
Dividends declared on preferred stock		(2)		(2)		(2)
At end of period		1,065		950		832
Preferred Stock						
At beginning and end of period		37		37		37
Total Equity at End of Period	$	5,939	$	5,546	$	5,277

The accompanying notes are an integral part of these statements.

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CMS Energy Corporation

Consumers Energy Company

Notes to the Consolidated Financial Statements

1: SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation: CMS Energy and Consumers prepare their consolidated financial statements in conformity with GAAP. CMS Energy s consolidated financial statements comprise CMS Energy, Consumers, CMS Enterprises, and all other entities in which CMS Energy has a controlling financial interest or is the primary beneficiary. Consumers consolidated financial statements comprise Consumers and all other entities in which it has a controlling financial interest or is the primary beneficiary. CMS Energy uses the equity method of accounting for investments in companies and partnerships that are not consolidated, where they have significant influence over operations and financial policies but are not the primary beneficiary. CMS Energy and Consumers eliminate intercompany transactions and balances.

Use of Estimates: CMS Energy and Consumers are required to make estimates using assumptions that may affect reported amounts and disclosures. Actual results could differ from those estimates.

Revenue Recognition Policy: CMS Energy and Consumers recognize revenue from deliveries of electricity and natural gas, and from the transportation, processing, and storage of natural gas, when services are provided. CMS Energy and Consumers record unbilled revenue for the estimated amount of energy delivered to customers but not yet billed. CMS Energy and Consumers record sales tax net and exclude it from revenue. CMS Energy recognizes revenue on sales of marketed electricity, natural gas, and other energy products at delivery.

Alternative-Revenue Program: The energy optimization incentive mechanism provides a financial incentive if the energy savings of Consumers customers exceed annual targets established by the MPSC. The maximum incentive that Consumers may earn under this mechanism is 15 percent of the amount it spends on energy optimization programs, which is limited to two percent of Consumers retail revenue. Consumers accounts for this program as an alternative-revenue program that meets the criteria for recognizing revenue related to the incentive as soon as energy savings exceed the annual targets established by the MPSC. The 2016 Energy Law, which will become effective in April 2017, expands existing incentives for energy efficiency programs.

Self-Implemented Rates: Unless prohibited by the MPSC upon a showing of good cause, Consumers is allowed to self-implement new energy rates six months after a new rate case filing if the MPSC has not issued an order in the case. The MPSC then has another six months to issue a final order. If the MPSC does not issue a final order within that period, the filed rates are considered approved. If the MPSC issues a final order within that period, the rates that Consumers self-implemented may be subject to refund, with interest. Consumers recognizes revenue associated with self-implemented rates. If Consumers considers it probable that it will be required to refund a portion of its self-implemented rates, then Consumers records a provision for revenue subject to refund. The 2016 Energy Law, which will become effective in April 2017, eliminates utilities self-implementation of rates under general rate cases, but provides for more timely processing of general rate cases.

EnerBank: EnerBank provides four types of unsecured consumer installment loans: same-as-cash, zero interest, reduced interest, and traditional. Under EnerBank s same-as-cash programs, authorized contractors pay EnerBank a fee to provide a borrower with the option to pay off the loan interest-free during the same-as-cash period. EnerBank recognizes the fee on a straight-line basis over the same-as-cash period, which typically ranges from three to 24 months. If a borrower does not exercise its option to pay off its loan interest-free during the same-as-cash period, EnerBank charges the borrower accrued interest at the loan s contractual rate on the outstanding balance from the origination date. Under the zero interest and reduced interest programs, authorized contractors pay EnerBank a fee to provide a borrower with no interest or reduced rates of interest for the entire term of the loan. EnerBank recognizes the fee using the interest method over the term of the loan, which ranges from one to 12 years. Unearned income associated with the fees is recorded as a reduction to notes receivable on CMS Energy s consolidated balance sheets.

EnerBank recognizes interest income using the interest method and amortizes loan origination fees, net of certain direct origination costs, over the loan term. EnerBank ceases recognizing interest income when a loan loss is confirmed or when a loan becomes 120 days past due, at which time the loan principal is charged against the allowance for loan losses. At that time, EnerBank recognizes any interest accrued but not received for such loan losses as a reversal of interest income.

The loan fees and interest income earned by EnerBank are reported as operating revenue on CMS Energy s consolidated statements of income.

Accounts Receivable: Accounts receivable comprise trade receivables and unbilled receivables. CMS Energy and Consumers record their accounts receivable at cost, which approximates fair value. CMS Energy and Consumers establish an allowance for uncollectible accounts based on historical losses, management s assessment of existing economic conditions, customer trends, and other factors. CMS Energy and Consumers assess late payment fees on trade receivables based on contractual past-due terms established with customers. CMS Energy and Consumers charge off accounts deemed uncollectible to operating expense.

Contingencies: CMS Energy and Consumers record estimated liabilities for contingencies on their consolidated financial statements when it is probable that a liability has been incurred and when the amount of loss can be reasonably estimated. For environmental remediation projects in which the timing of estimated expenditures is considered reliably determinable, CMS Energy and Consumers record the liability at its net present value, using a discount rate equal to the interest rate on monetary assets that are essentially risk-free and have maturities comparable to that of the environmental liability. CMS Energy and Consumers expense legal fees as incurred; fees incurred but not yet billed are accrued based on estimates of work performed.

Debt Issuance Costs, Discounts, Premiums, and Refinancing Costs: Upon the issuance of long-term debt, CMS Energy and Consumers defer issuance costs, discounts, and premiums and amortize those amounts over the terms of the associated debt. Debt issuance costs are presented as a direct deduction from the carrying amount of long-term debt on the balance sheet. Upon the refinancing of long-term debt, Consumers, as a regulated entity, defers any remaining unamortized issuance costs, discounts, and premiums associated with the refinanced debt and amortizes those amounts over the term of the newly issued debt. For the non-regulated portions of CMS Energy s business, any remaining unamortized issuance costs, discounts, and premiums associated with extinguished debt are charged to earnings.

Derivative Instruments: In order to support ongoing operations, CMS Energy and Consumers enter into contracts for the future purchase and sale of various commodities, such as electricity, natural gas, and coal. These forward contracts are generally long-term in nature and result in physical delivery of the commodity at a contracted price. Most of these contracts are not subject to derivative accounting for one or more of the following reasons:

- they do not have a notional amount (that is, a number of units specified in a derivative instrument, such as MWh of electricity or bcf of natural gas)

- they qualify for the normal purchases and sales exception

- there is not an active market for the commodity

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Consumers coal purchase contracts are not derivatives because there is not an active market for the coal it purchases. If an active market for coal develops in the future, some of these contracts may qualify as derivatives. Since Consumers is subject to regulatory accounting, the resulting fair value gains and losses would be deferred as regulatory assets or liabilities and would not affect net income.

Consumers also uses FTRs to manage price risk related to electricity transmission congestion. An FTR is a financial instrument that entitles its holder to receive compensation or requires its holder to remit payment for congestion-related transmission charges. Consumers accounts for FTRs as derivatives. All changes in fair value associated with FTRs are deferred as regulatory assets and liabilities until the instruments are settled.

CMS Energy and Consumers record derivative contracts that do not qualify for the normal purchases and sales exception at fair value on their consolidated balance sheets. Each reporting period, the resulting asset or liability is adjusted to reflect any change in the fair value of the contract. Since none of CMS Energy s or Consumers derivatives has been designated as an accounting hedge, all changes in fair value are either reported in earnings or deferred as regulatory assets or liabilities. For details regarding CMS Energy s and Consumers derivative instruments recorded at fair value, see Note 6, Fair Value Measurements.

Earnings Per Share: CMS Energy calculates basic and diluted EPS using the weighted-average number of shares of common stock and dilutive potential common stock outstanding during the period. Potential common stock, for purposes of determining diluted EPS, includes the effects of nonvested stock awards and contingently convertible securities. CMS Energy computes the effect on potential common stock using the treasury stock method or the if-converted method, as applicable. Diluted EPS excludes the impact of antidilutive securities, which are those securities resulting in an increase in EPS or a decrease in loss per share. For EPS computations, see Note 15, Earnings Per Share CMS Energy.

Financial Instruments: CMS Energy and Consumers record debt and equity securities classified as available for sale at fair value as determined from quoted market prices or other observable, market-based inputs. Unrealized gains and losses resulting from changes in fair value of these securities are determined on a specific-identification basis. CMS Energy and Consumers report unrealized gains and losses on these securities, net of tax, in equity as part of AOCI, except that unrealized losses determined to be other than temporary are reported in earnings. For additional details regarding financial instruments, see Note 7, Financial Instruments.

Impairment of Long-Lived Assets and Equity Method Investments: CMS Energy and Consumers perform tests of impairment if certain triggering events occur or if there has been a decline in value that may be other than temporary.

CMS Energy and Consumers evaluate long-lived assets held in use for impairment by calculating the undiscounted future cash flows expected to result from the use of the asset and its eventual disposition. If the undiscounted future cash flows are less than the carrying amount, CMS Energy and Consumers recognize an impairment loss equal to the amount by which the carrying amount exceeds the fair value. CMS Energy and Consumers estimate the fair value of the asset using quoted market prices, market prices of similar assets, or discounted future cash flow analyses.

CMS Energy also assesses equity method investments for impairment whenever there has been a decline in value that is other than temporary. This assessment requires CMS Energy to determine the fair value of the equity method investment. CMS Energy determines fair value using valuation methodologies, including discounted cash flows, and assesses the ability of the investee to sustain an earnings capacity that justifies the carrying amount of the investment. CMS Energy records an impairment if the fair value is less than the carrying amount and the decline in value is considered to be other than temporary.

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Inventory: CMS Energy and Consumers use the weighted-average cost method for valuing working gas, recoverable base gas in underground storage facilities, and materials and supplies inventory. CMS Energy and Consumers also use this method for valuing coal inventory, and they classify these amounts as generating plant fuel stock on their consolidated balance sheets.

CMS Energy and Consumers account for RECs and emission allowances as inventory and use the weighted-average cost method to remove amounts from inventory. RECs and emission allowances are used to satisfy compliance obligations related to the generation of power. CMS Energy and Consumers classify these amounts within other assets on their consolidated balance sheets.

CMS Energy and Consumers evaluate inventory for impairment as required to ensure that its carrying value does not exceed the lower of cost or net realizable value.

MISO Transactions: MISO requires the submission of hourly day-ahead and real-time bids and offers for energy at locations across the MISO region. CMS Energy and Consumers account for MISO transactions on a net hourly basis in each of the real-time and day-ahead markets, netted across all MISO energy market locations. CMS Energy and Consumers record net hourly purchases in purchased and interchange power and net hourly sales in operating revenue on their consolidated statements of income. They record net billing adjustments upon receipt of settlement statements, record accruals for future net purchases and sales adjustments based on historical experience, and reconcile accruals to actual expenses and sales upon receipt of settlement statements.

Property Taxes: Property taxes are based on the taxable value of Consumers real and personal property assessed by local taxing authorities. Consumers records property tax expense over the fiscal year of the taxing authority for which the taxes are levied based on Consumers budgeted customer sales. The deferred property tax balance represents the amount of Consumers accrued property tax that will be recognized over future governmental fiscal periods.

Renewable Energy Grant: In 2013, Consumers received a renewable energy cash grant for Lake Winds® Energy Park under Section 1603 of the American Recovery and Reinvestment Tax Act of 2009. Upon receipt of the grant, Consumers recorded a regulatory liability, which Consumers is amortizing over the life of Lake Winds® Energy Park. Consumers presents the amortization as a reduction to maintenance and other operating expenses on its consolidated statements of income. Consumers recorded the deferred income taxes related to the grant as a reduction of the book basis of Lake Winds® Energy Park.

Other: For additional accounting policies, see:

- Note 8, Notes Receivable
- Note 9, Plant, Property, and Equipment
- Note 11, Asset Retirement Obligations
- Note 12, Retirement Benefits

- Note 14, Income Taxes
- Note 17, Cash and Cash Equivalents

2: NEW ACCOUNTING STANDARDS

Implementation of New Accounting Standards

ASU 2014-12, Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period: This standard, which was effective on January 1, 2016 for CMS Energy and Consumers, addresses stock awards with performance targets that can be met after an employee has completed the required service period. The standard was issued to resolve diversity in practice regarding the accounting treatment for this type of award. Under the new guidance, the probability of the performance target being met should be factored into compensation

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expense each period. This guidance is consistent with the accounting that CMS Energy and Consumers already applied to awards of this type. Therefore, the standard had no impact on CMS Energy s or Consumers consolidated financial statements.

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

ASU 2015-03, Simplifying the Presentation of Debt Issuance Costs: This standard, which was effective on January 1, 2016 for CMS Energy and Consumers, requires that debt issuance costs be presented as a direct deduction from the carrying amount of long-term debt on the balance sheet. Previously, debt issuance costs were reported as an asset. The new guidance aligns the presentation of debt issuance costs with debt discounts and premiums. In accordance with the standard, CMS Energy included $45 million and Consumers included $25 million of unamortized debt issuance costs in long-term debt on their consolidated balance sheets at December 31, 2016. In addition, this standard requires that entities apply the new guidance retrospectively to all prior periods presented. Accordingly, CMS Energy reclassified $41 million and Consumers reclassified $23 million of unamortized debt issuance costs from other non-current assets to long-term debt on their consolidated balance sheets at December 31, 2015.

ASU 2016-09, Improvements to Employee Share-Based Payment Accounting: This standard was issued to simplify and improve the accounting for employee share-based payment awards. The required effective date of the standard for CMS Energy and Consumers is January 1, 2017, but early adoption is permitted. CMS Energy and Consumers elected to adopt the standard early as of January 1, 2016. The standard requires all excess tax benefits and deficiencies that occur upon vesting of employee stock awards to be recognized in net income. Previously, CMS Energy and Consumers did not record excess tax benefits on restricted stock awards in net income but, under this standard, CMS Energy and Consumers recorded $7 million of excess tax benefits in net income for the year ended December 31, 2016. Also, in accordance with the standard, CMS Energy recorded a $33 million cumulative adjustment to its accumulated deficit at January 1, 2016. This amount represented excess federal tax benefits that CMS Energy had not recognized in prior periods due to the use of tax loss carryforwards. The implementation of this standard had no other major impacts on CMS Energy s or Consumers consolidated financial statements.

ASU 2016-15, Classification of Certain Cash Receipts and Cash Payments: This standard provides guidance on how certain cash receipts and cash payments should be classified in the statement of cash flows, with the objective of reducing diversity in practice. The required effective date of the standard for CMS Energy and Consumers is January 1, 2018, but early adoption is permitted. CMS Energy and Consumers elected to adopt the standard early for the year ended December 31, 2016. The standard addresses various cash flow issues, including debt prepayment and debt extinguishment costs. Under the new guidance, these costs, including premiums paid, should be classified as cash flows from financing activities. Previously, CMS Energy and Consumers classified premiums paid to retire debt early as cash flows from operating activities but, in accordance with this standard, they classified these payments as cash flows from financing activities for the year ended December 31, 2016. In addition, the standard requires that entities apply the new guidance retrospectively to all prior periods presented, unless impracticable. Accordingly, for the year ended December 31, 2014, CMS Energy reclassified $36 million and Consumers reclassified $16 million of debt retirement premium payments from operating activities to financing activities on their consolidated statements of cash flows. The standard had no other major impacts on CMS Energy s or Consumers consolidated financial statements.

ASU 2016-18, Restricted Cash: This standard requires restricted cash and cash equivalents to be included with cash and cash equivalents when reconciling beginning-of-period and end-of-period amounts shown on the statement of cash flows. Under this guidance, the statement of cash flows should explain the total

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change in cash balances, including amounts described as restricted. The required effective date of the standard for CMS Energy and Consumers is January 1, 2018, but early adoption is permitted. CMS Energy and Consumers elected to adopt the standard early for the year ended December 31, 2016. In accordance with the standard, CMS Energy and Consumers included restricted cash amounts in their reconciliations of cash balances on their consolidated statements of cash flows for the year ended December 31, 2016. Previously, restricted cash amounts were excluded from the reconciliations of cash balances and transfers between cash balances and restricted cash balances were presented as other investing activities. In addition, the standard requires that entities apply the new guidance retrospectively to all prior periods presented. Accordingly, CMS Energy and Consumers made the following adjustments to prior-period amounts on their consolidated statements of cash flows:

		In Millions
Years Ended December 31	2015	2014
CMS Energy, including Consumers		
Increase (decrease) in:		
Cash and cash equivalents, including restricted amounts, beginning of period	$ 42	$ 32
Net cash used in investing activities	(20)	10
Cash and cash equivalents, including restricted amounts, end of period	22	42
Consumers		
Increase (decrease) in:		
Cash and cash equivalents, including restricted amounts, beginning of period	$ 41	$ 31
Net cash used in investing activities	(20)	10
Cash and cash equivalents, including restricted amounts, end of period	21	41

For further information on CMS Energy s and Consumers cash balances, see Note 17, Cash and Cash Equivalents.

New Accounting Standards Not Yet Effective

ASU 2014-09, Revenue from Contracts with Customers: This standard provides new guidance for recognizing revenue from contracts with customers. A primary objective of the standard is to provide a single, comprehensive revenue recognition model that will be applied across entities, industries, and capital markets. The new guidance will replace most of the existing revenue recognition requirements in GAAP, although certain guidance specific to rate-regulated utilities will be retained. The standard will be effective on January 1, 2018 for CMS Energy and Consumers, but early adoption in 2017 is permitted. Entities will have the option to apply the standard retrospectively to all prior periods presented, or to apply it retrospectively only to contracts existing at the effective date, with the cumulative effect of the standard recorded as an adjustment to beginning retained earnings. CMS Energy and Consumers have determined that they will not elect to adopt the standard early, but they are still assessing how they will apply the standard upon adoption.

CMS Energy and Consumers are continuing to evaluate the impact of this standard on their consolidated financial statements; however, they have determined that the standard will have no impact on a majority of their revenues. The standard may require utility contributions in aid of construction to be treated as revenue, rather than as a reduction to the cost of plant, property, and equipment. Also, the standard may not permit revenue to be recognized for certain accounts for which collection is not deemed probable, which would represent a change from the existing practice of recognizing revenue at the billing rates, with associated expenses for uncollectible accounts. CMS Energy and Consumers do not presently expect that these two issues will have a material impact on their consolidated net income, cash flows, or financial position, but they are still assessing these issues and other requirements of the standard.

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ASU 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities: This standard, which will be effective January 1, 2018 for CMS Energy and Consumers, is intended to improve the accounting for financial instruments. The standard will require investments in equity securities to be measured at fair value, with changes in fair value recognized in net income, except for certain investments such as those that qualify for equity-method accounting. The standard will no longer permit unrealized gains and losses for certain equity investments to be recorded in AOCI. CMS Energy and Consumers presently record unrealized gains and losses on certain equity investments, including the mutual funds in the DB SERP and Consumers investment in CMS Energy common stock, in AOCI, except that unrealized losses determined to be other than temporary are reported in earnings. For further details on these investments, see Note 7, Financial Instruments. Entities will apply the standard using a modified retrospective approach, with a cumulative-effect adjustment recorded to beginning retained earnings on the effective date.

ASU 2016-02, Leases: This standard establishes a new accounting model for leases. The standard will require entities to recognize lease assets and liabilities on the balance sheet for all leases with a term of more than one year, including operating leases, which are not recorded on the balance sheet under existing standards. As a result, CMS Energy and Consumers expect to recognize additional lease assets and liabilities for their operating leases under this standard. The new guidance will also amend the definition of a lease to require that a lessee control the use of a specified asset, and not simply control or take the output of the asset. On the income statement, leases that meet existing capital lease criteria will generally be accounted for under a financing model, while operating leases will generally be accounted for under a straight-line expense model. The standard will be effective on January 1, 2019 for CMS Energy and Consumers, but early adoption is permitted. CMS Energy and Consumers are continuing to evaluate the impact of the standard on their consolidated financial statements and do not presently expect to adopt the standard early. See Note 10, Leases and Palisades Financing, for more information on CMS Energy s and Consumers operating lease obligations.

ASU 2016-13, Measurement of Credit Losses on Financial Instruments: This standard, which will be effective January 1, 2020 for CMS Energy and Consumers, provides new guidance for estimating and recording credit losses on financial instruments. The standard will apply to the recognition of loan losses at EnerBank as well as to the recognition of uncollectible accounts expense at Consumers. Entities will apply the standard using a modified retrospective approach, with a cumulative-effect adjustment recorded to beginning retained earnings on the effective date. CMS Energy and Consumers are evaluating the impact of the standard on their consolidated financial statements.

3: REGULATORY MATTERS

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

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

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Regulatory Assets and Liabilities

Consumers is subject to the actions of the MPSC and FERC and therefore prepares its consolidated financial statements in accordance with the provisions of regulatory accounting. A utility must apply regulatory accounting when its rates are designed to recover specific costs of providing regulated services. Under regulatory accounting, Consumers records regulatory assets or liabilities for certain transactions that would have been treated as expense or revenue by non-regulated businesses.

Presented in the following table are the regulatory assets and liabilities on Consumers consolidated balance sheets:

In Millions

December 31	End of Recovery or Refund Period		2016		2015
Regulatory assets					
Current					
Energy optimization plan incentive[1]	2017	$	17	$	16
Total current regulatory assets		$	17	$	16
Non-current					
Postretirement benefits[2]	various	$	1,373	$	1,096
Securitized costs[3]	2029		323		348
ARO[4]	various		166		151
MGP sites[4]	various		139		146
Unamortized loss on reacquired debt[4]	various		54		61
Energy optimization plan incentive[1]	2018		18		18
Gas storage inventory adjustments[4]	various		14		18
Other	various		4		2
Total non-current regulatory assets		$	2,091	$	1,840
Total regulatory assets		$	2,108	$	1,856
Regulatory liabilities					
Current					
Income taxes, net					