FARMER BROTHERS CO
Form 10-Q
November 09, 2015

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
(Mark One)

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

For the quarterly period ended September 30, 2015
OR

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

For the transition period from to
Commission file number: 001-34249
FARMER BROS. CO.
(Exact Name of Registrant as Specified in Its Charter)

Delaware	95-0725980
(State of Incorporation)	(I.R.S. Employer Identification No.)

13601 North Freeway, Suite 200, Fort Worth, Texas 76177
(Address of Principal Executive Offices; Zip Code)
888-998-2468
(Registrant’s Telephone Number, Including Area Code)

20333 South Normandie Avenue, Torrance, California 90502
(Former Address, if Changed Since Last Report)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES ý NO ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES ý NO ¨

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. (Check one):

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES ¨ NO ý

As of November 6, 2015 the registrant had 16,676,199 shares outstanding of its common stock, par value $1.00 per share, which is the registrant’s only class of common stock.

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PART I - FINANCIAL INFORMATION (UNAUDITED)
Item 1. Financial Statements
FARMER BROS. CO.
CONSOLIDATED BALANCE SHEETS (UNAUDITED)
(In thousands, except share and per share data)

	September 30, 2015	June 30, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	$22,765	$15,160
Restricted cash	1,274	1,002
Short-term investments	22,837	23,665
Accounts and notes receivable, net	42,973	40,161
Inventories	56,744	50,522
Income tax receivable	797	535
Prepaid expenses	3,685	4,640
Total current assets	151,075	135,685
Property, plant and equipment, net	90,271	90,201
Goodwill and intangible assets, net	6,641	6,691
Other assets	7,612	7,615
Deferred income taxes	751	751
Total assets	$256,350	$240,943
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$38,892	$27,023
Accrued payroll expenses	23,451	23,005
Short-term borrowings under revolving credit facility	154	78
Short-term obligations under capital leases	2,904	3,249
Short-term derivative liabilities	3,632	3,977
Deferred income taxes	1,390	1,390
Other current liabilities	6,539	6,152
Total current liabilities	76,962	64,874
Accrued pension liabilities	47,506	47,871
Accrued postretirement benefits	23,505	23,471
Accrued workers' compensation liabilities	10,964	10,964
Other long-term liabilities—capital leases	2,059	2,599
Other long-term liabilities (Note 11)	3,609	225
Deferred income taxes	909	928
Total liabilities	$165,514	$150,932
Commitments and contingencies (Note 15)		
Stockholders' equity:		
Preferred stock, $1.00 par value, 500,000 shares authorized and none issued	$—	$—
Common stock, $1.00 par value, 25,000,000 shares authorized; 16,676,403 and 16,658,148 issued and outstanding at September 30, 2015 and June 30, 2015, respectively	16,676	16,658
Additional paid-in capital	39,696	38,143
Retained earnings	105,790	106,864
Unearned ESOP shares	(11,234)	(11,234)
Accumulated other comprehensive loss	(60,092)	(60,420)
Total stockholders' equity	$90,836	$90,011

Total liabilities and stockholders’ equity	$256,350	$240,943

The accompanying notes are an integral part of these consolidated financial statements.

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FARMER BROS. CO.
CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)
(In thousands, except share and per share data)

	Three Months Ended September 30,	
	2015	2014
Net sales	$133,445	$135,984
Cost of goods sold	82,866	87,863
Gross profit	50,579	48,121
Selling expenses	36,441	38,450
General and administrative expenses	9,465	7,009
Restructuring and other transition expenses	5,450	—
Net (gains) losses from sales of assets	(214)	61
Operating expenses	51,142	45,520
(Loss) income from operations	(563)	2,601
Other (expense) income:		
Dividend income	293	294
Interest income	104	89
Interest expense	(121)	(207)
Other, net	(875)	(64)
Total other (expense) income	(599)	112
(Loss) income before taxes	(1,162)	2,713
Income tax (benefit) expense	(88)	198
Net (loss) income	$(1,074)	$2,515
Net (loss) income per common share—basic	$(0.07)	$0.16
Net (loss) income per common share—diluted	$(0.07)	$0.16
Weighted average common shares outstanding—basic	16,269,368	16,003,802
Weighted average common shares outstanding—diluted	16,269,368	16,130,745

The accompanying notes are an integral part of these consolidated financial statements.

FARMER BROS. CO.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME (UNAUDITED)
(In thousands)

	Three Months Ended September 30,	
	2015	2014
Net (loss) income	$(1,074)	$2,515
Other comprehensive (loss) income, net of tax:		
Unrealized (losses) gains on derivative instruments designated as cash flow hedges	(4,640)	3,332
Losses (gains) on derivative instruments designated as cash flow hedges reclassified to cost of goods sold	4,968	(4,710)
Total comprehensive (loss) income, net of tax	$(746)	$1,137

The accompanying notes are an integral part of these consolidated financial statements.

FARMER BROS. CO.
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
(In thousands)

	Three Months Ended September 30,	
	2015	2014
Cash flows from operating activities:		
Net (loss) income	$(1,074)	$2,515
Adjustments to reconcile net (loss) income to net cash provided by (used in)operating activities:		
Depreciation and amortization	5,295	6,256
Provision for doubtful accounts	44	7
Restructuring and other transition expenses, net of payments	2,889	—
Deferred income taxes	(19)	29
Net (gains) losses from sales of assets	(214)	61
ESOP and share-based compensation expense	1,229	1,258
Net losses (gains) on derivative instruments and investments	5,839	(4,569)
Change in operating assets and liabilities:		
Restricted cash	(272)	—
Purchases of trading securities held for investment	(518)	(936)
Proceeds from sales of trading securities held for investment	1,202	1,315
Accounts and notes receivable	(1,805)	(3,949)
Inventories	(6,446)	(897)
Income tax receivable	(262)	30
Derivative assets, net	(5,094)	5,389
Prepaid expenses and other assets	966	712
Accounts payable	11,493	(3,899)
Accrued payroll expenses and other current liabilities	(1,514)	(6,463)
Accrued postretirement benefits	34	(230)
Other long-term liabilities	(365)	(452)
Net cash provided by (used in) operating activities	$11,408	$(3,823)
Cash flows from investing activities:		
Purchases of property, plant and equipment	(3,781)	(4,930)
Proceeds from sales of property, plant and equipment	538	98
Net cash used in investing activities	$(3,243)	$(4,832)
Cash flows from financing activities:		
Proceeds from revolving credit facility	—	13,860
Repayments on revolving credit facility	(28)	(12,040)
Payment of financing costs	(8)	—
Payments of capital lease obligations	(865)	(957)
Proceeds from stock option exercises	341	581
Net cash (used in) provided by financing activities	$(560)	$1,444
Net increase (decrease) in cash and cash equivalents	$7,605	$(7,211)
Cash and cash equivalents at beginning of period	$15,160	11,993
Cash and cash equivalents at end of period	$22,765	$4,782

(continued on next page)

FARMER BROS. CO.
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED) (continued from previous page)
(In thousands)

	Three Months Ended September 30,	
	2015	2014
Supplemental disclosure of non-cash investing and financing activities:		
Equipment acquired under capital leases	$9	$42
Net change in derivative assets and liabilities included in other comprehensive income	$328	$(1,378)
Increase in construction-in-progress assets under Texas facility lease	$1,982	$—
Increase in Texas facility lease obligation	$2,768	$—
Non-cash additions to equipment	$150	$17

The accompanying notes are an integral part of these consolidated financial statements.

FARMER BROS. CO.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

Note 1. Summary of Significant Accounting Policies

Organization

Farmer Bros. Co., a Delaware corporation (including its consolidated subsidiaries unless the context otherwise requires, the “Company,” or “Farmer Bros.”), is a manufacturer, wholesaler and distributor of coffee, tea and culinary products. The Company's customers include restaurants, hotels, casinos, offices, quick service restaurants (“QSRs”), convenience stores, healthcare facilities and other foodservice providers, as well as private brand retailers in the QSR, grocery, drugstore, restaurant, convenience store and independent coffeehouse channels. The Company was founded in 1912, was incorporated in California in 1923, and reincorporated in Delaware in 2004. The Company operates in one business segment.

Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States (“GAAP”) for complete consolidated financial statements. In the opinion of management, all adjustments (consisting only of normal recurring accruals, unless otherwise indicated) considered necessary for a fair presentation of the interim financial data have been included. Operating results for the three months ended September 30, 2015 are not necessarily indicative of the results that may be expected for the fiscal year ending June 30, 2016. Events occurring subsequent to September 30, 2015 have been evaluated for potential recognition or disclosure in the unaudited consolidated financial statements for the three months ended September 30, 2015.

The accompanying unaudited consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes included in the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2015, filed with the Securities and Exchange Commission (the "SEC") on September 14, 2015.

Use of Estimates

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. The Company reviews its estimates on an ongoing basis using currently available information. Changes in facts and circumstances may result in revised estimates and actual results may differ from those estimates.

Corporate Relocation Plan

On February 5, 2015, the Company announced a plan approved by the Board of Directors of the Company on February 3, 2015, pursuant to which the Company will close its Torrance, California facility and relocate these operations to a new facility housing the Company's manufacturing, distribution, coffee lab and corporate headquarters (the “Corporate Relocation Plan”). The new facility will be located in Northlake, Texas in the Dallas/Fort Worth area. Expenses related to the Corporate Relocation Plan included in “Relocation and other transition expenses” in the Company's consolidated statements of operations include employee retention and separation benefits, facility-related costs, and other related costs such as travel, legal, consulting and other professional services. In order to receive the retention and/or separation benefits, impacted employees are required to provide service through their retention dates which vary from May 2015 through March 2016 or separation dates which vary from May 2015 through June 2016. A liability for such retention and separation benefits was recorded at the communication date in “Accrued payroll expenses” on the Company's consolidated balance sheets. Facility-related costs and other related costs are recognized in the period when the liability is incurred (see Note 2).

Facility Lease Obligation

On July 17, 2015, the Company entered into a lease agreement (the “Lease Agreement”) with WF-FB NLTX, LLC, a Delaware limited liability company (the “Lessor”), to lease a 538,000 square foot facility to be constructed on 28.2 acres of

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land located in Northlake, Texas (see Note 3). The new facility will be constructed by Lessor, at its expense, in accordance with agreed upon specifications and plans determined as set forth in the Lease Agreement. Due to the Company's involvement in the construction of the facility, as the deemed general contractor, pursuant to Accounting Standards Codification ("ASC") 840, "Leases" ("ASC 840"), the Company is required to capitalize during the construction period the cash and non-cash assets contributed by Lessor for the construction as property, plant and equipment on the Company's consolidated balance sheets, with an offsetting liability for the same amount payable to Lessor.

A portion of the lease arrangement is allocated to land for which the Company will record rent expense during the construction period (see Note 15). The expense associated with the land is determined using the fair value of the leased land at construction commencement and the Company's incremental borrowing rate, and is recognized on a straight-line basis. Once rent payments commence under the Lease Agreement, all amounts in excess of land rent expense will be recorded as a debt-service payment and recognized as interest expense and a reduction of the financing obligation.

Derivative Instruments

The Company purchases various derivative instruments to create economic hedges of its commodity price risk and interest rate risk. These derivative instruments consist primarily of futures and swaps. The Company reports the fair value of derivative instruments on its consolidated balance sheets in "Short-term derivative assets," "Other assets," "Short-term derivative liabilities," or "Long-term derivative liabilities." The Company determines the current and noncurrent classification based on the timing of expected future cash flows of individual trades and reports these amounts on a gross basis. Additionally, the Company reports cash held on deposit in margin accounts for coffee-related derivative instruments on a gross basis on its consolidated balance sheets in "Restricted cash" if restricted from withdrawal due to a net loss position in such margin accounts.

The accounting for the changes in fair value of the Company's derivative instruments can be summarized as follows:

Derivative Treatment	Accounting Method
Normal purchases and normal sales exception	Accrual accounting
Designated in a qualifying hedging relationship	Hedge accounting
All other derivative instruments	Mark-to-market accounting

The Company enters into green coffee purchase commitments at a fixed price or at a price to be fixed ("PTF"). PTF contracts are purchase commitments whereby the quality, quantity, delivery period, price differential to the coffee "C" market price and other negotiated terms are agreed upon, but the date, and therefore the price at which the base "C" market price will be fixed has not yet been established. The coffee "C" market price is fixed at some point after the purchase contract date and before the futures market closes for the delivery month and may be fixed either at the direction of the Company to the vendor, or by the application of a derivative that was separately purchased as a hedge. For both fixed-price and PTF contracts, the Company expects to take delivery of and to utilize the coffee in a reasonable period of time and in the conduct of normal business. Accordingly, these purchase commitments qualify as normal purchases and are not recorded at fair value on the Company's consolidated balance sheets.

The Company accounts for certain coffee-related derivative instruments as accounting hedges in order to minimize the volatility created in the Company's quarterly results from utilizing these derivative contracts and to improve comparability between reporting periods. For a derivative to qualify for designation in a hedging relationship it must meet specific criteria and the Company must maintain appropriate documentation. The Company establishes hedging relationships pursuant to its risk management policies. The hedging relationships are evaluated at inception and on an ongoing basis to determine whether the hedging relationship is, and is expected to remain, highly effective in achieving offsetting changes in fair value or cash flows attributable to the underlying risk being hedged. The Company also regularly assesses whether the hedged forecasted transaction is probable of occurring. If a derivative ceases to be or is no longer expected to be highly effective, or if the Company believes the likelihood of occurrence of the hedged forecasted transaction is no longer probable, hedge accounting is discontinued for that derivative, and future changes in the fair value of that derivative are recognized in "Other, net."

For coffee-related derivative instruments designated as cash flow hedges, the effective portion of the change in fair value of the derivative is reported as accumulated other comprehensive income (loss) (“AOCI”) and subsequently reclassified into cost of goods sold in the period or periods when the hedged transaction affects earnings. Any ineffective portion of the derivative instrument's change in fair value is recognized currently in “Other, net.” Gains or losses deferred in AOCI associated with terminated derivative instruments, derivative instruments that cease to be highly effective hedges, derivative instruments

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for which the forecasted transaction is reasonably possible but no longer probable of occurring, and cash flow hedges that have been otherwise discontinued remain in AOCI until the hedged item affects earnings. If it becomes probable that the forecasted transaction designated as the hedged item in a cash flow hedge will not occur, any gain or loss deferred in AOCI is recognized in "Other, net" at that time. For derivative instruments that are not designated in a hedging relationship, and for which the normal purchases and normal sales exception has not been elected, the changes in fair value are reported in "Other, net."

The following gains and losses on derivative instruments are netted together and reported in "Other, net" in the Company's consolidated statements of operations:

- Gains and losses on all derivative instruments that are not designated as cash flow hedges and for which the normal purchases and normal sales exception has not been elected; and
- The ineffective portion of unrealized gains and losses on derivative instruments that are designated as cash flow hedges.

The fair value of derivative instruments is based upon broker quotes. At September 30, 2015 and June 30, 2015, approximately 95% of the Company's outstanding coffee-related derivative instruments were designated as cash flow hedges (see Note 4).

Coffee Brewing Equipment and Service

The Company classifies certain expenses related to coffee brewing equipment provided to customers as cost of goods sold. These costs include the cost of the equipment as well as the cost of servicing that equipment (including service employees' salaries, cost of transportation and the cost of supplies and parts) and are considered directly attributable to the generation of revenues from its customers. Accordingly, such costs included in cost of goods sold in the accompanying unaudited consolidated financial statements in each of the three months ended September 30, 2015 and 2014 were $6.5 million. In addition, depreciation expense related to capitalized coffee brewing equipment reported in cost of goods sold in the three months ended September 30, 2015 and 2014 was $2.5 million and $2.6 million, respectively. The Company capitalized coffee brewing equipment (included in machinery and equipment) in the amount of $1.6 million and $3.1 million in the three months ended September 30, 2015 and 2014, respectively.

Revenue Recognition

The Company recognizes sales revenue when all of the following have occurred: (1) delivery; (2) persuasive evidence of an agreement exists; (3) pricing is fixed or determinable; and (4) collection is reasonably assured. Most product sales are made "off-truck" to the Company's customers at their places of business by the Company's route sales representatives. Revenue is recognized at the time the Company's route sales representatives physically deliver products to customers and title passes or when it is accepted by the customer when shipped by third-party delivery.

Net (Loss) Income Per Common Share

Net (loss) income per share ("EPS") represents net (loss) income attributable to common stockholders divided by the weighted-average number of common shares outstanding for the period, excluding unallocated shares held by the Company's Employee Stock Ownership Plan ("ESOP"). Diluted EPS represents net income attributable to common stockholders divided by the weighted-average number of common shares outstanding, inclusive of the dilutive impact of common equivalent shares outstanding during the period. However, nonvested restricted stock awards (referred to as participating securities) are excluded from the dilutive impact of common equivalent shares outstanding in accordance with authoritative guidance under the two-class method. The nonvested restricted stockholders are entitled to participate in dividends declared on common stock as if the shares were fully vested and hence are deemed to be participating securities. Under the two-class method, net income attributable to nonvested restricted stockholders is excluded from net income attributable to common stockholders for purposes of calculating basic and diluted EPS.

Computation of EPS for the three months ended September 30, 2015 excludes a total of 512,842 shares issuable under stock options, because the Company incurred a net loss and including them would be anti-dilutive. Computation of EPS for the three months ended September 30, 2014 includes the dilutive effect of 126,943 shares issuable under stock options with exercise prices below the closing price of the Company's common stock on the last trading day of

the quarter ended September 30, 2014, but excludes 72,756 shares issuable under stock options with exercise prices above the closing price of the Company’s common stock on the last trading day of the quarter ended September 30, 2014, because their inclusion would be anti-dilutive.

Dividends

The Company’s Board of Directors has omitted the payment of a quarterly dividend since the third quarter of fiscal 2011. The amount, if any, of dividends to be paid in the future will depend upon the Company’s then available cash, anticipated cash needs, overall financial condition, credit agreement restrictions, future prospects for earnings and cash flows, as well as other relevant factors.

Impairment of Goodwill and Indefinite-lived Intangible Assets

The Company performs its annual impairment test of goodwill and/or other indefinite-lived intangible assets as of June 30. Goodwill and other indefinite-lived intangible assets are not amortized but instead are reviewed for impairment annually, as well as on an interim basis if events or changes in circumstances between annual tests indicate that an asset might be impaired. Testing for impairment of goodwill is a two-step process. The first step requires the Company to compare the fair value of its reporting units to the carrying value of the net assets of the respective reporting units, including goodwill. If the fair value of the reporting unit is less than its carrying value, goodwill of the reporting unit is potentially impaired and the Company then completes step two to measure the impairment loss, if any. The second step requires the calculation of the implied fair value of goodwill, which is the residual fair value remaining after deducting the fair value of all tangible and intangible net assets of the reporting unit from the fair value of the reporting unit. If the implied fair value of goodwill is less than the carrying amount of goodwill, an impairment loss is recognized equal to the difference. Indefinite-lived intangible assets are tested for impairment by comparing their fair values to their carrying values. An impairment charge is recorded if the estimated fair value of such assets has decreased below their carrying value. There were no such events or circumstances during the three months ended September 30, 2015 and 2014.

In fiscal 2015, the Company recorded $0.3 million in goodwill in connection with the acquisition of substantially all of the assets of Rae' Launo Corporation relating to its direct-store-delivery and in-room distribution business in the Southeastern United States (the "RLC Acquisition"). As of September 30, 2015, the Company determined that there were no events or circumstances that indicated impairment and, therefore, no goodwill impairment charges were recorded in the three months ended September 30, 2015. The Company had no goodwill recorded at September 30, 2014.

Long-Lived Assets, Excluding Goodwill and Indefinite-lived Intangible Assets

The Company reviews the recoverability of its long-lived assets whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. Long-lived assets evaluated for impairment are grouped with other assets to the lowest level for which identifiable cash flows are largely independent of the cash flows of other groups of assets and liabilities. The estimated future cash flows are based upon, among other things, assumptions about expected future operating performance, and may differ from actual cash flows. If the sum of the projected undiscounted cash flows (excluding interest) is less than the carrying value of the assets, the assets will be written down to the estimated fair value in the period in which the determination is made. There were no such events or circumstances during the three months ended September 30, 2015 and 2014. The Company may incur certain other non-cash asset impairment costs in connection with the Corporate Relocation Plan.

Self-Insurance

The Company is self-insured for workers’ compensation insurance subject to specific retention levels and uses historical analysis to determine and record the estimates of expected future expenses resulting from workers’ compensation claims. The estimated outstanding losses are the accrued cost of unpaid claims. The estimated outstanding losses, including allocated loss adjustment expenses (“ALAE”), include case reserves, the development of known claims and incurred but not reported claims. ALAE are the direct expenses for settling specific claims. The amounts reflect per occurrence and annual aggregate limits maintained by the Company. The analysis does not include estimating a provision for unallocated loss adjustment expenses.

The Company accounts for its accrued liability relating to workers’ compensation claims on an undiscounted basis. The estimated gross undiscounted workers’ compensation liability relating to such claims as of September 30, 2015

and June 30, 2015, respectively, was $13.2 million and $13.4 million, and the estimated recovery from reinsurance was $2.5 million as of September 30, 2015 and June 30, 2015. The short-term and long-term accrued liabilities for workers’ compensation claims are presented on the Company's consolidated balance sheets in "Other current liabilities" and in "Accrued workers' compensation liabilities," respectively. The estimated insurance receivable is included in "Other assets" on the Company's consolidated balance sheets.

Due to its failure to meet the minimum credit rating criteria for participation in the alternative security program for California self-insurers for workers' compensation liability, the Company posted a $7.0 million letter of credit at September 30, 2015 and June 30, 2015 as a security deposit with the State of California Department of Industrial Relations Self-Insurance Plans.

The estimated liability related to the Company's self-insured group medical insurance at September 30, 2015 and June 30, 2015 was $0.9 million and $1.0 million, respectively, recorded on an incurred but not reported basis, within deductible limits, based on actual claims and the average lag time between the date insurance claims are filed and the date those claims are paid.

General liability, product liability and commercial auto liability are insured through a captive insurance program. The Company retains the risk within certain aggregate amounts. Cost of the insurance through the captive program is accrued based on estimates of the aggregate liability claims incurred using certain actuarial assumptions and historical claims experience. The Company's liability reserve for such claims at September 30, 2015 and June 30, 2015 was $1.1 million and $0.8 million, respectively.

The estimated liability related to the Company's self-insured group medical insurance, general liability, product liability and commercial auto liability is included on the Company's consolidated balance sheets in “Other current liabilities.”

Recently Adopted Accounting Standards

In August 2015, the Financial Accounting Standards Board (the “FASB”) issued Accounting Standards Update (“ASU”) 2015-15, “Interest—Imputation of Interest (Subtopic 835-30): Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements” (“ASU 2015-15”). ASU 2015-15 incorporates into the Accounting Standards Codification ("ASC") an SEC staff announcement that the SEC staff will not object to an entity presenting the cost of securing a revolving line of credit as an asset, regardless of whether a balance is outstanding. The standard, as issued, did not address revolving lines of credit, which may not have outstanding balances. An entity that repeatedly draws on a revolving credit facility and then repays the balance could present the cost as a deferred asset and reclassify all or a portion of it as a direct deduction from the liability whenever a balance is outstanding. However, the SEC staff's announcement provides a less-cumbersome alternative. Either way, the cost should be amortized over the term of the arrangement. This guidance was effective upon announcement by the SEC on June 18, 2015. The Company adopted this guidance on the effective date. Adoption of ASU 2015-15 did not have a material effect on the results of operations, financial position or cash flows of the Company.

New Accounting Pronouncements

In September 2015, the FASB issued ASU 2015-16, “Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments” (“ASU 2015-16”). ASU 2015-16 eliminates the requirement that an acquirer in a business combination account for measurement-period adjustments retrospectively. Instead, an acquirer will recognize a measurement-period adjustment during the period in which it determines the amount of the adjustment, including the effect on earnings of any amounts it would have recorded in previous periods if the accounting had been completed at the acquisition date. The guidance is effective for public business entities for fiscal years, including interim periods within those fiscal years, beginning after December 15, 2015, with early adoption permitted. ASU 2015-16 is effective for the Company beginning July 1, 2016. Adoption of ASU 2015-16 is not expected to have a material effect on the results of operations, financial position or cash flows of the Company.

In July 2015, the FASB issued ASU 2015-12, “Plan Accounting: Defined Benefit Pension Plans (Topic 960), Defined Contribution Pension Plans (Topic 962), Health and Welfare Benefit Plans (Topic 965), (Part I) Fully Benefit-Responsive Investment Contracts, (Part II) Plan Investment Disclosures, (Part III) Measurement Date Practical Expedient” ("ASU 2015-12”). ASU 2015-12 eliminates requirements that employee benefit plans measure the fair value of fully benefit-responsive investment contracts ("FBRICs") and provide the related fair value disclosures. As a result, FBRICs are measured, presented and disclosed only at contract value. Also, plans will be required to disaggregate their investments measured using fair value by general type, either on the face of the financial statements

or in the notes, and self-directed brokerage accounts are one general type. Plans no longer have to disclose the net appreciation/depreciation in fair value of investments by general type or individual investments equal to or greater than 5% of net assets available for benefits. In addition, a plan with a fiscal year end that doesn’t coincide with the end of a calendar month is allowed to measure its investments and investment-related accounts using the month end closest to its fiscal year end. The new guidance for FBRICs and plan investment disclosures should be applied retrospectively. The measurement date practical expedient should be applied

prospectively. The guidance is effective for fiscal years beginning after December 15, 2015, with early adoption permitted. ASU 2015-12 is effective for the Company beginning July 1, 2016. Adoption of ASU 2015-12 is not expected to have a material effect on the results of operations, financial position or cash flows of the Company.

In July 2015, the FASB issued ASU 2015-11, "Inventory (Topic 330): Simplifying the Measurement of Inventory" ("ASU 2015-11"). ASU 2015-11 simplifies the subsequent measurement of inventory by requiring inventory to be measured at the lower of cost and net realizable value. Entities will continue to apply their existing impairment models to inventories that are accounted for using last-in first-out or LIFO and the retail inventory method or RIM. Under current guidance, net realizable value is one of several calculations an entity needs to make to measure inventory at the lower of cost or market. ASU 2015-11 is effective for public business entities for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. Early adoption is permitted, and the guidance must be applied prospectively after the date of adoption. ASU 2015-11 is effective for the Company beginning July 1, 2017. Adoption of ASU 2015-11 is not expected to have a material effect on the results of operations, financial position or cash flows of the Company.

In May 2015, the FASB issued ASU 2015-07, "Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)" ("ASU 2015-07"). ASU 2015-07 removes the requirement to categorize investments for which the fair values are measured using the net asset value per share ("NAV") practical expedient within the fair value hierarchy. It also limits certain disclosures to investments for which the entity has elected to measure the fair value using the practical expedient. ASU 2015-07 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2015, with early adoption permitted.

ASU 2015-07 is effective for the Company beginning July 1, 2016. The Company is in the process of assessing the impact of the adoption of ASU 2015-07 on its consolidated financial statements.

In May 2014, the FASB issued accounting guidance which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers under ASU 2014-09, "Revenue from Contracts with Customers (Topic 606)" ("ASU 2014-09"). ASU 2014-09 will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. On July 9, 2015, the FASB decided to delay the effective date of ASU 2014-09 by one year allowing early adoption as of the original effective date of January 1, 2017. The deferral results in the new revenue standard being effective January 1, 2018. The Company is currently evaluating the impact of ASU 2014-09 on its results of operations, financial position and cash flows.

Note 2. Corporate Relocation Plan

On February 5, 2015, the Company announced the Corporate Relocation Plan pursuant to which the Company will close its Torrance facility and relocate these operations to a new facility housing the Company's manufacturing, distribution, coffee lab and corporate headquarters. Approximately 350 positions are impacted as a result of the Torrance facility closure. The new facility will be located in Northlake, Texas in the Dallas/Fort Worth area. The Company's decision resulted from a comprehensive review of alternatives designed to make the Company more competitive and better positioned to capitalize on growth opportunities.

The Company expects to close its Torrance facility in phases, and the Company began the process in the spring of 2015. Through April 2015, coffee purchasing, roasting, grinding, packaging and product development took place at the Company's Torrance, California, Portland, Oregon and Houston, Texas production facilities. In May 2015, the Company moved the coffee roasting, grinding and packaging functions that had been conducted in Torrance to its Houston and Portland production facilities and in conjunction relocated its Houston distribution operations to its Oklahoma City distribution center. Spice blending, grinding, packaging and product development continue to take place at the Company's Torrance production facility. As of September 30, 2015, distribution continued to take place out of the Company's Torrance and Portland production facilities, as well as separate distribution centers in Northlake, Illinois; Oklahoma City, Oklahoma; and Moonachie, New Jersey. Effective September 15, 2015, the Company transferred a majority of its primary administrative offices from Torrance to Fort Worth, Texas, where the Company has leased 32,000 square feet of temporary office space. The transfer of the Company's primary administrative offices

to this temporary office space is expected to be completed by the end of the second quarter of fiscal 2016. Construction of and relocation to the new facility are expected to be completed by the end of the second quarter of fiscal 2017. The Company's Torrance facility may be sold as part of the Corporate Relocation Plan.
Based on current assumptions and subject to continued implementation of the Corporate Relocation Plan as planned, the Company estimates that it will incur approximately $25 million in cash costs in connection with the exit of the Torrance facility

consisting of $14 million in employee retention and separation benefits, $4 million in facility-related costs and $7 million in other related costs. Expenses related to the Corporate Relocation Plan in the three months ended September 30, 2015 consisted of $3.6 million in employee retention, relocation and separation benefits, $0.7 million in facility-related costs including lease of temporary office space, costs associated with the move of the Company's headquarters, and expenses associated with production transition and relocation of certain distribution centers, and $1.1 million in other related costs including travel, legal, consulting, dedicated project management and other professional services. Facility-related costs in the three months ended September 30, 2015 also included $0.3 million in non-cash depreciation expense associated with the Torrance production facility resulting from the consolidation of coffee production operations with the Houston and Portland production facilities.

Since adoption of the Corporate Relocation Plan through September 30, 2015, the Company has recognized a total of $15.3 million of the estimated $25 million in aggregate cash costs consisting of an aggregate of $10.1 million in employee retention and separation benefits, $0.8 million in facility-related costs and $4.4 million in other related costs. The remainder is expected to be recognized in the balance of fiscal 2016 and the first quarter of fiscal 2017. The Company may incur certain other non-cash asset impairment costs, pension-related costs and postretirement benefit costs in connection with the Corporate Relocation Plan.

The following table sets forth the activity in liabilities associated with the Corporate Relocation Plan for the three months ended September 30, 2015:

(In thousands)	Balances, June 30, 2015	Additions	Payments	Non-Cash Settled	Adjustments	Balances, September 30, 2015
Employee-related costs(1)	$6,156	$3,596	$7,405	$—	$—	$2,347
Facility-related costs(2)	—	730	387	343	—	—
Other(3)	200	1,124	1,124	—	—	200
Total	$6,356	$5,450	$8,916	$343	$—	$2,547
Current portion	6,356					2,547
Non-current portion	—					—
Total	$6,356					$2,547

(1) Included in "Accrued payroll expenses" on the Company's consolidated balance sheets.
(2) Non-cash settled facility-related costs represent depreciation expense associated with the Torrance production facility resulting from the consolidation of coffee production operations with the Houston and Portland production facilities.
(3) Included in "Accounts payable" on the Company's consolidated balance sheets.

Note 3. Facility Lease Obligation

On July 17, 2015, the Company entered into the Lease Agreement pursuant to which the Company will lease a 538,000 square foot facility to be constructed on 28.2 acres of land located in Northlake, Texas. The new facility is expected to include approximately 85,000 square feet for corporate offices, more than 100,000 square feet for manufacturing, and more than 300,000 square feet for distribution, in addition to a coffee lab. The construction of the new facility is estimated to be completed by the end of the second quarter of fiscal 2017.

The new facility will be constructed by Lessor, at its expense, in accordance with agreed upon specifications and plans determined as set forth in the Lease Agreement. Due to the Company's involvement in the construction of the facility, as the deemed general contractor, pursuant to ASC 840, the Company is required to capitalize during the construction period the cash and non-cash assets contributed by Lessor for the construction as property, plant and equipment on the Company’s consolidated balance sheets, with an offsetting liability for the same amount payable to Lessor.

The Company recorded an asset related to the facility lease obligation included in property, plant and equipment of $2.8 million during the three months ended September 30, 2015. The facility lease obligation included in "Other

long-term liabilities" on the Company’s consolidated balance sheet was $2.8 million as of September 30, 2015. There were no such amounts recorded at June 30, 2015. As of September 30, 2015 and June 30, 2015, respectively, the Company had recorded $1.1 million and $0.3 million in “Other receivables” representing costs incurred by the Company associated with the new facility that are expected to be reimbursed by Lessor under the Lease Agreement (see Note 7).

A portion of the lease arrangement is allocated to land for which the Company will record rent expense during the construction period (see Note 15). The expense associated with the land is determined using the fair value of the leased land at construction commencement and the Company’s incremental borrowing rate, and is recognized on a straight-line basis. Once rent payments commence under the Lease Agreement, all amounts in excess of land rent expense will be recorded as a debt-service payment and recognized as interest expense and a reduction of the financing obligation. Rent expense for the facility lease obligation included in the Company’s consolidated statements of operations in the three months ended September 30, 2015 and 2014 was $0.1 million and $0, respectively.

The Lease Agreement contains a purchase option exercisable at any time by the Company on or before ninety days prior to the scheduled completion date with an option purchase price equal to 103% of the total project cost as of the date of the option closing if the option closing occurs on or before July 17, 2016. The option purchase price will increase by 0.35% per month thereafter up to and including the date which is the earlier of (A) ninety days after the scheduled completion date and (B) December 31, 2016. The obligation to pay rent will commence on December 31, 2016, if the option remains unexercised. The decision of whether to exercise the option or not will depend upon, among other things, whether the Company can sell the Torrance facility at an acceptable price.

The initial term of the lease is for 15 years from the rent commencement date with six options to renew, each with a renewal term of 5 years. The annual base rent under the Lease Agreement will be an amount equal to:

- the product of 7.50% and (a) the total estimated budget for the project, or (b) all construction costs outlined in the final budget on or prior to the scheduled completion date; or
- the product of 7.50% and the total project costs, to the extent that all components of the document delivery and completion requirement are fully satisfied on or prior to the scheduled completion date.

Annual base rent will increase by 2% during each year of the lease term.

On July 17, 2015, the Company also entered into a Development Management Agreement (“DMA”) with Stream Realty Partners-DFW, L.P., a Texas limited partnership (“Developer”).

Pursuant to the DMA, the Company retained the services of Developer to manage, coordinate, represent, assist and advise the Company on matters concerning the pre-development, development, design, entitlement, infrastructure, site preparation and construction of the facility. The term of the DMA is from July 17, 2015 until final completion of the project. Pursuant to the DMA, the Company will pay Developer:

- a development fee of 3.25% of all development costs;
- an oversight fee of 2% of any amounts paid to the Company-contracted parties for any oversight by Developer of Company-contracted work;
- an incentive fee, the amount of which will be determined by the parties, if final completion occurs prior to the scheduled completion date; and
- an amount equal to $2.6 million as additional fee in respect of development services.

Note 4. Derivative Instruments

Derivative Instruments Held

Coffee-Related Derivative Instruments

The Company is exposed to commodity price risk associated with its PTF green coffee purchase contracts, which are described further in Note 1. The Company utilizes futures contracts and options to manage exposure to the variability in expected future cash flows from forecasted purchases of green coffee attributable to commodity price risk. Certain of these coffee-related derivative instruments utilized for risk management purposes have been designated as cash flow hedges, while other coffee-related derivative instruments have not been designated as cash flow hedges or do not qualify for hedge accounting despite hedging the Company's future cash flows on an economic basis.

The following table summarizes the notional volumes for the coffee-related derivative instruments held by the Company at September 30, 2015 and June 30, 2015:

(In thousands)	September 30, 2015	June 30, 2015
Derivative instruments designated as cash flow hedges:		
Long coffee pounds	35,588	32,288
Derivative instruments not designated as cash flow hedges:		
Long coffee pounds	1,728	1,954
Total	37,316	34,242

Cash flow hedge contracts outstanding as of September 30, 2015 will expire within 22 months.

Effect of Derivative Instruments on the Financial Statements

Balance Sheets

Fair values of derivative instruments on the Company's consolidated balance sheets:

	Derivative Instruments Designated as Cash Flow Hedges		Derivative Instruments Not Designated as Accounting Hedges	
(In thousands)	September 30, 2015	June 30, 2015	September 30, 2015	June 30, 2015
Financial Statement Location:				
Short-term derivative assets(1):				
Coffee-related derivative instruments	$31	$128	$5	$25
Long-term derivative assets(1):				
Coffee-related derivative instruments	$69	$136	$—	$2
Short-term derivative liabilities(1):				
Coffee-related derivative instruments	$3,496	$4,128	$241	$2
Long-term derivative liabilities(2):				
Coffee-related derivative instruments	$641	$163	$—	$—

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(1) Included in "Short-term derivative liabilities" on the Company's consolidated balance sheets.

(2) Included in "Other long-term liabilities" on the Company's consolidated balance sheets.

Statements of Operations

The following table presents pretax net gains and losses for the Company's coffee-related derivative instruments designated as cash flow hedges, as recognized in "AOCI," "Cost of goods sold" and "Other, net":

	Three Months Ended September 30,		Financial Statement Classification
(In thousands)	2015	2014	
Net (losses) gains recognized in accumulated other comprehensive (loss) income (effective portion)	$(4,640)	$3,332	AOCI
Net (losses) gains recognized in earnings (effective portion)	$(4,968)	$4,710	Cost of goods sold
Net losses recognized in earnings (ineffective portion)	$(356)	$(51)	Other, net

For the three months ended September 30, 2015 and 2014, there were no gains or losses recognized in earnings as a result of excluding amounts from the assessment of hedge effectiveness or as a result of reclassifications to earnings following the discontinuance of any cash flow hedges.

Farmer Bros. Co.
Notes to Consolidated Financial Statements
(continued)

Gains and losses on derivative instruments not designated as accounting hedges are included in “Other, net” in the Company's consolidated statements of operations and in “Net losses (gains) on derivative instruments and investments” in the Company's consolidated statements of cash flows.

Net gains and losses recorded in "Other, net" are as follows:

	Three Months Ended September 30,			
(In thousands)	2015		2014	
Net (losses) gains on coffee-related derivative instruments	$ (727)		$ 49	
Net losses on investments	(147)	Maintenance and other operating expenses	1	11
Depreciation and amortization			-	(15)
General taxes			1	(3)
Other income, net of expenses			(4)	(6)
Interest charges			(1)	(2)
Income taxes			3	6
Total change			$ 2	$ (1)

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

Gas Deliveries and Rate Increases: For the three months ended September 30, 2017, gas delivery revenues increased $2 million compared with 2016. This change reflected a $4 million rate increase, and $2 million in higher sales, offset partially by a $4 million reduction in energy efficiency program revenues. Deliveries to end-use customers were 27 bcf in 2017 and 26 bcf in 2016.

For the nine months ended September 30, 2017, gas delivery revenues increased $8 million compared with 2016. This change reflected a $14 million rate increase, and a $4 million increase in other revenues, offset partially by a $10 million decrease in sales due primarily to milder winter weather. Deliveries to end-use customers were 189 bcf in 2017 and 196 bcf in 2016.

Maintenance and Other Operating Expenses: For the three months ended September 30, 2017, maintenance and other operating expenses decreased $1 million compared with 2016. This change reflected the absence, in 2017, of $4 million associated with a voluntary separation plan in 2016, a $4 million decrease in energy efficiency program costs, and a $2 million decrease in postretirement benefit costs, comprising a $4 million reduction associated with the early adoption of a new accounting standard, offset partially by $2 million of cost increases. For additional details on the implementation of this standard, see Note 1, New Accounting Standards. These decreases were offset largely by a $4 million increase in pipeline integrity expenses and $5 million in higher gas distribution and customer operations expense.

For the nine months ended September 30, 2017, maintenance and other operating expenses decreased $11 million compared with 2016. This change reflected a $6 million decrease in postretirement benefit costs, comprising an $11 million reduction associated with the early adoption of a new accounting standard, offset partially by $5 million of cost increases. For additional details on the implementation of this standard, see Note 1, New Accounting Standards. Also contributing to the change was the absence, in 2017, of $4 million associated with a 2016 voluntary separation plan, and a $3 million decline in uncollectible accounts expense. These reductions were offset partially by a $2 million increase in other gas operating and maintenance expenses.

Depreciation and Amortization: For the nine months ended September 30, 2017, depreciation and amortization expense increased $15 million compared with 2016, due primarily to increased plant in service.

Other Income, Net of Expenses: For the three months ended September 30, 2017, other income, net of expenses, decreased $4 million compared with 2016. This change was due to a $3 million reduction in nonoperating retirement benefit credits associated with the early adoption of a new accounting standard and a $1 million increase in other expenses. For additional details on the implementation of this standard, see Note 1, New Accounting Standards.

For the nine months ended September 30, 2017, other income, net of expenses, decreased $6 million compared with 2016. This change was due to an $8 million reduction in nonoperating retirement benefit credits associated with the early adoption of a new accounting standard and a $3 million decrease in other income, net of expenses. For additional details on the implementation of this standard, see Note 1, New Accounting Standards. These reductions were offset partially by a $5 million gain on a donation of CMS Energy stock by Consumers, which was eliminated on CMS Energy s consolidated statements of income.

Income Taxes: For the three months ended September 30, 2017, income taxes decreased $3 million compared with 2016 and for the nine months ended September 30, 2017, income taxes decreased $6 million compared with 2016. These changes were attributable primarily to lower gas utility earnings and to the $4 million impact of a reduction in Consumers effective state income tax rate. For further details on this reduction in Consumers effective state tax rate, see Note 9, Income Taxes.

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Enterprises Results of Operations

											In Millions
	Three Months Ended						Nine Months Ended				
September 30		2017		2016		Change		2017		2016		Change
Net Income Available to Common Stockholders	$	8	$	8	$	-	$	27	$	17	$	10

For the nine months ended September 30, 2017, net income of the enterprises segment increased $10 million compared with 2016, due primarily to higher prices for capacity and demand revenue at DIG.

Corporate Interest and Other Results of Operations

												In Millions
	Three Months Ended						Nine Months Ended					
September 30		2017		2016		Change		2017		2016		Change
Net Income (Loss) Available to Common Stockholders	$	(17)	$	(16)	$	(1)	$	(59)	$	(40)	$	(19)

For the nine months ended September 30, 2017, corporate interest and other net expenses increased $19 million compared with 2016, due primarily to the absence, in 2017, of a settlement reached with the Michigan Department of Treasury that resulted in a $2 million after-tax reduction in general taxes and a $3 million reduction in income tax expense. Also contributing to the increase were $4 million of higher administrative and other corporate expenses, and $1 million of lower net earnings at EnerBank. For the nine months ended September 30, 2017, corporate interest and other net expenses also reflected the elimination in consolidation of a $9 million after-tax intercompany gain resulting from the donation of CMS Energy stock by Consumers.

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CASH POSITION, INVESTING, AND FINANCING

At September 30, 2017, CMS Energy had $173 million of consolidated cash and cash equivalents, which included $31 million of restricted cash and cash equivalents. At September 30, 2017, Consumers had $85 million of consolidated cash and cash equivalents, which included $30 million of restricted cash and cash equivalents. For additional details, see Note 11, Cash and Cash Equivalents.

Operating Activities

Presented in the following table are specific components of net cash provided by operating activities for the nine months ended September 30, 2017 and 2016:

			In Millions
Nine Months Ended September 30	2017	2016	Change
CMS Energy, including Consumers			
Net income	$ 464	$ 475	$ (11)
Non-cash transactions[1]	928	870	58
Changes in core working capital[2]	18	62	(44)
Postretirement benefits contributions	(9)	(6)	(3)
Changes in other assets and liabilities, net	(202)	(160)	(42)
Net cash provided by operating activities	$ 1,199	$ 1,241	$ (42)
Consumers			
Net income	$ 496	$ 499	$ (3)
Non-cash transactions[1]	921	857	64
Changes in core working capital[2]	13	76	(63)
Postretirement benefits contributions	(6)	(4)	(2)
Changes in other assets and liabilities, net	(215)	(140)	(75)
Net cash provided by operating activities	$ 1,209	$ 1,288	$ (79)

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

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

For the nine months ended September 30, 2017, net cash provided by operating activities at CMS Energy decreased $42 million compared with 2016 and net cash provided by operating activities at Consumers decreased $79 million compared with 2016. At both CMS Energy and Consumers, the decrease was due primarily to gas purchases at higher prices, increased spending on environmental remediation activities, and lower gas sales as a result of milder weather, offset partially by higher collections from customers. The change at Consumers also reflected the absence, in 2017, of a reimbursement received from CMS Energy in 2016 for a prior-year postretirement benefits contribution.

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Investing Activities

Presented in the following table are specific components of net cash used in investing activities for the nine months ended September 30, 2017 and 2016:

			In Millions
Nine Months Ended September 30	2017	2016	Change
CMS Energy, including Consumers			
Capital expenditures	$ (1,208)	$ (1,224)	$ 16
Increase in EnerBank notes receivable	(87)	(87)	-
Proceeds from the sale of EnerBank notes receivable	19	-	19
Costs to retire property and other investing activities	(78)	(87)	9
Net cash used in investing activities	$ (1,354)	$ (1,398)	$ 44
Consumers			
Capital expenditures	$ (1,196)	$ (1,214)	$ 18
Costs to retire property and other investing activities	(82)	(87)	5
Net cash used in investing activities	$ (1,278)	$ (1,301)	$ 23

For the nine months ended September 30, 2017, net cash used in investing activities at CMS Energy decreased $44 million compared with 2016 and net cash used in investing activities at Consumers decreased $23 million compared with 2016. These changes were due primarily to lower capital expenditures at Consumers. The change at CMS Energy also reflected proceeds from the sale of EnerBank notes receivable in 2017.

Financing Activities

Presented in the following table are specific components of net cash provided by (used in) financing activities for the nine months ended September 30, 2017 and 2016:

			In Millions
Nine Months Ended September 30	2017	2016	Change
CMS Energy, including Consumers			
Issuance of debt	$ 1,108	$ 775	$ 333
Issuance of common stock	80	69	11
Net increase in EnerBank certificates of deposit	40	64	(24)
Payment of dividends on common and preferred stock	(282)	(260)	(22)
Retirement of debt	(668)	(215)	(453)
Decrease in notes payable	(168)	(174)	6
Payment of capital leases and other financing activities	(39)	(22)	(17)
Net cash provided by financing activities	$ 71	$ 237	$ (166)
Consumers			
Issuance of debt	$ 534	$ 446	$ 88
Stockholder contribution from CMS Energy	450	275	175
Payment of dividends on common and preferred stock	(348)	(362)	14
Retirement of debt	(443)	(185)	(258)
Decrease in notes payable	(168)	(174)	6
Payment of capital leases and other financing activities	(23)	(8)	(15)

Net cash provided by (used in) financing activities	$ 2	$ (8)	$ 10

For the nine months ended September 30, 2017, net cash provided by financing activities at CMS Energy decreased $166 million compared with 2016 and net cash provided by financing activities at Consumers increased $10 million compared with 2016. These changes reflected higher debt retirements offset

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partially by higher debt issuances. At Consumers, the increase was due primarily to a larger stockholder contribution from CMS Energy.

CAPITAL RESOURCES AND LIQUIDITY

CMS Energy uses dividends and tax-sharing payments from its subsidiaries and external financing and capital transactions to invest in its utility and non-utility businesses, retire debt, pay dividends, and fund its other obligations. The ability of CMS Energy s subsidiaries, including Consumers, to pay dividends to CMS Energy depends upon each subsidiary s revenues, earnings, cash needs, and other factors. In addition, Consumers ability to pay dividends is restricted by certain terms included in its debt covenants and articles of incorporation and potentially by FERC requirements and provisions under the Federal Power Act and the Natural Gas Act. For additional details on Consumers dividend restrictions, see Note 4, Financings and Capitalization Dividend Restrictions. For the nine months ended September 30, 2017, Consumers paid $347 million in dividends on its common stock to CMS Energy.

As a result of federal tax legislation passed in 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 March 2017, 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. In June 2017, CMS Energy issued common stock under this program and received net proceeds of $70 million.

Consumers uses cash flows generated from operations and external financing transactions, as well as stockholder contributions from CMS Energy, to fund capital expenditures, retire debt, pay dividends, contribute to its employee benefit plans, and fund its other obligations. Accelerated pension funding in prior years and several initiatives to reduce costs have helped improve cash flows from operating activities. Consumers anticipates continued strong cash flows from operating activities for the remainder of 2017 and beyond.

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

At September 30, 2017, 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 Consumers revolving credit facilities. While the amount of outstanding commercial paper does not reduce the available capacity of the revolving credit facilities, Consumers does not intend to issue commercial paper in an amount exceeding the available capacity. At September 30, 2017, $230 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 4, 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 September 30, 2017, 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 September 30, 2017, as presented in the following table:

	September 30, 2017	
Credit Agreement, Indenture, or Facility	Limit	Actual
CMS Energy, parent only		
Debt to EBITDA[1]	≤ 6.0 to 1.0	4.4 to 1.0
Consumers		
Debt to Capital[2]	≤ 0.65 to 1.0	0.47 to 1.0

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

2 Applies to Consumers $650 million and $250 million revolving credit agreements and its $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.

Off-Balance-Sheet Arrangements

CMS Energy, Consumers, and certain of their subsidiaries enter into various arrangements in the normal course of business to facilitate commercial transactions with third parties. These arrangements include indemnities, surety bonds, letters of credit, and financial and performance guarantees. Indemnities are usually agreements to reimburse a counterparty that may incur losses due to outside claims or breach of contract terms. The maximum payment that could be required under a number of these indemnity obligations is not estimable; the maximum obligation under indemnities for which such amounts were estimable was $153 million at September 30, 2017. While CMS Energy and Consumers believe it is unlikely that they will incur any material losses related to indemnities they have not recorded as liabilities, they cannot predict the impact of these contingent obligations on their liquidity and financial condition. For additional details on these and other guarantee arrangements, see Note 3, Contingencies and Commitments Guarantees.

OUTLOOK

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

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Consumers Electric Utility and Gas Utility Outlook and Uncertainties

Energy Waste Reduction Plan: The 2016 Energy Law, which became 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
- removes limits on investments under the program and provides for a higher return on those investments; together, these provisions effectively double 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. In March 2017, Consumers filed applications with the MPSC for approval of an energy waste reduction plan that would amend and expand its existing energy optimization plan and allow for recovery of increased investments to meet the requirements of the 2016 Energy Law. In July and August 2017, the MPSC issued orders that approved the amendments to Consumers 2017 energy optimization plan, authorizing Consumers to increase investments during the year and expanding the financial incentive that it may earn for exceeding savings targets during the year.

Smart Energy and Gas AMR: Consumers expects to complete the full-scale deployment of smart meters by the end of 2017, with a total of 1.8 million smart meters installed throughout its service territory. 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. In areas where Consumers provides both electricity and natural gas to customers, it is also installing communication modules on gas meters, allowing it to read and bill from gas meters remotely. Consumers expects that it will have installed 660,000 communication modules by the end of 2017.

In areas where it provides only natural gas to customers, Consumers began the deployment of Gas AMR technology in 2017 and expects to complete it in 2019. Under this program, Consumers plans to install communication modules on 1.1 million gas meters, allowing it to conduct drive-by meter reading. As of September 30, 2017, Consumers had installed 16,000 communication modules.

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. Even with the retirements of these units, Consumers expects to meet the capacity requirements of its full-service customers through:

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- 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 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

Additionally, in May 2017, Consumers reached an agreement with T.E.S. Filer City to amend their PPA in anticipation of the conversion of T.E.S. Filer City s plant to use natural gas as its primary fuel instead of coal. The conversion is expected to increase the amount of capacity and energy produced by the plant from 73 MW to 225 MW. Under the amendment to the PPA, Consumers will purchase the increased capacity and electricity generated by the converted facility for 15 years. The original PPA was set to expire in 2025. The amendment is contingent on approval by the MPSC, on a finding by FERC that sales made under the amended PPA are exempt from, or authorized under, Section 205 of the Federal Power Act, and on commercial operation of the converted facility on or before June 1, 2022.

During 2017, Consumers issued a request for proposals to acquire a natural gas-fueled generating plant, and it completed an auction to purchase generation capacity. The request for proposals and the contracts entered into as a result of the auction were contingent on the anticipated early termination of Consumers PPA with Entergy, under which Consumers purchases virtually all of the capacity and energy produced by Palisades. Following the MPSC s September 2017 order authorizing only partial recovery of the termination payment that Consumers had negotiated with Entergy, Consumers and Entergy agreed not to terminate the PPA, which is now expected to continue until April 2022 under its original terms. As a result, Consumers has rescinded the capacity contracts and is presently assessing whether to pursue any of the proposals received to acquire a natural gas-fueled generating plant. For additional details regarding the MPSC s order on the Palisades PPA, see the Electric Rate Matters discussion in this section.

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 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 by the end of 2017. In addition, Consumers has obtained the MPSC s approval to construct two additional phases at its Cross Winds® Energy Park. Phase II of the park, with a nameplate capacity of 44 MW, is expected to be operational in early 2018, while Phase III, with a nameplate capacity of 76 MW, is expected to be operational in 2020. Consumers began construction of Phase II in June 2017. Both phases of the project are expected to qualify for certain federal production tax credits, which are expected to generate cost savings that will be passed on to customers.

In June 2017, Consumers issued requests for proposals to acquire wind and solar generation projects within MISO s service territory, specifically wind generation projects ranging in size from 100 MW to 200 MW and solar generation projects at least 10 MW in size. In September 2017, Consumers filed amendments to its renewable energy plan with the MPSC, requesting approval to acquire up to 525 MW of new wind generation projects and up to 100 MW of new solar generation projects in order to meet its

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renewable energy requirement. Any contracts entered into as a result of the request for proposals would be subject to MPSC approval.

Voluntary Large Customer Renewable Energy Pilot Program: In May 2017, Consumers filed an application with the MPSC proposing a pilot program that would provide large full-service electric customers with the opportunity to advance the development of renewable energy beyond the requirements of the 2016 Energy Law. Under the pilot program, customers would have the ability to match up to 100 percent of their energy use with renewable energy generated from wind resources. In August 2017, the MPSC conditionally approved a portion of the pilot program and instructed Consumers to submit the program for review as a voluntary green pricing program under provisions of the 2016 Energy Law.

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 about 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 waste reduction programs and appliance efficiency standards. Actual delivery levels will depend on:

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

Electric ROA: Under 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 September 30, 2017, electric deliveries under the ROA program were at the ten-percent limit. Of Consumers 1.8 million electric customers, 300 customers, or 0.02 percent, purchased electric generation service under the ROA program.

The 2016 Energy Law, which became 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 four-year forward period. To this end, the MPSC issued an order in March 2017, directing Consumers to file an application to implement a state reliability mechanism. Under the mechanism proposed by the MPSC, if an alternative electric supplier did not demonstrate that it had procured its capacity requirements for the four-year forward period, ROA customers could pay a charge to the utility for capacity that is not provided by the alternative electric supplier. Consumers filed its application in April 2017.

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

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Electric Rate Case: In March 2017, Consumers filed an application with the MPSC seeking an annual rate increase of $173 million, based on a 10.5 percent authorized return on equity. The filing requested authority to recover new investment in system reliability, environmental compliance, and technology enhancements. In September 2017, Consumers reduced its requested annual rate increase to $148 million. Presented in the following table are the components of the requested increase in revenue:

	In Millions
Components of the rate increase	
Investment in rate base	$ 45
Operating and maintenance costs	42
Gross margin	42
Cost of capital	28
Working capital	(9)
Total	$ 148

In October 2017, Consumers self-implemented an annual rate increase of $130 million, subject to refund with interest and potential penalties.

Palisades PPA: In December 2016, Consumers agreed to pay Entergy $172 million to terminate their PPA in May 2018, four years ahead of schedule, contingent on the MPSC s approval of Consumers recovery of the payment in electric rates. Under the PPA, Consumers purchases virtually all of the capacity and energy produced by Palisades, up to the annual average capacity of 798 MW. In February 2017, Consumers requested authorization to recover the termination payment through securitization. In September 2017, the MPSC issued a securitization financing order authorizing Consumers to recover only $137 million of the $172 million termination payment. As a result, Consumers and Entergy agreed not to terminate the PPA, which is now expected to continue until April 2022 under its original terms.

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. In July 2017, the MPSC approved a settlement agreement authorizing Consumers to recover an increase in depreciation expense of $2 million annually, based on December 31, 2015 balances. The new depreciation rates will go into effect with a final order in Consumers next electric rate case following the electric rate case filed in 2017.

Sale of Coal-Fueled Generating Units: In October 2017, Consumers completed the sale of its retired B.C. Cobb and J.R. Whiting coal-fueled electric generating units to Forsite. Under the terms of the agreement, which the MPSC approved in September 2017, Consumers transferred the generating units and associated land to Forsite and agreed to pay $63 million to decommission the units and perform cleanup activities at the sites. Consumers securitized the generating units in 2014; thus, the carrying value of the assets was zero. Upon the closing of the sale, Consumers recorded a liability of $63 million with an offsetting reduction to its cost of removal regulatory liability. Additionally, Consumers removed from its consolidated balance sheets a $16 million ARO related to asbestos removal. Consumers estimates that this divestiture will save its electric customers $30 million in decommissioning costs.

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 2015, requires Michigan and 27 other states to improve air quality by reducing power plant emissions that, according to EPA computer models, contribute to

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ground-level ozone and fine particle pollution in other downwind states. In September 2016, the EPA finalized new ozone season standards for CSAPR, which became effective in May 2017. CSAPR is presently being litigated; however, any decision will not impact Consumers compliance strategy, as Consumers expects its emissions to be within the CSAPR allowance allocations.

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

In 2015, the EPA released its new rule to lower the NAAQS for ozone. The new ozone NAAQS will make it more difficult to construct or modify power plants in many areas of the country, including some parts of Michigan, if the areas are designated to be in nonattainment of the new standard. The NAAQS for ozone are presently being litigated and the EPA s decision on nonattainment areas is expected by the end of 2017. Consumers is monitoring the designation process of this rule, as well as the litigation, but does not anticipate any impact 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 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. In addition, the EPA finalized new rules pursuant to Section 111(b) of the Clean Air Act to limit carbon dioxide emissions from modified or reconstructed electric generating units. Both of these rules are being litigated.

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

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Clean Power Plan litigation in abeyance while it reconsiders the rule. In October 2017, the EPA published a proposal to repeal the Clean Power Plan, with a public comment period through mid-December 2017. The EPA has also announced that it intends to begin the rulemaking process for a replacement rule that conforms to the new legal interpretation set forth in the published proposed repeal of the Clean Power Plan. It is expected that the EPA will propose a replacement rule in 2018. Consumers does not expect that any changes to the Clean Power Plan will have an adverse impact on its environmental strategy.

In 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 non-binding targets are in line with the now-stayed Clean Power Plan targets. The Trump administration has withdrawn from the Paris Agreement, but also stated a desire to renegotiate a new agreement in the future. Consumers does not expect any adverse changes to its environmental strategy as a result of these events.

While Consumers cannot predict the outcome of changes in policy under the Trump administration or of other legislative or regulatory initiatives involving the potential regulation of greenhouse gases, it intends to continue to move forward with its clean energy plan, its present carbon reduction target, and its emphasis on supply diversity. 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 ultimately require Consumers to replace equipment, install additional emission control equipment, purchase emission allowances, curtail operations, arrange for alternative sources of supply, or take other steps to manage or lower the emission of greenhouse gases. Although associated capital or operating costs relating to greenhouse gas regulation or legislation could be material and cost recovery cannot be assured, Consumers expects to recover these costs and capital expenditures in rates consistent with the recovery of other reasonable costs of complying with environmental laws and regulations.

CCRs: In 2015, the EPA published a final rule regulating CCRs, such as coal ash, under RCRA. The final rule adopts minimum standards for beneficially reusing and disposing of non-hazardous CCRs. The rule establishes new minimum requirements for site location, groundwater monitoring, flood protection, storm water design, fugitive dust control, and public disclosure of information. The rule also sets out conditions under which CCR units would be forced to cease receiving CCR and non-CCR waste and initiate closure based on the inability to achieve minimum safety standards, meet a location standard, or meet minimum groundwater standards. Consumers 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 is taking steps to 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 2014. The rule is aimed at reducing alleged harmful impacts on fish and shellfish. In 2015, the EPA released its final effluent limitation guidelines, which set stringent new requirements for the discharge from electric generating units into wastewater streams. In April 2017, the EPA announced a decision to reconsider the final effluent limitation guidelines, which are being litigated, and administratively stayed and delayed the compliance dates for two years. In August 2017, the EPA announced that it will undertake a rulemaking to replace specific portions of the rule. Consumers does not expect any adverse changes to its environmental strategy as a result of any revisions to the rule.

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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. The Trump administration issued an executive order in February 2017 directing the EPA and the U.S. Army Corps of Engineers to re-examine the waters of the United States rule. In June 2017, the EPA and the U.S. Army Corps of Engineers indicated that they intend to rescind the rule and revert to regulatory language that had been in effect prior to the June 2015 final rule. Consumers does not expect any adverse changes to its environmental strategy as a result of these events.

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

PCBs: In 2010, the EPA issued an Advance Notice of Proposed Rulemaking, indicating that it is considering a variety of regulatory actions with respect to PCBs. The timing of any future rulemaking is uncertain as the Trump administration has not indicated that a PCB rulemaking is a priority. Additionally, the proposed rulemaking is no longer on the federal rulemaking agenda.

Environmental Stewardship: In an effort to reduce Consumers environmental footprint and the impact of present and future regulations, Consumers has adopted the following voluntary environmental stewardship goals for air emissions, water use, and waste reduction:

- Committed to a 20-percent reduction of carbon dioxide emissions intensity (pounds of carbon dioxide per MWh generated) by 2025 from a 2008 baseline. In 2016, Consumers achieved a reduction in total tons of carbon dioxide emitted of over 30 percent compared to 2008.
- Committed to a 20-percent reduction in water usage (gallons per MWh generated) by 2020, and expects to meet that goal by the end of 2018.
- Committed to a cumulative waste reduction goal of one million cubic yards of landfill space avoided by 2019, and met that goal in 2017.

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

Consumers Gas Utility Outlook and Uncertainties

Gas Deliveries: Consumers expects weather-adjusted gas deliveries in 2017 and over the next five years to remain stable relative to 2016. 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 2, Regulatory Matters.

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Gas Transmission: In September 2016, Consumers filed an application with the MPSC to invest $610 million in the construction of a 95-mile, 24-inch-diameter natural gas pipeline in Saginaw, Genesee, and Oakland Counties, Michigan. The MPSC issued an order in March 2017 authorizing Consumers to construct and operate the pipeline. Consumers expects the pipeline to be operational by the end of 2020.

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

Enterprises Outlook and Uncertainties

The primary focus with respect to CMS Energy s non-utility businesses is to maximize the value of their generating assets, which represent 1,086 MW of capacity, and to pursue opportunities for the development of renewable generation projects.

T.E.S. Filer City plans to convert its plant to use natural gas as its primary fuel instead of coal. The conversion is expected to increase the amount of capacity and energy produced by the plant from 73 MW to 225 MW. In May 2017, in anticipation of the planned conversion, T.E.S. Filer City reached an agreement with Consumers to amend their PPA. Under the amendment to the PPA, Consumers will purchase the increased capacity and electricity generated by the converted facility for 15 years. The original PPA was set to expire in 2025. The amendment is contingent on approval by the MPSC, on a finding by FERC that sales made under the amended PPA are exempt from, or authorized under, Section 205 of the Federal Power Act, and on commercial operation of the converted facility on or before June 1, 2022.

In May 2017, CMS Enterprises completed the construction and began operations of a 2.5-MW solar generation facility in Phillips, Wisconsin. Energy produced by the solar generation facility is sold through a 25-year PPA to Dairyland Power Cooperative, a non-affiliated company.

In September 2017, CMS Enterprises purchased a 24-MW solar generation project in Delta Township, Michigan. The project is presently under development and will be completed in two phases in 2018. Energy produced by the solar generation project will be sold under a 25-year PPA to Lansing Board of Water and Light, a non-affiliated company.

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 3, Contingencies and Commitments.

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Other Outlook and Uncertainties

EnerBank: EnerBank is a Utah state-chartered, FDIC-insured industrial bank providing unsecured consumer installment loans for financing home improvements. EnerBank represented four percent of CMS Energy s net assets at September 30, 2017 and five percent of CMS Energy s net income available to common stockholders for the nine months ended September 30, 2017. The carrying value of EnerBank s loan portfolio was $1.3 billion at September 30, 2017. 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 1.2 percent at September 30, 2017. CMS Energy is required both by law and by contract to provide financial support, including infusing additional capital, to ensure that EnerBank satisfies mandated capital requirements and has sufficient liquidity to operate. With its self-funding plan, EnerBank has exceeded these requirements historically and exceeded them as of September 30, 2017.

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

NEW ACCOUNTING STANDARDS

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

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CMS Energy Corporation

Consolidated Statements of Income (Unaudited)

			In Millions, Except Per Share Amounts	
	Three Months Ended		Nine Months Ended	
September 30	2017	2016	2017	2016
Operating Revenue	$ 1,527	$ 1,587	$ 4,805	$ 4,759
Operating Expenses				
Fuel for electric generation	144	145	386	367
Purchased and interchange power	426	454	1,132	1,165
Purchased power related parties	21	22	64	65
Cost of gas sold	47	45	494	490
Maintenance and other operating expenses	304	301	909	890
Depreciation and amortization	193	183	652	597
General taxes	62	62	209	209
Total operating expenses	1,197	1,212	3,846	3,783
Operating Income	330	375	959	976
Other Income (Expense)				
Interest income	3	1	10	4
Allowance for equity funds used during construction	1	3	5	9
Income from equity method investees	3	5	10	12
Nonoperating retirement benefits, net	3	11	10	31
Other income	2	2	4	7
Other expense	(2)	(6)	(6)	(13)
Total other income	10	16	33	50
Interest Charges				
Interest on long-term debt	101	103	304	306
Other interest expense	10	8	26	22
Allowance for borrowed funds used during construction	-	(1)	(2)	(4)
Total interest charges	111	110	328	324
Income Before Income Taxes	229	281	664	702
Income Tax Expense	57	95	200	227
Net Income	172	186	464	475
Income Attributable to Noncontrolling Interests	-	-	1	1
Net Income Available to Common Stockholders	$ 172	$ 186	$ 463	$ 474
Basic Earnings Per Average Common Share	$ 0.61	$ 0.67	$ 1.65	$ 1.71
Diluted Earnings Per Average Common Share	$ 0.61	$ 0.67	$ 1.65	$ 1.70
Dividends Declared Per Common Share	$ 0.3325	$ 0.3100	$ 0.9975	$ 0.9300

The accompanying notes are an integral part of these statements.

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CMS Energy Corporation

Consolidated Statements of Comprehensive Income (Unaudited)

In Millions

September 30	Three Months Ended 2017	2016	Nine Months Ended 2017	2016
Net Income	$ 172	$ 186	$ 464	$ 475
Retirement Benefits Liability				
Amortization of net actuarial loss, net of tax of $1, $-, $1, and $-	-	1	1	2
Amortization of prior service credit, net of tax of $- for all periods	-	-	-	(1)
Investments				
Unrealized gain on investments, net of tax of $-, $-, $1, and $-	1	1	2	1
Other Comprehensive Income	1	2	3	2
Comprehensive Income	173	188	467	477
Comprehensive Income Attributable to Noncontrolling Interests	-	-	1	1
Comprehensive Income Attributable to CMS Energy	$ 173	$ 188	$ 466	$ 476

The accompanying notes are an integral part of these statements.

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CMS Energy Corporation

Consolidated Statements of Cash Flows (Unaudited)

		In Millions
Nine Months Ended September 30	2017	2016
Cash Flows from Operating Activities		
Net income	$ 464	$ 475
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	652	597
Deferred income taxes and investment tax credit	198	219
Other non-cash operating activities and reconciling adjustments	78	54
Cash provided by (used in) changes in assets and liabilities		
Accounts and notes receivable and accrued revenue	185	51
Inventories	(161)	35
Accounts payable and accrued refunds	(6)	(24)
Other current and non-current assets and liabilities	(211)	(166)
Net cash provided by operating activities	1,199	1,241
Cash Flows from Investing Activities		
Capital expenditures (excludes assets placed under capital lease)	(1,208)	(1,224)
Increase in EnerBank notes receivable	(87)	(87)
Proceeds from the sale of EnerBank notes receivable	19	-
Cost to retire property and other investing activities	(78)	(87)
Net cash used in investing activities	(1,354)	(1,398)
Cash Flows from Financing Activities		
Proceeds from issuance of debt	1,108	775
Issuance of common stock	80	69
Net increase in EnerBank certificates of deposit	40	64
Payment of dividends on common and preferred stock	(282)	(260)
Retirement of long-term debt	(668)	(215)
Decrease in notes payable	(168)	(174)
Payment of capital lease obligations and other financing costs	(39)	(22)
Net cash provided by financing activities	71	237
Net Increase (Decrease) in Cash and Cash Equivalents, Including Restricted Amounts	(84)	80
Cash and Cash Equivalents, Including Restricted Amounts, Beginning of Period	257	288
Cash and Cash Equivalents, Including Restricted Amounts, End of Period	$ 173	$ 368
Other non-cash investing and financing activities		
Non-cash transactions		
Capital expenditures not paid	$ 153	$ 159
Note receivable recorded for future refund of use taxes paid and capitalized	-	29

The accompanying notes are an integral part of these statements.

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CMS Energy Corporation

Consolidated Balance Sheets (Unaudited)

ASSETS

		In Millions
	September 30 2017	December 31 2016
Current Assets		
Cash and cash equivalents	$ 142	$ 235
Restricted cash and cash equivalents	27	19
Accounts receivable and accrued revenue, less allowance of $22 in 2017 and $24 in 2016	631	821
Notes receivable, less allowance of $19 in 2017 and $16 in 2016	197	180
Notes receivable held for sale	31	39
Accounts receivable related parties	12	12
Inventories at average cost		
Gas in underground storage	584	446
Materials and supplies	126	119
Generating plant fuel stock	77	61
Deferred property taxes	157	250
Regulatory assets	19	17
Prepayments and other current assets	118	81
Total current assets	2,121	2,280
Plant, Property, and Equipment		
Plant, property, and equipment, gross	21,966	21,010
Less accumulated depreciation and amortization	6,403	6,056
Plant, property, and equipment, net	15,563	14,954
Construction work in progress	881	761
Total plant, property, and equipment	16,444	15,715
Other Non-current Assets		
Regulatory assets	2,038	2,091
Accounts and notes receivable	1,177	1,118
Investments	71	65
Other	269	353
Total other non-current assets	3,555	3,627
Total Assets	$ 22,120	$ 21,622

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LIABILITIES AND EQUITY

	September 30 2017	December 31 2016
		In Millions
Current Liabilities		
Current portion of long-term debt, capital leases, and financing obligation	$ 980	$ 886
Notes payable	230	398
Accounts payable	624	598
Accounts payable related parties	8	12
Accrued rate refunds	35	21
Accrued interest	79	98
Accrued taxes	90	348
Regulatory liabilities	85	95
Other current liabilities	130	199
Total current liabilities	2,261	2,655
Non-current Liabilities		
Long-term debt	9,024	8,640
Non-current portion of capital leases and financing obligation	97	110
Regulatory liabilities	2,066	2,041
Postretirement benefits	760	789
Asset retirement obligations	443	447
Deferred investment tax credit	88	73
Deferred income taxes	2,501	2,287
Other non-current liabilities	308	290
Total non-current liabilities	15,287	14,677
Commitments and Contingencies (Notes 2 and 3)		
Equity		
Common stockholders equity		
Common stock, authorized 350.0 shares; outstanding 281.6 shares in 2017 and 279.2 shares in 2016	3	3
Other paid-in capital	5,013	4,916
Accumulated other comprehensive loss	(47)	(50)
Accumulated deficit	(434)	(616)
Total common stockholders equity	4,535	4,253
Noncontrolling interests	37	37
Total equity	4,572	4,290
Total Liabilities and Equity	$ 22,120	$ 21,622

The accompanying notes are an integral part of these statements.

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CMS Energy Corporation

Consolidated Statements of Changes in Equity (Unaudited)

				In Millions
	Three Months Ended		Nine Months Ended	
September 30	2017	2016	2017	2016
Total Equity at Beginning of Period	$ 4,486	$ 4,193	$ 4,290	$ 3,975
Common Stock				
At beginning and end of period	3	3	3	3
Other Paid-in Capital				
At beginning of period	5,006	4,906	4,916	4,837
Common stock issued	7	3	95	82
Common stock repurchased	-	(1)	(13)	(11)
Common stock reissued	-	-	15	-
At end of period	5,013	4,908	5,013	4,908
Accumulated Other Comprehensive Loss				
At beginning of period	(48)	(47)	(50)	(47)
Retirement benefits liability				
At beginning of period	(49)	(43)	(50)	(43)
Amortization of net actuarial loss	-	1	1	2
Amortization of prior service credit	-	-	-	(1)
At end of period	(49)	(42)	(49)	(42)
Investments				
At beginning of period	1	(4)	-	(4)
Unrealized gain on investments	1	1	2	1
At end of period	2	(3)	2	(3)
At end of period	(47)	(45)	(47)	(45)
Accumulated Deficit				
At beginning of period	(512)	(706)	(616)	(855)
Cumulative effect of change in accounting principle	-	-	-	33
Net income attributable to CMS Energy	172	186	463	474
Dividends declared on common stock	(94)	(87)	(281)	(259)
At end of period	(434)	(607)	(434)	(607)
Noncontrolling Interests				
At beginning of period	37	37	37	37
Income attributable to noncontrolling interests	-	-	1	1
Distributions and other changes in noncontrolling interests	-	-	(1)	(1)
At end of period	37	37	37	37
Total Equity at End of Period	$ 4,572	$ 4,296	$ 4,572	$ 4,296

The accompanying notes are an integral part of these statements.

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Consumers Energy Company

Consolidated Statements of Income (Unaudited)

				In Millions
	Three Months Ended		Nine Months Ended	
September 30	2017	2016	2017	2016
Operating Revenue	$ 1,437	$ 1,498	$ 4,536	$ 4,514
Operating Expenses				
Fuel for electric generation	115	118	304	290
Purchased and interchange power	424	445	1,124	1,148
Purchased power related parties	23	23	67	66
Cost of gas sold	42	39	479	477
Maintenance and other operating expenses	274	274	824	816
Depreciation and amortization	191	182	646	592
General taxes	60	61	203	207
Total operating expenses	1,129	1,142	3,647	3,596
Operating Income	308	356	889	918
Other Income (Expense)				
Interest income	2	1	8	3
Interest and dividend income related parties	-	-	-	1
Allowance for equity funds used during construction	1	3	5	9
Nonoperating retirement benefits, net	3	9	8	28
Other income	1	2	15	7
Other expense	(2)	(6)	(6)	(13)
Total other income	5	9	30	35
Interest Charges				
Interest on long-term debt	66	65	198	195
Other interest expense	4	3	11	9
Allowance for borrowed funds used during construction	-	(1)	(2)	(4)
Total interest charges	70	67	207	200
Income Before Income Taxes	243	298	712	753
Income Tax Expense	62	103	216	254
Net Income	181	195	496	499
Preferred Stock Dividends	-	-	1	1
Net Income Available to Common Stockholder	$ 181	$ 195	$ 495	$ 498

The accompanying notes are an integral part of these statements.

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Consumers Energy Company

Consolidated Statements of Comprehensive Income (Unaudited)

				In Millions
	Three Months Ended		Nine Months Ended	
September 30	2017	2016	2017	2016
Net Income	$ 181	$ 195	$ 496	$ 499
Retirement Benefits Liability				
Amortization of net actuarial loss, net of tax of $- for all periods	-	-	1	-
Investments				
Unrealized gain (loss) on investments, net of tax of $-, $(1), $1, and $2	-	(2)	2	3
Reclassification adjustments included in net income, net of tax of $-, $-, $(5), and $-	-	-	(8)	-
Other Comprehensive Income (Loss)	-	(2)	(5)	3
Comprehensive Income	$ 181	$ 193	$ 491	$ 502

The accompanying notes are an integral part of these statements.

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Consumers Energy Company

Consolidated Statements of Cash Flows (Unaudited)

		In Millions
Nine Months Ended September 30	2017	2016
Cash Flows from Operating Activities		
Net income	$ 496	$ 499
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	646	592
Deferred income taxes and investment tax credit	204	220
Other non-cash operating activities and reconciling adjustments	71	45
Cash provided by (used in) changes in assets and liabilities		
Accounts and notes receivable and accrued revenue	184	72
Inventories	(161)	35
Accounts payable and accrued refunds	(10)	(31)
Other current and non-current assets and liabilities	(221)	(144)
Net cash provided by operating activities	1,209	1,288
Cash Flows from Investing Activities		
Capital expenditures (excludes assets placed under capital lease)	(1,196)	(1,214)
Cost to retire property and other investing activities	(82)	(87)
Net cash used in investing activities	(1,278)	(1,301)
Cash Flows from Financing Activities		
Proceeds from issuance of long-term debt	534	446
Stockholder contribution	450	275
Payment of dividends on common and preferred stock	(348)	(362)
Retirement of long-term debt	(443)	(185)
Decrease in notes payable	(168)	(174)
Payment of capital lease obligations and other financing costs	(23)	(8)
Net cash provided by (used in) financing activities	2	(8)
Net Decrease in Cash and Cash Equivalents, Including Restricted Amounts	(67)	(21)
Cash and Cash Equivalents, Including Restricted Amounts, Beginning of Period	152	71
Cash and Cash Equivalents, Including Restricted Amounts, End of Period	$ 85	$ 50
Other non-cash investing and financing activities		
Non-cash transactions		
Capital expenditures not paid	$ 140	$ 145
Note receivable recorded for future refund of use taxes paid and capitalized	-	29

The accompanying notes are an integral part of these statements.

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Consumers Energy Company

Consolidated Balance Sheets (Unaudited)

ASSETS

	September 30 2017	*In Millions* December 31 2016
Current Assets		
Cash and cash equivalents	$ 55	$ 131
Restricted cash and cash equivalents	27	19
Accounts receivable and accrued revenue, less allowance of $22 in 2017 and $24 in 2016	612	800
Notes receivable	30	29
Accounts receivable related parties	2	9
Inventories at average cost		
Gas in underground storage	584	446
Materials and supplies	121	114
Generating plant fuel stock	73	57
Deferred property taxes	157	250
Regulatory assets	19	17
Prepayments and other current assets	110	70
Total current assets	1,790	1,942
Plant, Property, and Equipment		
Plant, property, and equipment, gross	21,784	20,838
Less accumulated depreciation and amortization	6,335	5,994
Plant, property, and equipment, net	15,449	14,844
Construction work in progress	877	759
Total plant, property, and equipment	16,326	15,603
Other Non-current Assets		
Regulatory assets	2,038	2,091
Accounts and notes receivable	45	27
Investments	21	33
Other	160	250
Total other non-current assets	2,264	2,401
Total Assets	$ 20,380	$ 19,946

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LIABILITIES AND EQUITY

	September 30 2017	December 31 2016
		In Millions
Current Liabilities		
Current portion of long-term debt, capital leases, and financing obligation	$ 464	$ 397
Notes payable	230	398
Accounts payable	601	580
Accounts payable related parties	12	18
Accrued rate refunds	35	21
Accrued interest	48	67
Accrued taxes	111	354
Regulatory liabilities	85	95
Other current liabilities	93	164
Total current liabilities	1,679	2,094
Non-current Liabilities		
Long-term debt	5,275	5,253
Non-current portion of capital leases and financing obligation	97	110
Regulatory liabilities	2,066	2,041
Postretirement benefits	703	730
Asset retirement obligations	442	446
Deferred investment tax credit	88	73
Deferred income taxes	3,257	3,042
Other non-current liabilities	241	218
Total non-current liabilities	12,169	11,913
Commitments and Contingencies (Notes 2 and 3)		
Equity		
Common stockholder s equity		
Common stock, authorized 125.0 shares; outstanding 84.1 shares for both periods	841	841
Other paid-in capital	4,449	3,999
Accumulated other comprehensive loss	(8)	(3)
Retained earnings	1,213	1,065
Total common stockholder s equity	6,495	5,902
Preferred stock	37	37
Total equity	6,532	5,939
Total Liabilities and Equity	$ 20,380	$ 19,946

The accompanying notes are an integral part of these statements.

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Consumers Energy Company

Consolidated Statements of Changes in Equity (Unaudited)

				In Millions
	Three Months Ended		Nine Months Ended	
September 30	2017	2016	2017	2016
Total Equity at Beginning of Period	$ 6,462	$ 5,916	$ 5,939	$ 5,546
Common Stock				
At beginning and end of period	841	841	841	841
Other Paid-in Capital				
At beginning of period	4,449	3,999	3,999	3,724
Stockholder contribution	-	-	450	275
At end of period	4,449	3,999	4,449	3,999
Accumulated Other Comprehensive Loss				
At beginning of period	(8)	(1)	(3)	(6)
Retirement benefits liability				
At beginning of period	(20)	(19)	(21)	(19)
Amortization of net actuarial loss	-	-	1	-
At end of period	(20)	(19)	(20)	(19)
Investments				
At beginning of period	12	18	18	13
Unrealized gain (loss) on investments	-	(2)	2	3
Reclassification adjustments included in net income	-	-	(8)	-
At end of period	12	16	12	16
At end of period	(8)	(3)	(8)	(3)
Retained Earnings				
At beginning of period	1,143	1,040	1,065	950
Net income	181	195	496	499
Dividends declared on common stock	(111)	(148)	(347)	(361)
Dividends declared on preferred stock	-	-	(1)	(1)
At end of period	1,213	1,087	1,213	1,087
Preferred Stock				
At beginning and end of period	37	37	37	37
Total Equity at End of Period	$ 6,532	$ 5,961	$ 6,532	$ 5,961

The accompanying notes are an integral part of these statements.

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CMS Energy Corporation

Consumers Energy Company

Notes to the Unaudited Consolidated Financial Statements

These interim consolidated financial statements have been prepared by CMS Energy and Consumers in accordance with GAAP for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. As a result, CMS Energy and Consumers have condensed or omitted certain information and note disclosures normally included in consolidated financial statements prepared in accordance with GAAP. CMS Energy and Consumers have reclassified certain prior period amounts to conform to the presentation in the current period and to reflect the implementation of new accounting standards. CMS Energy and Consumers are required to make estimates using assumptions that may affect reported amounts and disclosures; actual results could differ from these estimates. In management s opinion, the unaudited information contained in this report reflects all adjustments of a normal recurring nature necessary to ensure that CMS Energy s and Consumers financial position, results of operations, and cash flows for the periods presented are fairly stated. The notes to the unaudited consolidated financial statements and the related unaudited consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes contained in the 2016 Form 10-K. Due to the seasonal nature of CMS Energy s and Consumers operations, the results presented for this interim period are not necessarily indicative of results to be achieved for the fiscal year.

1: NEW ACCOUNTING STANDARDS

Implementation of New Accounting Standards

ASU 2017-07, Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost: This standard was issued to improve the reporting of net benefit cost by employers that offer defined benefit pension plans and other postretirement benefit plans. The required effective date of the standard for CMS Energy and Consumers is January 1, 2018, but early adoption was permitted in the first interim period of 2017. CMS Energy and Consumers elected to adopt the standard as of January 1, 2017. The standard requires employers to report the service cost component of net benefit cost in the same line item on the income statement as other employee compensation costs, while presenting the other cost components separately outside of operating income. This change is to be applied retrospectively to all prior periods presented. Accordingly, for the three months and nine months ended September 30, 2017 and 2016, CMS Energy and Consumers have presented the service cost component of their retirement benefits plans in maintenance and other operating expenses on the consolidated statements of income, while presenting the other components in nonoperating retirement benefits, net, under other income (expense). Prior to this standard, CMS Energy and Consumers had presented all of the cost components in maintenance and other operating expenses. Under a practical expedient permitted by the standard, CMS Energy and Consumers used benefit cost amounts disclosed for prior periods as the basis for retrospective application.

In addition, under this standard, only the service cost component is eligible for capitalization as part of the cost of an asset. This change is to be applied prospectively upon adoption. Accordingly, for the three months and nine months ended September 30, 2017, CMS Energy and Consumers capitalized a portion of the service cost component of their retirement benefits plans to plant, property, and equipment, while recognizing the other components in net income. In prior periods, a portion of all cost components was capitalized. For further details on the net

periodic cost of CMS Energy s and Consumers retirement benefits plans, see Note 8, Retirement Benefits. The implementation of this standard did not have a material impact on CMS Energy s or Consumers consolidated net income, cash flows, or financial position.

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 are not adopting the standard early, and will apply the standard retrospectively only to contracts existing on the effective date, with the cumulative effect of the standard recorded as an adjustment to beginning retained earnings.

CMS Energy and Consumers are continuing to evaluate the standard; however, they do not expect that it will have a material impact on their consolidated net income, cash flows, or financial position. CMS Energy and Consumers will provide additional disclosures about their revenues in accordance with the new standard, but they have not yet identified any significant changes in their revenue recognition practices that may be required.

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 6, Financial Instruments. Entities will apply the standard using a modified retrospective approach, with a cumulative-effect adjustment recorded to beginning retained earnings on the effective date.

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.

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

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to beginning retained earnings on the effective date. CMS Energy and Consumers are evaluating the impact of the standard on their consolidated financial statements.

2: REGULATORY MATTERS

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

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

Electric Rate Case: In 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. In September 2016, Consumers self-implemented an annual rate increase of $170 million, subject to refund with interest. The MPSC issued an order in February 2017, authorizing an annual rate increase of $113 million, based on a 10.1 percent authorized return on equity.

In May 2017, Consumers filed a reconciliation of total revenues collected during self-implementation to those that would have been collected under final rates. The reconciliation indicated that a refund would be required, and Consumers had a $17 million recorded reserve for customer refunds at September 30, 2017. In October 2017, the MPSC approved a settlement agreement that will result in a $17 million refund to customers during December 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. Consumers later reduced its requested annual rate increase to $80 million. In January 2017, Consumers self-implemented an annual rate increase of $20 million.

The MPSC issued an order in July 2017, authorizing an annual rate increase of $29 million beginning in August 2017. The MPSC also approved an investment recovery mechanism that will provide for additional annual rate increases of $18 million beginning in 2018 and another $18 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, deliverability, and safety. The investment recovery surcharge will remain in effect until rates are reset in a subsequent general rate case.

Energy Optimization Plan Incentive: In September 2017, the MPSC approved a settlement agreement authorizing Consumers to collect $18 million during 2018 as an incentive for exceeding its statutory savings targets in 2016. Consumers recognized incentive revenue under this program of $18 million in 2016.

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. In March 2017, the MPSC approved a settlement agreement authorizing the requested decrease in depreciation expense effective as of January 2017.

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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. In February 2017, as a result of this order, Consumers received from MISO a credit of $28 million, which it will return to its electric customers through the PSCR ratemaking process. The FERC order is subject to further legal proceedings and Consumers MISO credit may be adjusted accordingly.

3: CONTINGENCIES AND COMMITMENTS

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

CMS Energy Contingencies

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

After removal to federal court, all of the cases were transferred to a single federal district court pursuant to the multidistrict litigation process. In 2010 and 2011, all claims against CMS Energy defendants were dismissed by the district court based on FERC preemption. In 2013, the U.S. Court of Appeals for the Ninth Circuit reversed the district court decision. The appellate court found that FERC preemption does not apply under the facts of these cases. The appellate court affirmed the district court s denial of leave to amend to add federal antitrust claims. The matter was appealed to the U.S. Supreme Court, which in 2015 upheld the Ninth Circuit s decision. The cases were remanded back to the federal district court.

In May 2016, the federal district court granted the defendants motion for summary judgment in the individual lawsuit based on a release in a prior settlement involving similar allegations and reinstated CMS Energy as a defendant in one of the class action lawsuits. The order of summary judgment has been appealed.

In December 2016, CMS Energy entities reached a settlement with the plaintiffs in the three Kansas and Missouri cases for an amount that was not material to CMS Energy. In August 2017, the federal district court approved the settlement.

CMS Energy entities remain as defendants in the Wisconsin class action lawsuits. In March 2017, the federal district court denied plaintiffs motion for class certification. The plaintiffs appealed that decision to the U.S. Court of Appeals for the Ninth Circuit, which has accepted the matter for hearing. In June 2017, an unaffiliated company that is also a defendant in these cases filed for bankruptcy, which could increase the risk of loss to CMS Energy.

These cases involve complex facts, a large number of similarly situated defendants with different factual positions, and multiple jurisdictions. Presently, any estimate of liability would be highly speculative; the

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amount of CMS Energy s reasonably possible loss would be based on widely varying models previously untested in this context. If the outcome after appeals is unfavorable, these cases could negatively affect CMS Energy s liquidity, financial condition, and results of operations.

Bay Harbor: CMS Land retained environmental remediation obligations for the collection and treatment of leachate, a liquid consisting of water and other substances, at Bay Harbor after selling its interests in the development in 2002. Leachate is produced when water enters into cement kiln dust piles left over from former cement plant operations at the site. In 2012, CMS Land and the MDEQ finalized an agreement that established the final remedies and the future water quality criteria at the site. CMS Land completed all construction necessary to implement the remedies required by the agreement and will continue to maintain and operate a system to discharge treated leachate into Little Traverse Bay under an NPDES permit issued in 2010 and renewed in October 2016. The renewed NPDES permit is valid through September 2020.

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

At September 30, 2017, CMS Energy had a recorded liability of $49 million for its remaining obligations for environmental remediation. CMS Energy calculated this liability based on discounted projected costs, using a discount rate of 4.34 percent and an inflation rate of one percent on annual operating and maintenance costs. The undiscounted amount of the remaining obligation is $62 million. CMS Energy expects to pay the following amounts for long-term liquid disposal and operating and maintenance costs during the remainder of 2017 and in each of the next five years:

						In Millions
	2017	2018	2019	2020	2021	2022
CMS Energy						
Long-term liquid disposal and operating and maintenance costs	$ 1	$ 4	$ 4	$ 4	$ 4	$ 4

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

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

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Consumers Electric Utility Contingencies

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

Cleanup and Solid Waste: Consumers expects to incur remediation and other response activity costs at a number of sites under the NREPA. Consumers believes that these costs should be recoverable in rates, but cannot guarantee that outcome. Consumers estimates that its liability for NREPA sites for which it can estimate a range of loss will be between $3 million and $4 million. At September 30, 2017, Consumers had a recorded liability of $3 million, the minimum amount in the range of its estimated probable NREPA liability, as no amount in the range was considered a better estimate than any other amount.

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

Based on its experience, Consumers estimates that its share of the total liability for known CERCLA sites will be between $3 million and $8 million. Various factors, including the number and creditworthiness of potentially responsible parties involved with each site, affect Consumers share of the total liability. At September 30, 2017, Consumers had a recorded liability of $3 million for its share of the total liability at these sites, the minimum amount in the range of its estimated probable CERCLA liability, as no amount in the range was considered a better estimate than any other amount.

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

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

Consumers Gas Utility Contingencies

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

At September 30, 2017, Consumers had a recorded liability of $93 million for its remaining obligations for these sites. This amount represents the present value of long-term projected costs, using a discount rate of 2.57 percent and an inflation rate of 2.5 percent. The undiscounted amount of the remaining

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obligation is $104 million. Consumers expects to pay the following amounts for remediation and other response activity costs during the remainder of 2017 and in each of the next five years:

						In Millions
	2017	2018	2019	2020	2021	2022
Consumers						
Remediation and other response activity costs	$ 8	$ 16	$ 18	$ 10	$ 18	$ 7

Consumers periodically reviews these cost estimates. Any significant change in the underlying assumptions, such as an increase in the number of sites, changes in remediation techniques, or legal and regulatory requirements, could affect Consumers estimates of annual response activity costs and the MGP liability.

Pursuant to orders issued by the MPSC, Consumers defers its MGP-related remediation costs and recovers them from its customers over a ten-year period. At September 30, 2017, Consumers had a regulatory asset of $141 million related to the MGP sites.

Consumers estimates that its liability to perform remediation and other response activities at NREPA sites other than the MGP sites could reach $3 million. At September 30, 2017, Consumers had a recorded liability of less than $1 million, the minimum amount in the range of its estimated probable liability, as no amount in the range was considered a better estimate than any other amount.

Guarantees

Presented in the following table are CMS Energy s and Consumers guarantees at September 30, 2017:

				In Millions
Guarantee Description	Issue Date	Expiration Date	Maximum Obligation	Carrying Amount
CMS Energy, including Consumers				
Indemnity obligations from stock and asset sale agreements[1]	Various	Indefinite	$ 153	$ 7
Guarantees[2]	Various	Indefinite	45	-
Consumers				
Guarantee[2]	July 2011	Indefinite	$ 30	$ -

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

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

Additionally, in the normal course of business, CMS Energy, Consumers, and certain other subsidiaries of CMS Energy have entered into various agreements containing tax and other indemnity provisions for which they are unable to estimate the maximum potential obligation. The carrying value of these indemnity obligations is $1 million. CMS Energy and Consumers consider the likelihood that they would be required to perform or incur substantial losses related to these indemnities to be remote.

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Other Contingencies

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

4: FINANCINGS AND CAPITALIZATION

Financings: Presented in the following table is a summary of major long-term debt transactions during the nine months ended September 30, 2017.

	Principal (In Millions)	Interest Rate	Issue/Retirement Date	Maturity Date
Debt issuances				
CMS Energy, parent only				
Senior notes	$ 350	3.450%	February 2017	August 2027
Total CMS Energy, parent only	$ 350			
Consumers				
First mortgage bonds	$ 350	3.950%	February 2017	July 2047
First mortgage bonds[1]	40	3.180	September 2017	September 2032
First mortgage bonds[1]	125	3.520	September 2017	September 2037
First mortgage bonds[1]	20	3.860	September 2017	September 2052
Total Consumers	$ 535			
Total CMS Energy	$ 885			
Debt retirements				
Consumers				
First mortgage bonds	$ 250	5.150%	February 2017	February 2017
Senior notes	180	6.875	September 2017	March 2018
Total Consumers	$ 430			
Total CMS Energy	$ 430			

1 These first mortgage bonds were issued in a September private placement under a bond purchase agreement executed in August. Under the agreement, Consumers will issue an additional $300 million of first mortgage bonds in a second private placement in November, consisting of $60 million of 3.18-percent first mortgage bonds due 2032, $210 million of 3.52-percent first mortgage bonds due 2037, and $30 million of 3.86-percent first mortgage bonds due 2052.

In October 2017, Consumers retired $100 million of 3.21-percent first mortgage bonds at maturity.

Term Loan: In April 2017, CMS Energy reached an agreement to extend the maturity date of its $180 million term loan by one year, through April 2019.

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Revolving Credit Facilities: The following secured revolving credit facilities with banks were available at September 30, 2017:

In Millions

Expiration Date	Amount of Facility	Amount Borrowed	Letters of Credit Outstanding	Amount Available
CMS Energy, parent only				
May 27, 2022[1,2]	$ 550	$ -	$ 1	$ 549
Consumers				
May 27, 2022[2,3]	$ 650	$ -	$ 7	$ 643
November 23, 2018[3]	250	-	-	250
September 9, 2019[3,4]	30	-	30	-

1 During the nine months ended September 30, 2017, CMS Energy s average borrowings totaled $28 million with a weighted-average interest rate of 2.02 percent. Obligations under this facility are secured by Consumers common stock.

2 In May 2017, the expiration date of this revolving credit agreement was extended from May 2021 to May 2022.

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

4 In June 2017, the expiration date of this letter of credit reimbursement agreement was extended from May 2018 to September 2019.

Short-term Borrowings: Under Consumers commercial paper program, Consumers may issue, in one or more placements, commercial paper notes with maturities of up to 365 days and that bear interest at fixed or floating rates. These issuances are supported by Consumers revolving credit facilities and may have an aggregate principal amount outstanding of up to $500 million. While the amount of outstanding commercial paper does not reduce the available capacity of the revolving credit facilities, Consumers does not intend to issue commercial paper in an amount exceeding the available capacity. At September 30, 2017, $230 million of commercial paper notes were outstanding under this program and recorded as current notes payable on the consolidated balance sheets of CMS Energy and Consumers.

Dividend Restrictions: At September 30, 2017, payment of dividends by CMS Energy on its common stock was limited to $4.5 billion under provisions of the Michigan Business Corporation Act of 1972.

Under the provisions of its articles of incorporation, at September 30, 2017, Consumers had $1.1 billion of unrestricted retained earnings available to pay dividends on its common stock to CMS Energy. Provisions of the Federal Power Act and the Natural Gas Act appear to restrict dividends payable by Consumers to the amount of Consumers retained earnings. Several decisions from FERC suggest that under a variety of circumstances, dividends from Consumers on its common stock would not be limited to amounts in Consumers retained earnings. Any decision by Consumers to pay dividends on its common stock in excess of retained earnings would be based on specific facts and circumstances and would be subject to a formal regulatory filing process.

For the nine months ended September 30, 2017, Consumers paid $347 million in dividends on its common stock to CMS Energy.

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Issuance of Common Stock: In March 2017, CMS Energy entered into an updated continuous equity offering program permitting it to sell, from time to time in at the market offerings, common stock having an aggregate sales price of up to $100 million. Presented in the following table are the transactions that CMS Energy entered into under the program:

	Number of Shares Issued	Average Price per Share	Net Proceeds (In Millions)
June 2017	1,494,371	$ 47.31	$ 70

5: FAIR VALUE MEASUREMENTS

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

- Level 1 inputs are unadjusted quoted prices in active markets for identical assets or liabilities.

- Level 2 inputs are observable, market-based inputs, other than Level 1 prices. Level 2 inputs may include quoted prices for similar assets or liabilities in active markets, quoted prices in inactive markets, and inputs derived from or corroborated by observable market data.

- Level 3 inputs are unobservable inputs that reflect CMS Energy s or Consumers own assumptions about how market participants would value their assets and liabilities.

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

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Assets and Liabilities Measured at Fair Value on a Recurring Basis

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

								In Millions
	CMS Energy, including Consumers				Consumers			
	September 30 2017		December 31 2016		September 30 2017		December 31 2016	
Assets1								
Cash equivalents	$	21	$	44	$	-	$	-
Restricted cash equivalents		27		19		27		19
CMS Energy common stock		-		-		21		33
Nonqualified deferred compensation plan assets		13		12		9		8
DB SERP								
Cash equivalents		4		3		3		2
Mutual funds		145		141		105		102
Derivative instruments								
Commodity contracts		2		1		2		1
Total	$	212	$	220	$	167	$	165
Liabilities1								
Nonqualified deferred compensation plan liabilities	$	13	$	12	$	9	$	8
Derivative instruments								
Commodity contracts		1		-		1		-
Total	$	14	$	12	$	10	$	8

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

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

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

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

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

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

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

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

6: FINANCIAL INSTRUMENTS

Presented in the following table are the carrying amounts and fair values, by level within the fair value hierarchy, of CMS Energy s and Consumers financial instruments that are not recorded at fair value. The table excludes cash, cash equivalents, short-term financial instruments, and trade accounts receivable and payable whose carrying amounts approximate their fair values. For information about assets and liabilities recorded at fair value and for additional details regarding the fair value hierarchy, see Note 5, Fair Value Measurements.

In Millions

	September 30, 2017					December 31, 2016				
		Fair Value					Fair Value			
	Carrying			Level		Carrying			Level	
	Amount	Total	1	2	3	Amount	Total	1	2	3
CMS Energy, including Consumers										
Assets										
Long-term receivables[1]	$ 22	$ 22	$ -	$ -	$ 22	$ 22	$ 22	$ -	$ -	$ 22
Notes receivable[2]	1,382	1,479	-	-	1,479	1,326	1,415	-	-	1,415
Securities held to maturity	16	16	-	16	-	13	13	-	13	-
Liabilities										
Long-term debt[3]	9,983	10,484	-	9,331	1,153	9,504	9,953	-	8,990	963
Long-term payables[4]	18	18	-	-	18	17	17	-	-	17
Consumers										
Assets										
Long-term receivables[1]	$ 22	$ 22	$ -	$ -	$ 22	$ 22	$ 22	$ -	$ -	$ 22
Notes receivable[5]	46	46	-	-	46	45	45	-	-	45
Liabilities										
Long-term debt[6]	5,718	6,032	-	4,879	1,153	5,628	5,903	-	4,940	963

1 Includes current accounts receivable of $14 million at September 30, 2017 and $12 million at December 31, 2016.

2 Includes current portion of notes receivable of $228 million at September 30, 2017 and $219 million at December 31, 2016.

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3 Includes current portion of long-term debt of $959 million at September 30, 2017 and $864 million at December 31, 2016.

4 Includes current portion of long-term payables of $1 million at September 30, 2017 and December 31, 2016.

5 Includes current portion of notes receivable of $30 million at September 30, 2017 and $29 million at December 31, 2016.

6 Includes current portion of long-term debt of $443 million at September 30, 2017 and $375 million at December 31, 2016.

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

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

The effects of third-party credit enhancements are excluded from the fair value measurements of long-term debt. At September 30, 2017 and December 31, 2016, CMS Energy s long-term debt included $103 million principal amount that was supported by third-party credit enhancements. This entire principal amount was at Consumers.

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

In Millions

	September 30, 2017				December 31, 2016			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value	Cost	Unrealized Gains	Unrealized Losses	Fair Value
CMS Energy, including Consumers								
Available for sale								
DB SERP								
Mutual funds	$ 142	$ 3	$ -	$ 145	$ 141	$ -	$ -	$ 141
Held to maturity								

Debt securities	16	-	-	16	13	-	-	13
Consumers								
Available for sale								
DB SERP								
Mutual funds	$ 103	$ 2	$ -	$ 105	$ 102	$ -	$ -	$ 102
CMS Energy common stock	2	19	-	21	4	29	-	33

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

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7: NOTES RECEIVABLE

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

				In Millions
		September 30, 2017		December 31, 2016
CMS Energy, including Consumers				
Current				
EnerBank notes receivable, net of allowance for loan losses	$	167	$	151
EnerBank notes receivable held for sale		31		39
Michigan tax settlement		30		29
Non-current				
EnerBank notes receivable		1,134		1,088
Michigan tax settlement		20		19
Total notes receivable	$	1,382	$	1,326
Consumers				
Current				
Michigan tax settlement	$	30	$	29
Non-current				
Michigan tax settlement		16		16
Total notes receivable	$	46	$	45

EnerBank notes receivable are unsecured consumer installment loans for financing home improvements. EnerBank records its notes receivable at cost, less an allowance for loan losses. In March 2017, EnerBank completed a sale of notes receivable, receiving proceeds of $19 million and recording an insignificant gain. At September 30, 2017, $31 million of notes receivable remained classified as held for sale; the fair value of notes receivable held for sale exceeded their carrying value. These notes are expected to be sold in 2017.

Authorized contractors pay fees to EnerBank to provide borrowers with same-as-cash, zero interest, or reduced interest loans. Unearned income associated with the loan fees, which is recorded as a reduction to notes receivable on CMS Energy s consolidated balance sheets, was $83 million at September 30, 2017 and $84 million at December 31, 2016. Unearned income associated with the loan fees for notes receivable held for sale was $6 million at September 30, 2017 and $8 million at December 31, 2016.

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

Loans that are 30 days or more past due are considered delinquent. The balance of EnerBank s delinquent consumer loans was $12 million at September 30, 2017 and $11 million at December 31, 2016.

At September 30, 2017 and December 31, 2016, $1 million of EnerBank s loans had been modified as troubled debt restructurings.

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8: RETIREMENT BENEFITS

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

CMS Energy and Consumers elected to adopt ASU 2017-07, *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost,* as of January 1, 2017. For further details on the implementation of this standard, see Note 1, New Accounting Standards.

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

In Millions

	DB Pension Plan				OPEB Plan			
	Three Months Ended		Nine Months Ended		Three Months Ended		Nine Months Ended	
September 30	2017	2016	2017	2016	2017	2016	2017	2016
CMS Energy, including Consumers								
Net periodic cost (credit)								
Service cost	$ 12	$ 10	$ 34	$ 31	$ 5	$ 5	$ 15	$ 14
Interest cost	23	21	67	64	13	12	39	35
Expected return on plan assets	(39)	(36)	(115)	(110)	(22)	(22)	(67)	(65)
Amortization of:								
Net loss	20	17	60	52	7	5	23	16
Prior service cost (credit)	1	1	3	3	(8)	(10)	(26)	(31)
Net periodic cost (credit)	$ 17	$ 13	$ 49	$ 40	$ (5)	$ (10)	$ (16)	$ (31)
Consumers								
Net periodic cost (credit)								
Service cost	$ 11	$ 11	$ 33	$ 31	$ 5	$ 4	$ 14	$ 13
Interest cost	22	20	65	62	12	12	38	34
Expected return on plan assets	(38)	(35)	(112)	(107)	(21)	(20)	(63)	(60)
Amortization of:								
Net loss	19	16	58	50	8	5	24	16
Prior service cost (credit)	1	1	3	3	(8)	(10)	(25)	(30)
Net periodic cost (credit)	$ 15	$ 13	$ 47	$ 39	$ (4)	$ (9)	$ (12)	$ (27)

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9: INCOME TAXES

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

Nine Months Ended September 30	2017	2016
CMS Energy, including Consumers		
U.S. federal income tax rate	35.0%	35.0%
Increase (decrease) in income taxes from:		
State and local income taxes, net of federal effect[1]	2.3	4.2
Accelerated flow-through of regulatory tax benefits[2]	(4.3)	(4.7)
Employee share-based awards	(0.9)	(0.8)
Other, net	(2.0)	(1.4)
Effective tax rate	30.1%	32.3%
Consumers		
U.S. federal income tax rate	35.0%	35.0%
Increase (decrease) in income taxes from:		
State and local income taxes, net of federal effect[1]	2.3	4.6
Accelerated flow-through of regulatory tax benefits[2]	(3.9)	(4.0)
Employee share-based awards	(0.8)	(0.7)
Other, net	(2.3)	(1.2)
Effective tax rate	30.3%	33.7%

1 In September 2017, CMS Energy completed the evaluation of its methodology for the state apportionment of Consumers electricity sales to MISO, taking into account recent state tax law developments in the electric utility sector. As a result, CMS Energy intends to amend state income tax filings for 2013 through 2016 to seek a refund of taxes previously paid. To recognize the anticipated refund and the impact of the expected lower effective tax rate on their deferred state tax liabilities, CMS Energy recorded a $15 million income tax benefit and Consumers recorded a $16 million income tax benefit in September 2017. Both amounts are net of reserves for uncertain tax positions. For the nine months ended September 30, 2017, the impact of the benefit was a 2.3 percentage point reduction to CMS Energy s effective tax rate and a 2.2 percentage point reduction to Consumers effective tax rate.

2 Since 2014, Consumers has followed a regulatory treatment ordered by the MPSC that accelerates the return of certain income tax benefits to customers. This change, which also accelerates Consumers recognition of the income tax benefits, reduced Consumers income tax expense by $28 million for the nine months ended September 30, 2017 and by $30 million for the nine months ended September 30, 2016.

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10: EARNINGS PER SHARE CMS ENERGY

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

				In Millions, Except Per Share Amounts
	Three Months Ended		Nine Months Ended	
September 30	2017	2016	2017	2016
Income available to common stockholders				
Net income	$ 172	$ 186	$ 464	$ 475
Less income attributable to noncontrolling interests	-	-	1	1
Net income available to common stockholders basic and diluted	$ 172	$ 186	$ 463	$ 474
Average common shares outstanding				
Weighted-average shares basic	280.8	278.2	279.8	277.7
Add dilutive nonvested stock awards	0.8	1.0	0.8	1.1
Weighted-average shares diluted	281.6	279.2	280.6	278.8
Net income per average common share available to common stockholders				
Basic	$ 0.61	$ 0.67	$ 1.65	$ 1.71
Diluted	0.61	0.67	1.65	1.70

Nonvested Stock Awards

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

11: CASH AND CASH EQUIVALENTS

Presented in the following table are the components of total cash and cash equivalents, including restricted amounts, and their location on CMS Energy s and Consumers consolidated balance sheets:

		In Millions
	September 30 2017	December 31 2016

CMS Energy, including Consumers				
Cash and cash equivalents	$	142	$	235
Restricted cash and cash equivalents		27		19
Other non-current assets		4		3
Cash and cash equivalents, including restricted amounts	$	173	$	257
Consumers				
Cash and cash equivalents	$	55	$	131
Restricted cash and cash equivalents		27		19
Other non-current assets		3		2
Cash and cash equivalents, including restricted amounts	$	85	$	152

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Cash and Cash Equivalents: Cash and cash equivalents include short-term, highly liquid investments with original maturities of three months or less.

Restricted Cash and Cash Equivalents: Restricted cash and cash equivalents are held primarily for the repayment of securitization bonds. Cash and cash equivalents may also be restricted to pay other contractual obligations such as leasing of coal rail cars. These amounts are classified as current assets since they relate to payments that could or will occur within one year.

Other Non-current Assets: The cash equivalents classified as other non-current assets represent an investment in a money market fund held in the DB SERP rabbi trust. See Note 5, Fair Value Measurements for more information regarding the DB SERP.

Implementation of ASU 2016-18, *Restricted Cash*: CMS Energy and Consumers have early adopted the provisions of ASU 2016-18, *Restricted Cash*, which 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. 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
Nine Months Ended September 30		2016
CMS Energy, including Consumers		
Change in:		
Net cash used in investing activities	$	7
Cash and cash equivalents, including restricted amounts, end of period		29
Consumers		
Change in:		
Net cash used in investing activities	$	8
Cash and cash equivalents, including restricted amounts, end of period		29

12: REPORTABLE SEGMENTS

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

CMS Energy

The reportable segments for CMS Energy are:

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

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

- enterprises, consisting of various subsidiaries engaging primarily in domestic independent power production

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

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Consumers

The reportable segments for Consumers are:

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

Consumers other consolidated entities are presented within other reconciling items.

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

				In Millions
	Three Months Ended		Nine Months Ended	
September 30	2017	2016	2017	2016
CMS Energy, including Consumers				
Operating revenue				
Electric utility	$ 1,247	$ 1,313	$ 3,360	$ 3,348
Gas utility	190	185	1,176	1,166
Enterprises	58	59	172	156
Other reconciling items	32	30	97	89
Total operating revenue CMS Energy	$ 1,527	$ 1,587	$ 4,805	$ 4,759
Consumers				
Operating revenue				
Electric utility	$ 1,247	$ 1,313	$ 3,360	$ 3,348
Gas utility	190	185	1,176	1,166
Total operating revenue Consumers	$ 1,437	$ 1,498	$ 4,536	$ 4,514
CMS Energy, including Consumers				
Net income (loss) available to common stockholders				
Electric utility	$ 176	$ 191	$ 394	$ 395
Gas utility	5	3	101	102
Enterprises	8	8	27	17
Other reconciling items	(17)	(16)	(59)	(40)
Total net income available to common stockholders CMS Energy	$ 172	$ 186	$ 463	$ 474
Consumers				
Net income available to common stockholder				
Electric utility	$ 176	$ 191	$ 394	$ 395
Gas utility	5	3	101	102
Other reconciling items	-	1	-	1
	$ 181	$ 195	$ 495	$ 498

Total net income available to common stockholder Consumers

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				In Millions
	September 30, 2017		December 31, 2016	
CMS Energy, including Consumers				
Plant, property, and equipment, gross				
Electric utility[1]	$	15,056	$	14,540
Gas utility[1]		6,713		6,283
Enterprises		164		157
Other reconciling items		33		30
Total plant, property, and equipment, gross CMS Energy	$	21,966	$	21,010
Consumers				
Plant, property, and equipment, gross				
Electric utility[1]	$	15,056	$	14,540
Gas utility[1]		6,713		6,283
Other reconciling items		15		15
Total plant, property, and equipment, gross Consumers	$	21,784	$	20,838
CMS Energy, including Consumers				
Total assets				
Electric utility[1]	$	13,639	$	13,429
Gas utility[1]		6,701		6,446
Enterprises		280		269
Other reconciling items		1,500		1,478
Total assets CMS Energy	$	22,120	$	21,622
Consumers				
Total assets				
Electric utility[1]	$	13,640	$	13,430
Gas utility[1]		6,701		6,446
Other reconciling items		39		70
Total assets Consumers	$	20,380	$	19,946

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

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

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There have been no material changes to market risk as previously disclosed in Part II Item 7A. Quantitative and Qualitative Disclosures About Market Risk, in the 2016 Form 10-K.

Item 4. Controls and Procedures

CMS ENERGY

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

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

CONSUMERS

Disclosure Controls and Procedures: Consumers management, with the participation of its CEO and CFO, has evaluated the effectiveness of its disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the

period covered by this report. Based on such evaluation, Consumers CEO and CFO have concluded that, as of the end of such period, its disclosure controls and procedures are effective.

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

Part II Other Information

Item 1. Legal Proceedings

CMS Energy, Consumers, and certain of their affiliates are parties to various lawsuits and regulatory matters in the ordinary course of business. For information regarding material legal proceedings, including updates to information reported under Part I Item 3. Legal Proceedings, of the 2016 Form 10-K, see Part I Item 1. Financial Statements Notes to the Unaudited Consolidated Financial Statements Note 2, Regulatory Matters and Note 3, Contingencies and Commitments.

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Item 1A. Risk Factors

There have been no material changes to the Risk Factors as previously disclosed in Part I Item 1A. Risk Factors, in the 2016 Form 10-K, which Risk Factors are incorporated herein by reference.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

UNREGISTERED SALES OF EQUITY SECURITIES

None.

ISSUER REPURCHASES OF EQUITY SECURITIES

Presented in the following table are CMS Energy s repurchases of equity securities for the three months ended September 30, 2017:

Period	Total Number of Shares Purchased[1]		Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares That May Yet Be Purchased Under Publicly Announced Plans or Programs
July 1, 2017 to July 31, 2017	15,694	$	46.25	-	-
August 1, 2017 to August 31, 2017	154		46.64	-	-
September 1, 2017 to September 30, 2017	17		48.42	-	-
Total	15,865	$	46.26	-	-

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

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

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Item 6. Exhibits

CMS ENERGY S AND CONSUMERS EXHIBIT INDEX

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

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

Exhibits	Description
4.1	129th Supplemental Indenture dated as of September 28, 2017 between Consumers and The Bank of New York Mellon, as Trustee (Exhibit 4.1 to Form 8-K filed September 28, 2017 and incorporated herein by reference)
10.1	Bond Purchase Agreement between Consumers Energy and each of the Purchasers named therein (Exhibit 10.1 to Form 8-K filed August 29, 2017 and incorporated herein by reference)
10.2[1]	Annual Employee Incentive Compensation Plan for Consumers as amended effective as of August 4, 2017
12.1	Statement regarding computation of CMS Energy s Ratios of Earnings to Fixed Charges and Combined Fixed Charges and Preferred Dividends
12.2	Statement regarding computation of Consumers Ratios of Earnings to Fixed Charges and Combined Fixed Charges and Preferred Dividends
31.1	CMS Energy s certification of the CEO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	CMS Energy s certification of the CFO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.3	Consumers certification of the CEO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.4	Consumers certification of the CFO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	CMS Energy s certifications pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Consumers certifications pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Linkbase
101.LAB	XBRL Taxonomy Extension Labels Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase

[1] Management contract or compensatory plan or arrangement.

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SIGNATURES

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

		CMS ENERGY CORPORATION
Dated: October 26, 2017	By:	/s/ Rejji P. Hayes
		Rejji P. Hayes
		Executive Vice President and Chief Financial Officer
		CONSUMERS ENERGY COMPANY
Dated: October 26, 2017	By:	/s/ Rejji P. Hayes
		Rejji P. Hayes
		Executive Vice President and Chief Financial Officer

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EXHIBITS