

FORM 10-K  
UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED DECEMBER 31, 1999

OR

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number	Registrant; State of Incorporation; Address; and Telephone Number	IRS Employer Identification No.
1-9513	CMS ENERGY CORPORATION (A Michigan Corporation) Fairlane Plaza South, Suite 1100 330 Town Center Drive, Dearborn, Michigan 48126 (313)436-9200	38-2726431
1-5611	CONSUMERS ENERGY COMPANY (A Michigan Corporation) 212 West Michigan Avenue, Jackson, Michigan 49201 (517)788-0550	38-0442310
1-2921	PANHANDLE EASTERN PIPE LINE COMPANY (A Delaware Corporation) 5444 Westheimer Road, P.O. Box 4967, Houston, Texas 77210-4967 (713)989-7000	44-0382470

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

Registrant	Title of Class	Name of Each Exchange on Which Registered
CMS ENERGY CORPORATION	Common Stock, \$.01 par value 8.75% Adjustable Convertible Trust Securities	New York Stock Exchange New York Stock Exchange
CONSUMERS ENERGY COMPANY	Preferred Stocks, \$100 par value: \$4.16 Series, \$4.50 Series	New York Stock Exchange
CONSUMERS POWER COMPANY FINANCING I	8.36% Trust Originated Preferred Securities	New York Stock Exchange
CONSUMERS ENERGY COMPANY FINANCING II	8.20% Trust Originated Preferred Securities	New York Stock Exchange
CONSUMERS ENERGY COMPANY FINANCING III	9.25% Trust Originated Preferred Securities	New York Stock Exchange

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT: None

Indicate by check mark whether the Registrants (1) have 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 Registrants were required to file such reports), and (2) have been subject to such filing requirements for the past 90 days. Yes  No

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

Panhandle Eastern Pipe Line Company meets the conditions set forth in General Instructions I(1)(a) and (b) of Form 10-K and is therefore filing this Form 10-K with the reduced disclosure format. Items 4, 6, 10, 11, 12 and 13 have been omitted and Items 1, 2 and 7 have been reduced in accordance with Instruction I.

The aggregate market value of CMS Energy voting and non-voting common equity held by non-affiliates was \$1,846,266,321 for the 110,224,855 CMS Energy Common Stock shares outstanding on February 29, 2000.

On February 29, 2000, CMS Energy held all voting and non-voting common equity of Consumers and Panhandle.

Documents incorporated by reference: CMS Energy's proxy statement and Consumers information statement relating to the 2000 annual meeting of shareholders to be held May 26, 2000, are incorporated by reference in Part III, except for the organization and compensation committee report contained therein.

CMS ENERGY CORPORATION  
AND  
CONSUMERS ENERGY COMPANY  
AND  
PANHANDLE EASTERN PIPE LINE COMPANY

ANNUAL REPORTS ON FORM 10-K TO THE SECURITIES  
AND EXCHANGE COMMISSION FOR THE YEAR  
ENDED DECEMBER 31, 1999

This combined Form 10-K is separately filed by CMS Energy Corporation, Consumers Energy Company and Panhandle Eastern Pipe Line Company. Information contained herein relating to each individual registrant is filed by such registrant on its own behalf. Accordingly, except for its subsidiaries, Consumers Energy Company and Panhandle Eastern Pipe Line Company make no representation as to information relating to any other companies affiliated with CMS Energy Corporation.

TABLE OF CONTENTS

	Page
	----
Glossary .....	3
PART I:	
Item 1. Business.....	7
Item 2. Properties.....	33
Item 3. Legal Proceedings.....	43
Item 4. Submission of Matters to a Vote of Security Holders.....	45
PART II	
Item 5. Market for CMS Energy's, Consumers' and Panhandle's Common Equity and Related Stockholder Matters.....	46
Item 6. Selected Financial Data.....	46
Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.....	47
Item 7A. Quantitative and Qualitative Disclosures About Market Risk.....	47
Item 8. Financial Statements and Supplementary Data.....	48
Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure.....	CO-1
PART III	
Item 10. Directors and Executive Officers of CMS Energy and Consumers.....	CO-1
Item 11. Executive Compensation.....	CO-1
Item 12. Security Ownership of Certain Beneficial Owners and Management.....	CO-1
Item 13. Certain Relationships and Related Transactions.....	CO-1
PART IV	
Item 14. Exhibits, Financial Statement Schedules and Reports on Form 8-K.....	CO-2

## GLOSSARY

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

ABATE.....	Association of Businesses Advocating Tariff Equity
ALJ.....	Administrative Law Judge
AMT.....	Alternative minimum tax
Alliance.....	Alliance Regional Transmission Organization
Anadarko.....	Anadarko Petroleum Corporation, a non-affiliated company
Articles.....	Articles of Incorporation
Attorney General.....	Michigan Attorney General
Aux Sable.....	Aux Sable Liquids Products, L.P., a non-affiliated company
bcf.....	Billion cubic feet
Big Rock.....	Big Rock Point nuclear power plant, owned by Consumers
Board of Directors.....	Board of Directors of CMS Energy
Btu.....	British thermal unit
Class G Common Stock.....	One of two classes of common stock of CMS Energy, no par value, which reflects the separate performance of the Consumers Gas Group, redeemed in October 1999.
Clean Air Act.....	Federal Clean Air Act, as amended
CMS Capital.....	CMS Capital Corp., a subsidiary of Enterprises
CMS Electric and Gas.....	CMS Electric and Gas Company, a subsidiary of Enterprises
CMS Energy.....	CMS Energy Corporation, the parent of Consumers and Enterprises
CMS Energy Common Stock.....	One of two classes of common stock of CMS Energy, par value \$.01 per share
CMS Gas Transmission.....	CMS Gas Transmission and Storage Company, a subsidiary of Enterprises
CMS Generation.....	CMS Generation Co., a subsidiary of Enterprises
CMS Holdings.....	CMS Midland Holdings Company, a subsidiary of Consumers
CMS Midland.....	CMS Midland Inc., a subsidiary of Consumers
CMS MST.....	CMS Marketing, Services and Trading Company, a subsidiary of Enterprises
CMS Oil and Gas.....	CMS Oil and Gas Company, a subsidiary of Enterprises
CMS Panhandle Holding.....	CMS Panhandle Holding Company, a subsidiary of CMS Gas Transmission
Common Stock.....	All classes of Common Stock of CMS Energy and each of its subsidiaries, or any of them individually, at the time of an award or grant under the Performance Incentive Stock Plan
CPEE.....	Companhia Paulista de Energia Electrica
Consumers.....	Consumers Energy Company, a subsidiary of CMS Energy
Consumers Gas Group.....	The gas distribution, storage and transportation businesses currently conducted by Consumers and Michigan Gas Storage
Court of Appeals.....	Michigan Court of Appeals
Detroit Edison.....	The Detroit Edison Company, a non-affiliated company
DOE.....	U.S. Department of Energy
Dow.....	The Dow Chemical Company, a non-affiliated company
DSM.....	Demand-side management
Duke Energy.....	Duke Energy Corporation, a non-affiliated company

EITF.....	Emerging Issues Task Force
El Chocon.....	Hidroelectrica El Chocon S.A.
Enterprises.....	CMS Enterprises Company, a subsidiary of CMS Energy
EPA.....	Environmental Protection Agency
EPS.....	Earnings per share
FASB.....	Financial Accounting Standards Board
FERC.....	Federal Energy Regulatory Commission
FMLP.....	First Midland Limited Partnership, a partnership which holds a 75.5% lessor interest in the Midland Cogeneration Venture facility
FTC.....	Federal Trade Commission
GCR.....	Gas cost recovery
GTNS.....	CMS Energy General Term Notes(R), \$250 million Series A, \$125 million Series B, \$150 million Series C, \$200 million Series D and \$400 million Series E
Huron.....	Huron Hydrocarbons, Inc., a subsidiary of Consumers
ITC.....	Investment tax credit
Jorf Lasfar.....	The 1,356 MW (660 MW in operation and 696 MW under construction) coal-fueled power plant in Morocco, jointly owned by CMS Generation and ABB Energy Venture, Inc.
kWh.....	Kilowatt-hour
Loy Yang.....	The 2,000 MW brown coal fueled Loy Yang A power plant and an associated coal mine in Victoria, Australia, in which CMS Generation holds a 50 percent ownership interest
LNG.....	Liquefied natural gas
Ludington.....	Ludington pumped storage plant, jointly owned by Consumers and Detroit Edison
mcf.....	Thousand cubic feet
MCV Facility.....	A natural gas-fueled, combined-cycle cogeneration facility operated by the MCV Partnership
MCV Partnership.....	Midland Cogeneration Venture Limited Partnership in which Consumers has a 49 percent interest through CMS Midland
MD&A.....	Management's Discussion and Analysis
MEPCC.....	Michigan Electric Power Coordination Center
Michigan Gas Storage.....	Michigan Gas Storage Company, a subsidiary of Consumers
Mbbls.....	Thousand barrels
MMbbls.....	Million barrels
MMBtu.....	Million British thermal unit
MMcf.....	Million cubic feet
MPSC.....	Michigan Public Service Commission
MW.....	Megawatts
Natural Gas Act.....	Federal Natural Gas Act

NEIL.....	Nuclear Electric Insurance Limited, an industry mutual insurance company owned by member utility companies
Nitrotec.....	Nitrotec Corporation, a propriety gas technology company in which CMS Gas Transmission owns an equity interest
NRC.....	Nuclear Regulatory Commission
NYMEX.....	New York Mercantile Exchange
OPEB.....	Postretirement benefit plans other than pensions for retired employees
Outstanding Shares.....	Outstanding shares of Class G Common Stock
Palisades.....	Palisades nuclear power plant, owned by Consumers
Pan Gas Storage.....	Pan Gas Storage Company, a subsidiary of Panhandle Eastern Pipe Line Company
PanEnergy.....	PanEnergy Corp., a subsidiary of Duke Energy and former parent of Panhandle
Panhandle.....	Panhandle Eastern Pipe Line Company, including its subsidiaries Trunkline, Pan Gas Storage, Panhandle Storage, and Trunkline LNG. Panhandle is a wholly owned subsidiary of CMS Gas Transmission
Panhandle Eastern Pipe Line.....	Panhandle Eastern Pipe Line Company, a wholly owned subsidiary of CMS Gas Transmission
Panhandle Storage.....	CMS Panhandle Storage Company, a subsidiary of Panhandle Eastern Pipe Line Company
PCBs.....	Poly chlorinated biphenyls
PECO.....	PECO Energy Company, a non-affiliated company
Pension Plan.....	The trustee, non-contributory, defined benefit pension plan of Panhandle, Consumers and CMS Energy
PPA.....	The Power Purchase Agreement between Consumers and the MCV Partnership with a 35-year term commencing in March 1990
ppm.....	Parts per million
PSCR.....	Power supply cost recovery
PUHCA.....	Public Utility Holding Company Act of 1935
RTO.....	Regional Transmission Organization
SEC.....	Securities and Exchange Commission
Senior Credit Facilities.....	\$725 million senior credit facilities consisting of a \$600 million three-year revolving credit facility and a five-year \$125 million term loan facility
SERP.....	Supplemental Executive Retirement Plan
SFAS.....	Statement of Financial Accounting Standards
SOP.....	Statement of position
Stranded Costs.....	Costs incurred by utilities in order to serve their customers in a regulated monopoly environment, but which may not be recoverable in a competitive environment because of customers leaving their systems and ceasing to pay for their costs. These costs could include owned and purchased generation and regulatory assets.
Superfund.....	Comprehensive Environmental Response, Compensation and Liability Act

Tbtu.....	Trillion british thermal unit
TGN.....	Transportadora de Gas del Norte S.A., a natural gas pipeline located in Argentina
Transition Costs.....	Stranded Costs, as defined, plus the costs incurred in the transition to competition.
Trunkline.....	Trunkline Gas Company, a subsidiary of Panhandle Eastern Pipe Line Company
Trunkline LNG.....	Trunkline LNG Company, a subsidiary of Panhandle Eastern Pipe Line Company
Trust Preferred Securities.....	Securities representing an undivided beneficial interest in the assets of statutory business trusts, which interests have a preference with respect to certain trust distributions over the interests of either CMS Energy or Consumers, as applicable, as owner of the common beneficial interests of the trusts
Union.....	Utility Workers of America, AFL-CIO
UST.....	Underground storage tanks

## PART I

## ITEM 1. BUSINESS.

## GENERAL

## CMS ENERGY

CMS Energy, formed in Michigan in 1987, is a leading diversified energy company operating in the United States and around the world. Our two principal subsidiaries are Consumers and Enterprises. Consumers is a public utility that provides natural gas or electricity to almost six million of the nine and one-half million residents in Michigan's lower peninsula. Enterprises, through subsidiaries, is engaged in several domestic and international diversified energy businesses.

Our consolidated operating revenue in 1999 was \$6.1 billion. Our consolidated operating revenue came from the following seven business segments (which includes Consumers' utility operations):

Consumers Electric Utility Operations	44 percent
Consumers Gas Utility Operations	19 percent
Marketing, Services and Trading Operations	13 percent
Natural Gas Transmission, Storage and Processing Operations	13 percent
Independent Power Production Operations	6 percent
International Energy Distribution and other Non-Utility Operations	3 percent; and
Oil and Gas Exploration and Production Operations	2 percent.

See "BUSINESS SEGMENTS" later in this Item 1 for further discussion of each segment.

## CONSUMERS

Consumers, formed in Michigan in 1968, is the successor to a corporation organized in Maine in 1910. This predecessor did business in Michigan from 1915 to 1968. Consumers was originally named Consumers Power Company. In 1997, Consumers changed its name to Consumers Energy Company to reflect its increasing focus on providing customers with total energy solutions.

Consumers' consolidated operations account for a majority of CMS Energy's total assets, revenues and income. Consumers' service areas include automotive, metal, chemical, food and wood products and a diversified group of other industries. At year-end 1999, Consumers' customer base and operating revenues were as follows:

	Customers Served (millions) -----	Operating Revenue (millions) -----	1999 vs 1998 Operating Revenue % Increase (Decrease) -----
Electric Utility	1.67	\$ 2,667	2.3
Gas Utility Business	1.58	1,156	10.0
Non-Utility	--	51 (a)	--
Total	3.25	\$ 3,874	4.4

(a) Primarily represents earnings attributable to Consumers' interest in the MCV Partnership and MCV Facility, which is reported within the Independent Power Production business segment.

Consumers' rates and certain other aspects of its business are subject to the jurisdiction of the MPSC and FERC, as described in CMS ENERGY, CONSUMERS AND PANHANDLE REGULATION later in this Item 1.

#### PANHANDLE

Panhandle Eastern Pipe Line Company, formed in Delaware in 1929, is a wholly owned subsidiary of CMS Gas Transmission. On March 29, 1999, Panhandle Eastern Pipe Line Company and its principal consolidated subsidiaries, Trunkline and Pan Gas Storage, as well as Panhandle Eastern Pipe Line Company's affiliates, Trunkline LNG and Panhandle Storage, were acquired from subsidiaries of Duke Energy by CMS Panhandle Holding, which was an indirect wholly owned subsidiary of CMS Energy. Immediately following the acquisition, Trunkline LNG and Panhandle Storage became wholly owned subsidiaries of Panhandle Eastern Pipe Line Company.

Panhandle is primarily engaged in the interstate transmission and storage of natural gas. Panhandle operates one of the nation's largest natural gas pipeline networks, providing customers in the Midwest and Southwest with a comprehensive array of transportation services. This interconnected 10,400 mile system accesses virtually all major natural gas regions in the United States. The rates and operations of Panhandle are subject to regulation by FERC as described in CMS ENERGY, CONSUMERS AND PANHANDLE REGULATION later in this Item 1.

Panhandle's major customers include approximately 25 utilities located primarily in the Midwest market area that encompasses large portions of Michigan, Ohio, Indiana, Illinois, Missouri and Tennessee. Panhandle's consolidated operating revenue in 1999 was \$471 million. Of Panhandle's operating revenue, 84 percent was generated from transportation services, 10 percent from storage services, and 6 percent from other business. Transportation services for Consumers and ProLiance Energy L.L.C., each, accounted for at least 10 percent of the 1999 and 1997 revenues of Panhandle. In 1998, ProLiance Energy, L.L.C. accounted for approximately 10 percent of Panhandle's revenues. No other customer accounted for 10 percent or more of Panhandle's revenues during 1999, 1998 or 1997. For additional information, see ITEM 7. PANHANDLE'S MANAGEMENT'S DISCUSSION AND ANALYSIS - RESULTS OF OPERATIONS and ITEM 2. PROPERTIES - PANHANDLE EASTERN PIPE LINE COMPANY.

## CMS ENERGY'S RECENT DEVELOPMENTS

In February 2000, CMS Energy announced a financial restructuring plan to strengthen significantly its balance sheet, to reduce fixed charges and to enhance earnings per share growth. During the second or third quarter of 2000, subject to market conditions, CMS Energy intends to make an initial public offering of approximately \$600 million of a tracking stock representing 20 percent of the economic interest in its electric and gas utility. In addition, the CMS Energy Board of Directors approved the repurchase of up to 10 million shares of CMS Energy Common Stock, from time to time, in open market or private transactions. Substantial progress has been made toward the 10 million share limit. For additional information, see ITEM 7. CMS ENERGY MANAGEMENT'S DISCUSSION AND ANALYSIS - RECAPITALIZATION, incorporated by reference herein.

CMS Energy anticipates this restructuring program, along with the proceeds from the planned sale of assets discussed below, will improve CMS Energy's balance sheet. If market conditions are not satisfactory for issuance of the tracking stock, CMS Energy will improve its balance sheet through additional asset sales or alternate means. In October 1999, CMS Energy identified for possible sale \$1 billion of assets, which were expected to contribute little or no earnings benefit in the short to medium term. In addition, in February 2000, CMS Energy announced its intention to sell Loy Yang. Excluding Loy Yang, CMS Energy plans to sell or have agreements to sell \$600 to \$750 million of such assets by the end of April 2000. As of February 1, 2000 CMS Energy had sold a partial interest in its Northern Header gathering system through its natural gas transmission, storage and processing business and all of its ownership interest in a Brazilian distribution system through its international energy distribution business. In addition, CMS Energy has an agreement to sell all its northern Michigan oil and gas properties through its oil and gas exploration and production business. These sales are expected to generate approximately \$370 million in proceeds. For additional information concerning the sale of these assets, see ITEM 7. CMS ENERGY MANAGEMENT'S DISCUSSION AND ANALYSIS - CASH POSITION, INVESTING AND FINANCING.

## BUSINESS SEGMENTS

## CMS ENERGY, CONSUMERS AND PANHANDLE FINANCIAL INFORMATION

For information with respect to operating revenue, net operating income, identifiable assets and liabilities attributable to all of CMS Energy's business segments and international and domestic operations, see ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA - SELECTED FINANCIAL INFORMATION AND CMS ENERGY'S CONSOLIDATED FINANCIAL STATEMENTS AND NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

For information with respect to the operating revenue, net operating income, identifiable assets and liabilities attributable only to Consumers' business segments, see ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA SELECTED FINANCIAL INFORMATION AND CONSUMERS' CONSOLIDATED FINANCIAL STATEMENTS AND NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

For information with respect to the operating revenue, net operating income, identifiable assets and liabilities attributable only to Panhandle's business segments, see ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA - PANHANDLE'S CONSOLIDATED FINANCIAL STATEMENTS AND NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

CMS Energy, Consumers and Panhandle are subject to certain uncertainties and risks, which are normal for their respective businesses. Certain uncertainties are described in CMS Energy's ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA - NOTE 4 OF CMS ENERGY'S NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, NOTE 2 OF CONSUMERS' NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, and NOTE 3 AND NOTE 11 OF PANHANDLE'S NOTES TO CONSOLIDATED FINANCIAL STATEMENTS. Certain risks are described in ITEM 7. CMS ENERGY'S MANAGEMENT'S DISCUSSION AND ANALYSIS - MARKET RISK INFORMATION and ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA - NOTE 9 OF CMS ENERGY'S NOTES TO CONSOLIDATED FINANCIAL STATEMENTS and in ITEM 7. CONSUMERS' MANAGEMENT'S DISCUSSION AND ANALYSIS - DERIVATIVES AND HEDGES.

CMS Energy, Consumers, and Panhandle believe that they and their subsidiaries maintain traditional insurance, similar to comparable companies in the same line of business, for the various risk exposures including political risk from possible nationalization or expropriation, incidental to CMS Energy's, Consumers' or Panhandle's respective businesses.

#### CONSUMERS ELECTRIC UTILITY OPERATIONS

If independent, Consumers' electric utility operation would be the twelfth largest electric company in the United States based upon the number of customers. The electric operations of Consumers include the generation, purchase, transmission, distribution and sale of electricity. At year-end 1999, it served 1.67 million customers in 61 of the 68 counties of Michigan's lower peninsula. Principal cities served include Battle Creek, Flint, Grand Rapids, Jackson, Kalamazoo, Midland, Muskegon and Saginaw. Consumers' electric utility customer base includes a mix of residential, commercial and diversified industrial customers, the largest segment of which is the automotive industry. Consumers' electric operations are not dependent upon a single customer, or even a few customers, and the loss of any one or even a few of such customers is not reasonably likely to have a material adverse effect on its financial condition, subject to appropriate regulatory treatment that allows an adjustment to Consumers rates to compensate for the loss of revenues from such customers.

Consumers' electric operations are seasonal. The summer months usually increase demand for electric energy, principally due to the use of air conditioners and other cooling equipment, thereby affecting revenues. Total electric sales in 1999 were 41 billion kWh, a 2.5 percent increase over 1998 levels including a 2.8 percent increase in system sales to Consumers' ultimate customers.

Consumers achieved a 1999 winter peak demand of 6,093 MW and a summer peak demand of 7,460 MW. Based on the summer peak, Consumers' reserve margin was 14.7 percent in 1999 compared to 21.1 percent in 1998. Consumers estimates that during the summer of 2000, it will be able to satisfy its peak demand with a 9.3 percent reserve margin from a combination of its owned electric generating plants and existing long-term purchase contracts and a 16.7 percent reserve margin when short-term electricity purchase contracts or options as well as other arrangements are added. This estimate is based on 235 MW of coincident retail open access load being served by others (Consumers will offer other service providers with the opportunity to serve up to 600 MW of nominal retail open access load prior to summer 2000). If 235 MW of coincident retail open access load is not served by others, the reserve margin is expected to be approximately 15 percent.

Consumers owned and operated 31 electric generating plants in 1999 with an aggregate of 6,252 MW of capacity. In 1999, Consumers purchased 2,388 MW of net capacity, which amounted to 32 percent of Consumers' total system requirements, from other power producers, the largest being the MCV Partnership. For additional information on Consumers' electric properties, see ITEM 2. PROPERTIES - - CONSUMERS ELECTRIC UTILITY PROPERTIES. For additional information concerning a long-term power sales agreement between Consumers and PECO to resell the capacity and energy purchases under

the PPA see ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA - NOTE 2 OF CONSUMERS' NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

A transmission system interconnects Consumers' electric generating plants at many locations with transmission facilities of unaffiliated systems, including those of other utilities in Michigan and Indiana. The interconnections permit a sharing of the reserve capacity of the connected systems. This allows mutual assistance during emergencies and substantially reduces investment in utility plant facilities.

FUEL SUPPLY: Consumers has four generating plant sites which use coal as a fuel source and which constitute 78.5 percent of its baseload capacity (the capacity used to serve a constant level of customer demand). Combined, these plants produce a total of 19,085 million kWhs of electricity in 1999 and required 8.9 million tons of coal. Consumers' coal inventory on December 31, 1999 amounted to approximately 40 days' supply. For additional information on future sources of coal, see ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA - NOTE 2 OF CONSUMERS' NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - UNCERTANTIES - OTHER ELECTRIC UNCERTANTIES.

Consumers owned two and operated one nuclear power plant during 1999. The Big Rock nuclear power plant, located near Charlevoix, Michigan was closed permanently on August 29, 1997. During 1999, the net generation of the Palisades nuclear power plant, located near South Haven, Michigan, was 5,105 million kWhs, constituting 21 percent of Consumers' baseload generation. Consumers has two contracts for uranium concentrate sufficient to provide up to 50 percent of its requirements. Consumers intends to purchase the balance of its concentrate, conversion and enrichment requirements for the next Palisades reload throughout the year 2000. Delivery of the next completed reload is scheduled for Spring 2001. Consumers intends to maximize use of the spot market for its future requirements. Consumers has contracts for nuclear fuel services and fabrication of nuclear fuel assemblies. The fabrication contract for Palisades remains in effect for the next three Palisades reloads with options to extend the contract for an additional two reloads. These contracts are with major private industrial suppliers of nuclear fuel and related services and with uranium producers, converters and enrichers who participate in the world nuclear fuel marketplace.

As shown below, Consumers generates electricity principally from coal and nuclear fuel.

Power Generated -----	Millions of kWhs -----				
	1999 ----	1998 ----	1997 ----	1996 ----	1995 ----
Coal	19,085	17,959	16,427	16,928	15,956
Nuclear	5,105	5,364	5,970	5,653	5,353
Oil	809	520	258	364	318
Gas	441	302	80	74	238
Hydro	365	395	467	473	420
Net pumped storage (a)	(476)	(480)	(477)	(419)	(373)
-----	-----	-----	-----	-----	-----
Total net generation =====	25,329 =====	24,060 =====	22,725 =====	23,073 =====	21,912 =====

(a) Represents Consumers' 51 percent share of net generation from Ludington. This facility pumps water into a storage pond using electricity generated during off-peak hours to generate electricity later during peak demand hours.

The cost of all fuels consumed, shown below, fluctuates with the mix of fuel burned.

Fuel Consumed -----	Cost per Million Btu -----				
	1999 ----	1998 ----	1997 ----	1996 ----	1995 ----
Coal	\$1.38	\$1.45	\$1.53	\$1.50	\$1.51
Oil	2.69	2.73	2.97	2.67	2.64
Gas	2.74	2.66	3.36	3.60	2.18
Nuclear	0.48	0.50	0.57	0.50	0.49
All Fuels (a)	1.27	1.28	1.29	1.27	1.27
=====	=====	=====	=====	=====	=====

(a) Weighted average fuel costs.

Under the Nuclear Waste Policy Act of 1982, the federal government was to be responsible for the permanent disposal of spent nuclear fuel and high-level radioactive waste beginning in 1998. To date, the DOE has been unable to arrange for storage facilities to meet this obligation and it does not anticipate being able to accept spent nuclear fuel for storage in 2000. For a discussion of pending litigation and legislative action relating to the DOE's obligations in this regard, see ITEM 3. LEGAL PROCEEDINGS and ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA - NOTE 2 OF CMS ENERGY'S NOTES TO CONSOLIDATED FINANCIAL STATEMENTS and ITEM 3. LEGAL PROCEEDINGS and ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA - NOTE 1 OF CONSUMERS' NOTES TO CONSOLIDATED FINANCIAL STATEMENTS. Consumers' on-site storage pool at Palisades is at capacity and Consumers is currently storing spent nuclear fuel in NRC-approved steel and concrete vaults, known as "dry casks". Currently, three storage casks are available for future storage. For a discussion relating to the NRC approval of dry casks and Consumers' use of the casks, see ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA - NOTE 4 OF CMS ENERGY'S NOTES TO CONSOLIDATED FINANCIAL STATEMENTS and ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA - NOTE 2 OF CONSUMERS' NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

INSURANCE: At Palisades, Consumers maintains primary and excess nuclear property insurance from NEIL totaling \$2.4 billion in recoverable limits. It insures against covered risks of direct property loss, decontamination, and debris removal subject to standard policy terms and conditions. Also covered by insurance are a portion of the costs arising from accidental premature decommissioning not funded by the decommissioning trust funds, and part of the remaining book value of the plant. For any loss more than

\$100 million, stabilization and decontamination expenses must be satisfied before Consumers receives other claim proceeds from NEIL.

Consumers also procured coverage from NEIL that would partially cover the cost of replacement power during certain prolonged accidental outages at Palisades. Insurance would not cover such costs during the first 12 weeks of any outage, but insurance would cover most of such costs during the next 52 weeks of the outage, followed by a reduced level of coverage for a period up to 110 additional weeks.

The permanently closed Big Rock remains insured by NEIL up to \$500 million for decontamination, debris removal, and covered direct property loss subject to standard policy terms and conditions.

Consumers retains the risk of loss to the extent of the insurance deductibles and to the extent policy limits are exceeded by a loss. Because NEIL is a mutual insurance company, Consumers could be subject to assessments from NEIL up to \$15.5 million in any policy year if insured losses occur at its, or any other member's nuclear facility.

Consumers maintains insurance for injuries and off-site property damage insurance due to the nuclear hazard at Palisades up to the total limits of liability established by the Price-Anderson Act, which are presently approximately \$9.5 billion. The Price-Anderson Act was enacted to provide financial protection for persons who may be liable for a nuclear accident or incident and persons who may be injured by a nuclear incident. Part of such financial protection consists of a mandatory industry-wide program under which owners of nuclear generating facilities could be assessed if a nuclear incident occurs at any of such facilities. The maximum assessment against Consumers could be \$88 million per occurrence, limited to maximum annual installment payments of \$10 million. Consumers also maintains insurance under a program that covers tort claims for bodily injury to workers caused by nuclear hazards. The policy contains a \$200 million nuclear industry aggregate limit. Under a previous insurance program providing coverage for claims brought by nuclear workers, Consumers remains responsible for a maximum assessment of up to \$6.3 million. The Big Rock plant remains insured for nuclear liability by a combination of insurance and U.S. government indemnity totaling \$544 million.

Consumers has not obtained insurance for property damage at its nuclear plants caused by floods and earthquakes because it believes that the protective systems built into these plants and the low probability of an event of this type at the locations of these plants makes such insurance unnecessary.

Insurance policy terms, limits and conditions are subject to change during the year as policies are renewed.

#### CONSUMERS GAS UTILITY OPERATIONS

If independent, Consumers' gas utility operation would be the fifth largest gas company in the United States based upon the number of customers. Consumers' gas utility operation purchases, transports, stores, distributes and sells natural gas. As of December 31, 1999, it rendered gas sales and delivery service to 1.58 million customers and is authorized to provide service in 54 of the 68 counties in Michigan's lower peninsula. Principal cities served include Bay City, Flint, Jackson, Kalamazoo, Lansing, Pontiac and Saginaw, as well as the suburban Detroit area, where over 900,000 of the gas customers are located. Consumers owns gas transmission and distribution mains and other gas lines, compressor stations and facilities, storage rights, wells and gathering facilities in several storage fields in Michigan. See ITEM 2. PROPERTIES - CONSUMERS GAS UTILITY PROPERTIES. Consumers and its wholly owned subsidiary, Michigan Gas Storage, inject natural gas into storage during the summer months of the year for use during the winter months when demand is higher. Consumers' gas operation is not dependent upon a

single customer, or even a few customers, and the loss of any one or even a few of such customers is not reasonably likely to have a material adverse effect on its financial condition, subject to appropriate regulatory treatment that allows an adjustment to Consumers rates to compensate for the loss of revenues from such customers.

Consumers' gas operation is seasonal to the extent that peak demand usually occurs in winter due to colder temperatures and the resulting increased demand for heating fuels. Total deliveries of natural gas sold by Consumers and from other sellers over Consumers' pipeline and distribution network to ultimate customers, including the MCV Partnership, totaled 389 bcf in 1999.

GAS SUPPLY: In 1999, Consumers purchased 80 percent of its required gas supply under contracts longer than one year. Total 1999 purchases included 28 percent from United States producers outside Michigan, 26 percent from Canadian producers, 15 percent from Michigan producers and 13 percent from the spot market. The remaining 18 percent of gas burned by customers was supplied by authorized suppliers in the experimental gas customer choice program which started in April 1998.

Consumers' firm transportation agreements (excluding agreements with its wholly owned subsidiary Michigan Gas Storage Company) are with Trunkline, Panhandle, ANR Pipeline Company and Great Lakes Gas Transmission, L.P. Consumers uses these agreements to deliver gas to Michigan for ultimate deliveries to market. In total, Consumers' firm transportation arrangements are capable of carrying over 90 percent of Consumers' total gas supply requirements. As of December 31, 1999, Consumers' portfolio of firm transportation from pipelines to Michigan is as follows:

	Volume ----- (dekatherms/day) -----	Expiration -----	
Trunkline	336,375	October	2002
Panhandle	40,000	March	2000
	25,000	March	2000
ANR Pipeline Company	10,000	December	2001
	6,000	December	2002
	83,790	October	2003
Great Lakes Gas Transmission, L.P. =====	85,092 =====	March	2004 =====

Consumers transports the balance of its required gas supply under interruptible contracts. The amount of interruptible transportation service and the use of it primarily varies with the price for such service and the availability and price of the spot supplies to be purchased and transported. Consumers' use of interruptible transportation is generally in off-peak summer months and after Consumers has fully subscribed its firm transportation service.

## NATURAL GAS TRANSMISSION, STORAGE AND PROCESSING

CMS Gas Transmission, formed in 1988, owns, develops and manages domestic and international natural gas facilities consisting of a total of 21,359 miles of pipeline (including 488 miles of projects under construction) with a daily capacity of approximately 10.0 bcf per day. At December 31, 1999, CMS Gas Transmission had processing capabilities of approximately 1.0 bcf per day of natural gas. Its Michigan carbon dioxide removal plants processed approximately 330 MMcf per day, representing more natural gas processed than any other processor in the State of Michigan.

CMS Energy expanded the importance of this business segment with the recent acquisition of the Panhandle Companies. In addition, CMS Gas Transmission acquired a natural gas pipeline in Western Australia and gathering systems and processing plants in the panhandle region of Texas and Oklahoma and the Powder River region of Montana and Wyoming. CMS Gas Transmission's operating revenue in 1999 was \$785 million.

In March 2000, CMS Gas Transmission through Trunkline acquired a 1.0 bcf natural gas and condensate pipeline in the Gulf of Mexico offshore Louisiana, west of an existing Trunkline system. The system consists of five offshore valving platforms and one compressor platform, 405 miles of offshore pipeline, 40 miles of onshore pipeline and one compressor station. Also in March 2000, Panhandle, as part of its strategy to maximize the use of existing assets, announced an agreement to form a limited liability company to extend and convert an existing 26" Trunkline pipeline from natural gas transmission service to liquid products service by the end of 2001. Each of the three parties, including Panhandle, will own a one-third interest in the limited liability company.

Panhandle's throughput volumes for the years 1995 to 1999 were 1,182 Tbtu, 1,319 Tbtu, 1,279 Tbtu, 1,141 Tbtu and 1,139 Tbtu, respectively. A majority of delivered volumes of Panhandle's interstate pipelines represents gas transported under long-term service agreements with local distribution company customers in the pipeline's market areas. Firm transportation services are also provided under contract to gas marketers, producers, other pipelines, electric power generators and a variety of end-users. In addition, the pipelines offer both firm and interruptible transportation to customers on a short-term or seasonal basis. Demand for gas transmission of Panhandle's pipeline systems is seasonal, with the highest throughput and a higher portion of revenues occurring during the colder period in the first and fourth quarters.

For additional information, see ITEM 7. CMS ENERGY MANAGEMENT'S DISCUSSION AND ANALYSIS - NATURAL GAS TRANSMISSION, STORAGE AND PROCESSING RESULTS OF OPERATIONS.

## INDEPENDENT POWER PRODUCTION

CMS Generation, formed in 1986, invests in, acquires, develops, constructs and operates non-utility power generation plants both in the United States and internationally. As of December 31, 1999, CMS Generation had ownership interests in operating power plants totaling 8,110 gross MW (3,713 net MW) throughout the United States and in Argentina, Australia, Chile, India, Jamaica, Morocco, the Philippines and Thailand. At year-end 1999, its projects range in size from 3 MW to 2,000 MW and are powered by water, coal, natural gas, oil, wood, wind and waste material. Additional projects totaling approximately 4,847 gross MW are under construction or advanced development at December 31, 1999.

The MCV Partnership was formed in January 1987 to convert a portion of an abandoned Midland County, Michigan nuclear plant owned by Consumers into the MCV Facility. The MCV Facility was sold to five owner trusts and leased back to the MCV Partnership. CMS Holdings is a limited partner in a partnership which is a

beneficiary of one of these trusts. CMS Holdings' indirect beneficial interest in the MCV Facility is 35 percent. CMS Midland owns a 49 percent general partnership interest in the MCV Partnership. The MCV Facility has a gross capacity of 1,370 MW.

The rapid growth in CMS Generation's generating capacity has been matched by growth in this business segment's operating revenue. In 1999, Independent Power Production's operating revenue, which includes revenues from CMS Generation, the MCV Facility and the MCV Partnership, was \$390 million. For additional information, see ITEM 2. PROPERTIES - CMS ENERGY OTHER PROPERTIES and ITEM 7. CMS ENERGY'S MANAGEMENT'S DISCUSSION AND ANALYSIS INDEPENDENT POWER PRODUCTION RESULTS OF OPERATIONS.

#### OIL AND GAS EXPLORATION AND PRODUCTION

CMS Oil and Gas (formerly known as CMS NOMEKO Oil & Gas Co.), formed in 1967, conducts oil and gas exploration and development operations throughout the United States and seven other countries. Historically, most domestic operations focused on gas exploration and production in Michigan and Texas and coal bed methane exploration and production in Wyoming. The international operations focus on oil exploration and production and are distributed across two other continents. We anticipate that future domestic operations will focus on oil and gas exploration and production in Texas and coal bed methane exploration and production in Wyoming. International operations focus on oil exploration and production and are located in South America and Africa. In 1999, CMS Oil and Gas achieved production levels of 7.7 million barrels of oil, condensate and plant products and 26.4 bcf of gas. CMS Oil and Gas' proven oil and gas reserves total 248.2 million net equivalent barrels reflecting a balanced portfolio of high-quality reserves, including 47 percent oil and condensate and 53 percent natural gas.

During 1999, CMS Oil and Gas participated with a working interest in drilling wells as follows:

Type of Well	Number of Wells		Number of Successful Wells		Success Ratio	
	Gross	Net	Gross	Net	Gross	Net
Exploratory	5	2.16	5	2.16	100%	100%
Development	32	23.70	31	22.96	97%	97%
Total	37	25.86	36	25.12	97%	97%

The preceding table does not include CMS Oil and Gas' participation in coal bed methane gas wells in Wyoming and Montana, where CMS Oil and Gas drilled 160 wells (77.3 net) during 1999.

CMS Oil and Gas' operating revenue was \$98 million in 1999. For additional information, see ITEM 2. PROPERTIES - CMS ENERGY OIL AND GAS EXPLORATION AND PRODUCTION PROPERTIES and ITEM 7. CMS ENERGY MANAGEMENT'S DISCUSSION AND ANALYSIS - OIL AND GAS EXPLORATION AND PRODUCTION RESULTS OF OPERATIONS.

#### MARKETING, SERVICES AND TRADING

CMS MST, formed in 1996, provides gas, oil, coal and electric marketing, risk management and energy management services to industrial, commercial, utility and municipal energy users throughout the United States and internationally. CMS MST has grown dramatically since its inception. CMS Energy intends to use CMS MST to enhance performance of CMS Energy assets, such as gas reserves and power plants. CMS MST markets annually approximately 470 bcf of natural gas, 3,709 gigawatt-hours of electricity, 23 million barrels of crude oil and 6.5 million barrels of natural gas liquids. CMS MST also provided energy management services to 1,600 projects in the past 36 months. In 1999, CMS MST acquired an energy services company and an independent energy consulting firm in Kansas City, Missouri and Toronto, Canada, respectively. These acquisitions expanded CMS MST's presence in 22 cities in the United States and in Oakville, Montreal and Vancouver, Canada. At December 31, 1999, CMS MST had more than 10,000 customers, transported gas on more than 30 gas pipelines and was active in 35 states and 2 countries. CMS MST's operating revenue in 1999 was \$799 million. For additional information, see ITEM 7. CMS ENERGY MANAGEMENT'S DISCUSSION AND ANALYSIS - -MARKETING, SERVICES AND TRADING RESULTS OF OPERATIONS.

#### INTERNATIONAL ENERGY DISTRIBUTION

CMS Electric and Gas, formed in 1996, is CMS Energy's international energy distribution subsidiary. As of February 2000, it has ownership interests in electric distribution companies which provide service in the states of Sao Paulo and Minas Gerais in Brazil, the province of Entre Rios in Argentina, and on Margarita Island in Venezuela. These electric distribution companies serve a total of 464,000 customers with electricity sales of 3,096 GWh in 1999, after accounting for the sale in January 2000 of CMS Electric and Gas' interest in Companhia Forca Luz Cataguazes - Leopoldina and its subsidiaries in Brazil.

## SALES BETWEEN BUSINESS SEGMENTS

CMS Energy's sales between business segments for the years ended December 31 were as follows:

Years Ended December 31 -----	In Millions		
	1999 ----	1998 ----	1997 ----
Oil and Gas Exploration and Production	\$45	\$64	\$75
Natural Gas Transmission, Storage and Processing	69	9	4
Marketing, Services and Trading	73	68	16

## CMS ENERGY, CONSUMERS AND PANHANDLE REGULATION

CMS Energy is exempt from registration under PUHCA. CMS Energy, Consumers, Panhandle and their subsidiaries are subject to regulation by various federal, state, local and foreign governmental agencies, including those specifically described below.

## MICHIGAN PUBLIC SERVICE COMMISSION

Consumers is subject to the jurisdiction of the MPSC, which regulates public utilities in Michigan with respect to retail utility rates, accounting, services, certain facilities and various other matters. The MPSC also has, or will have, rate jurisdiction over several limited partnerships in which CMS Gas Transmission has ownership interests. These partnerships own, or will own, and operate intrastate gas transmission pipelines.

The Attorney General, ABATE and the MPSC staff typically intervene in MPSC electric and/or gas related proceedings concerning Consumers. Unless otherwise noted herein, these parties have intervened in such proceedings. For many years, various parties have appealed almost every significant MPSC order affecting Consumers. Appeals from such MPSC orders are pending in the Court of Appeals and the Michigan Supreme Court. Consumers is vigorously pursuing these matters. Under Michigan civil procedure, parties may file a claim of appeal with the Court of Appeals that serves as a notice of appeal of an MPSC order. The grounds on which they are making the appeal are not finally set forth until a later date when the parties file their briefs.

**RATE PROCEEDINGS:** In 1996, the MPSC issued orders that established the electric authorized rate of return on common equity at 12.25 percent and the gas authorized rate of return at 11.6 percent.

**MPSC REGULATORY AND MICHIGAN LEGISLATIVE CHANGES:** State regulation of the retail electric and gas utility businesses is in the process of undergoing significant changes. For example, the MPSC issued several orders in 1997, 1998, and 1999 restructuring the electric power industry in Michigan. Under these orders, which Consumers has voluntarily agreed to implement, Consumers will allow certain customers the election of purchasing electric power directly from other suppliers, such as independent power producers, power marketers and other utilities. Consumers will continue to transmit and distribute such power purchases to the end-use retail customers. Importantly, the orders provide for full recovery by Consumers of its Stranded Costs. This electric customer choice program commenced in September 1999 and will be phased in to cover 750 MW of Consumers' retail market by 2001. On January 1, 2002, all of Consumers' electric customers will have this option. Several MPSC orders related to restructuring are subject to claims of appeal filed with the Court of Appeals. These appeals question whether the MPSC has the statutory authority to mandate restructuring on an involuntary basis and challenge various other aspects of these restructuring orders. Several bills relative to electric and gas industry restructuring were introduced in the

Michigan House of Representatives or Senate for consideration in the 1999-2000 legislative session. For additional information concerning the electric industry restructuring, see ITEM 7. CMS ENERGY MANAGEMENT'S DISCUSSION AND ANALYSIS - OUTLOOK - CONSUMERS' ELECTRIC UTILITY OUTLOOK and ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA - NOTE 4 TO CMS ENERGY'S NOTES TO CONSOLIDATED FINANCIAL STATEMENTS and ITEM 7. CONSUMERS' MANAGEMENT'S DISCUSSION AND ANALYSIS - OUTLOOK - ELECTRIC UTILITY OUTLOOK and ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA - NOTE 2 TO CONSUMERS' NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

As a result of regulatory changes in the natural gas industry, gas distribution companies like Consumers transport the natural gas commodity, which is sold to customers by competitors like gas producers, marketers and others. In December 1997, the MPSC approved Consumers' application to implement a statewide three-year experimental gas transportation program eventually allowing 300,000 residential, commercial and industrial retail gas sales customers to choose their gas supplier. The program is voluntary, and participating natural gas customers are selected on a first-come, first-served basis, up to a limit of 100,000 customers per year. As of December 31, 1999, more than 176,000 customers chose alternative gas suppliers, representing approximately 42.2 bcf of gas customer requirements. Customers choosing to remain as sales customers of Consumers will not see a rate change in their natural gas rates. This experimental program will allow competing gas suppliers, including marketers and brokers, to market natural gas to these retail customers in direct competition with Consumers. For additional information concerning the MPSC order, see ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA - NOTE 4 TO CMS ENERGY'S NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, and ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA - NOTE 2 TO CONSUMERS' NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

In December 1999, several bills related to gas industry restructuring were introduced into the Michigan Legislature. Combined, these bills constitute the "gas choice program". For additional information concerning this proposed legislation, see ITEM 7. CMS ENERGY MANAGEMENT'S DISCUSSION AND ANALYSIS - OUTLOOK - CONSUMERS' GAS UTILITY OUTLOOK, and ITEM 7. CONSUMERS' MANAGEMENT'S DISCUSSION AND ANALYSIS - OUTLOOK - GAS UTILITY OUTLOOK.

RETAIL WHEELING PROCEEDINGS: In April 1994, the MPSC issued an opinion and interim order that approved the framework for a five-year experimental retail direct-access program for "wheeling" of electric power purchased by customers from other suppliers over the transmission systems of Consumers and Detroit Edison. No customers ever took service under this program. After various appeals, in June 1999, the Michigan Supreme Court held that the MPSC does not have statutory authority to order a utility to provide a mandatory retail wheeling service. For additional information concerning the MPSC order and appeals, see ITEM 7. CMS ENERGY MANAGEMENT'S DISCUSSION AND ANALYSIS - OUTLOOK - CONSUMERS' ELECTRIC UTILITY OUTLOOK - RESTRUCTURING, ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA - NOTE 4 TO CMS ENERGY'S NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, ITEM 7. CONSUMERS' MANAGEMENT'S DISCUSSION AND ANALYSIS - OUTLOOK - ELECTRIC UTILITY OUTLOOK - RESTRUCTURING and ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA - NOTE 2 TO CONSUMERS' NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

#### FEDERAL ENERGY REGULATORY COMMISSION

FERC has limited rate jurisdiction over several independent power projects and some exempt wholesale generators in which CMS Generation and Panhandle have ownership interests. FERC also has more comprehensive jurisdiction over Michigan Gas Storage, Panhandle Eastern Pipe Line Company, and Trunkline as natural gas companies within the meaning of the Natural Gas Act. FERC jurisdiction relates, among other things, to the acquisition, operation and disposal of assets and facilities and to the service provided and rates charged. Under certain circumstances, FERC also has the power to modify gas tariffs of interstate pipeline companies. Some of Consumers' gas business is also subject to regulation by FERC, including a blanket transportation tariff pursuant to which Consumers can transport gas in interstate commerce.

FERC has authority to regulate rates and charges for natural gas transported in or stored for interstate commerce or sold by a natural gas company in interstate commerce for resale. FERC also has authority over the construction and operation of pipeline and related facilities utilized in the transportation and sale of natural gas in interstate commerce, including the extension, enlargement or abandonment of such facilities. Panhandle Eastern Pipe Line Company, Trunkline, and Pan Gas Storage hold certificates of public convenience and necessity issued by the FERC, authorizing them to construct and operate the pipelines, facilities and properties now in operation for which such certificates are required, and to transport and store natural gas in interstate commerce. See ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA - NOTE 3 TO PANHANDLE'S NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, incorporated by reference herein.

Certain aspects of Consumers' electric operations are also subject to regulation by FERC, including:

- - compliance with FERC's accounting rules and other regulations under the Federal Power Act;
- - the transmission of electric energy in interstate commerce;
- - the rates and charges for the sale of electric energy at wholesale and transmission of electrical energy in interstate commerce;
- - the transfer of certain assets, including transfers by corporate mergers, the sale of certain facilities;
- - the construction, operation and maintenance of hydroelectric projects; and
- - the issuance of securities, as provided by the Federal Power Act.

FERC regulations, together with the 1992 enactment of the Energy Policy Act have effectively granted independent power producers and electricity marketers "direct access" to the interstate electric transmission systems owned by electric utilities. All electric utilities are required to offer transmission services to new market entrants on a non-discriminatory basis under tariffs approved by the FERC. For a discussion of the effect of certain FERC Orders on Consumers, see ITEM 7. CMS ENERGY'S MANAGEMENT'S DISCUSSION AND ANALYSIS - OUTLOOK - CONSUMERS' ELECTRIC UTILITY OUTLOOK and ITEM 7. CONSUMERS' MANAGEMENT'S DISCUSSION AND ANALYSIS - OUTLOOK - ELECTRIC UTILITY OUTLOOK. For a discussion of the effect of certain FERC orders on Panhandle see ITEM 7. PANHANDLE'S MANAGEMENT'S DISCUSSION AND ANALYSIS - OTHER MATTERS - REGULATORY MATTERS and ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA - NOTE 3 TO PANHANDLE'S NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

#### NUCLEAR REGULATORY COMMISSION

Under the Atomic Energy Act of 1954, as amended, and the Energy Reorganization Act of 1974, Consumers is subject to the jurisdiction of the NRC with respect to the design, construction, operation and decommissioning of its nuclear power plants. Consumers is also subject to NRC jurisdiction with respect to certain other uses of nuclear material. These and other matters concerning Consumers' nuclear plants are more fully discussed in ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA - NOTES 2 AND 4 TO CMS ENERGY'S CONSOLIDATED FINANCIAL STATEMENTS, and ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA - NOTES 1 AND 2 TO CONSUMERS' CONSOLIDATED FINANCIAL STATEMENTS.

#### OTHER REGULATION

Regulation of the importation and exportation of natural gas is vested in the Secretary of Energy, who has delegated various aspects of this jurisdiction to Office of Fossil Fuels of the Department of Energy.

Panhandle is also subject to the Natural Gas Pipeline Safety Act of 1968, which regulates gas pipeline safety requirements, and to the Hazardous Liquid Pipeline Safety Act of 1979, which regulates oil and petroleum pipelines.

#### CMS ENERGY, CONSUMERS AND PANHANDLE ENVIRONMENTAL COMPLIANCE

CMS Energy, Consumers and Panhandle and their subsidiaries are subject to various federal, state and local regulations for environmental quality, including air and water quality, waste management, zoning and other matters. Management believes that the responsible administration of CMS Energy's, Consumers' and Panhandle's energy resources includes reasonable programs for the protection and enhancement of the environment. For additional information concerning environmental matters, see ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA - NOTE 4 OF CMS ENERGY'S NOTES TO CONSOLIDATED FINANCIAL STATEMENTS and ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA - NOTE 2 OF CONSUMERS' NOTES TO CONSOLIDATED FINANCIAL STATEMENTS. For additional information on Panhandle's environmental matters, see ITEM 7. PANHANDLE'S MANAGEMENT'S DISCUSSION AND ANALYSIS - ENVIRONMENTAL MATTERS and ITEM 8. PANHANDLE'S FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA - NOTE 11 - COMMITMENTS AND CONTINGENCIES ENVIRONMENTAL MATTERS.

Consumers installed modern stack emission control and monitoring systems at its electric generating plants and converted electric generating units to burn cleaner fuels. It has worked with others to use bottom ash as

final cover for ash disposal areas in place of topsoil and compacted clay. Consumers also sells fly ash for use as a filler for asphalt and for incorporation into concrete products. It has also worked with local, state and national organizations on waste minimization and pollution prevention initiatives. Such work includes enhancing particular Consumers' lands for the benefit of wildlife, and providing recreational access to its lands. Finally, it has worked with universities and other institutions on projects to protect and, in some instances, propagate threatened or endangered species. This effort included making financial contributions to a variety of environmental enhancement projects. Capital expenditures by Consumers for environmental protection additions were \$37 million in 1999. Consumers estimates 2000 expenditures at \$103 million.

Federal and state laws require air permits for certain of Consumers', Panhandle's and CMS Generation's affiliates' air emission sources. These laws require that certain affected facilities control their sources' air emissions. The appropriate agency or department for environmental protection in the state in which each facility is located has issued permits for that facility and other affected sources of air emissions. Consumers, Panhandle and CMS Generation believe that these facilities are in substantial compliance with all air permits.

Consumers has engaged in an aggressive testing and removal program for USTs. Since 1985, Consumers and its subsidiaries have reduced the number of regulated UST systems from 256 to 16. At 118 of the sites from which Consumers or its subsidiaries removed UST systems, hydrocarbon releases occurred, either from tank system leaks or from spillage on the surface during transfer of contents to or from the tanks. Consumers' response activities resulted in Department of Natural Resources/Department of Environmental Quality concurrence in closure of 115 of those releases. The remaining releases are at various stages of cleanup completion.

Like most electric utilities, Consumers has PCB in some of its electrical equipment. Although it has been unlawful to manufacture or sell PCB or PCB contaminated equipment since the 1970s, its continued use in preexisting electrical equipment is lawful. Consumers has engaged in a number of programs to reduce the risk of exposure to the environment from possible PCB spills. These include such actions as a contingency program of removing PCB capacitors outside of substations and replacing them with non-PCB capacitors, draining large transformers and refilling them with non-PCB mineral oil, and removing PCB equipment that was found to pose a risk to food supplies or animal feed. Consumers still has a few PCB capacitors in substations. It has nearly 500,000 distribution transformers, many of which have not been tested for PCB. By regulation, unless the PCB level is known, mineral oil transformers built before July 2, 1979, are presumed to be PCB-contaminated. Other types of electrical equipment may also contain PCB. Based upon results of sampling in 1981, about 1 percent of the pole-top transformers had more than 500 ppm of PCB, and about 12 percent had from 50 to 500 ppm. Those percentages should decline over time with the retirement of older equipment and its replacement with non-PCB equipment. From time to time, accidental releases occur from such equipment. Consumers typically spends less than \$1 million per year for the clean up and disposal of debris and equipment from PCB releases.

National Pollutant Discharge Elimination System and equivalent State Pollutant Discharge Elimination System permits, as well as state ground water discharge permits, authorize the discharge of certain waste waters from Consumers' facilities and pipeline construction projects and certain CMS Generation affiliates' facilities pursuant to state water quality standards and federal effluent limitation guidelines. The appropriate agency or department for environmental protection issued authorizations for discharges from all of Consumers' and certain CMS Generation affiliates' major operating steam electric generating facilities and for certain discharges from Consumers' other facilities, including hydroelectric projects and pipeline construction projects. Consumers and CMS Generation affiliates believe that these facilities are in

substantial compliance with National or State Pollutant Discharge Elimination System and groundwater discharge/exemption permits.

Certain environmental regulations affecting Panhandle include, but are not limited to:

- - The Clean Air Act Amendments of 1990; and
- - The Comprehensive Environmental response, Compensation and Liability Act (CERCLA), which can require any individual or entity which may have owned or operated a disposal site, as well as transporters or generators of hazardous wastes which were sent to such site, to share in remediation costs for the site.

Consumers', CMS Energy's and Panhandle's current insurance coverages do not extend to certain environmental clean-up costs, such as claims for air pollution, some past PCB contamination and for some long-term storage or disposal of pollutants.

For discussion of environmental matters involving Panhandle, including possible liability and capital costs, see ITEM 7. PANHANDLE'S MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION, CURRENT ISSUES - ENVIRONMENTAL and NOTE 11 TO PANHANDLE'S CONSOLIDATED FINANCIAL STATEMENTS, COMMITMENTS AND CONTINGENCIES - ENVIRONMENTAL. Compliance with federal, state and local provisions regulating the discharge of materials into the environment, or otherwise protecting the environment, is not expected to have a material adverse effect on the competitive position, consolidated results of operations or financial position of Panhandle.

## CMS ENERGY, CONSUMERS AND PANHANDLE COMPETITION

## ELECTRIC COMPETITION

Consumers' electric utility business experiences competition, actual and potential, from many sources, both in the wholesale and retail markets, and in electric generation, electric delivery, and retail services.

In the wholesale electricity markets, Consumers competes with other wholesale suppliers, marketers and brokers. Electric competition in the wholesale markets increased significantly since 1996 due to FERC Order 888. However, wholesale for retail transactions by Consumers generated an immaterial amount of Consumers' 1999 revenues from electric operations, Consumers does not believe future loss of wholesale for retail sales to be significant. In most instances, the customers will continue to be transmission customers even if they cease to be generation customers.

A significant increase in retail electric competition is likely to occur with the introduction of retail direct access in Michigan. In a January 1998 order, the MPSC ordered retail direct access in Michigan. The MPSC order, as supplemented by additional MPSC orders issued later, as discussed above in CMS ENERGY, CONSUMERS AND PANHANDLE REGULATION - Michigan Public Service Commission - - MPSC Regulatory Changes, calls for Consumers gradually to open its electric customer power supply requirement to competition from 1999 through 2001. The MPSC order gives all customers the right to choose their own electric supplier by January 1, 2002. Consumers' financial exposure to competition in a retail direct-access environment is limited due to: 1) the expectation of recovery of related Transition Costs attributable to retail direct access; 2) residential and small business customers decisions to remain with Consumers; and 3) the fact that Consumers will still be the deliverer of electricity.

Absent comprehensive deregulation in the retail electric commodity markets, Consumers has competition or potential competition from the following sources: 1) from the threat of customers relocating outside Consumers' service territory; 2) from the possibility of municipalities owning or operating competing electric delivery systems; 3) from customer co-generation and self-generation; 4) from adjacent municipal utilities that extend lines to customers near service territory boundaries; and 5) from marketers and brokers for customers under the previously implemented Consumers' direct-access programs. Consumers addressed this competition primarily through the offering of rate discounts and additional services. If municipalization occurred, Consumers believes it would be entitled to recovery of appropriate Transition Costs, thus mitigating the potential negative financial impact.

Consumers is beginning to offer non-commodity retail services to electric customers, and faces competition from many sources including energy management services companies, other utilities, contractors, and retail merchandisers.

CMS Energy's non-regulated electric subsidiaries primarily face competition from other marketers, brokers, financial management firms, energy management firms, and other utilities through the marketing services and trading business segment; and from other generators, marketers, brokers, and price of power on the wholesale market through the independent power production business segment.

For additional information concerning electric competition, see ITEM 7. CMS ENERGY'S MANAGEMENT'S DISCUSSION AND ANALYSIS - OUTLOOK - CONSUMERS' ELECTRIC UTILITY OUTLOOK and ITEM 7. CONSUMERS MANAGEMENT'S DISCUSSION AND ANALYSIS - OUTLOOK - ELECTRIC BUSINESS OUTLOOK.

## GAS COMPETITION

Competition has existed for several years, and is likely to increase, in various aspects of Consumers' gas business. Competition traditionally comes from alternate fuels and energy sources, such as propane, oil, and electricity. Increasingly, competition comes from other suppliers of the natural gas commodity.

The Natural Gas Policy Act of 1978 resulted in the deregulation of wellhead gas prices. Supply and demand effects of the gas production marketplace substituted for the regulation. Gas competition among various wellhead suppliers subsequently increased. Order 636 effectively unbundled the transportation of natural gas from the sale of natural gas by interstate pipelines. This Order required pipelines to become common carriers. Consequently, pipelines must compete for shippers in search of low-priced transportation capacity. Consumers offers unbundled services (transportation and some storage) to its larger end-use customers who choose to acquire gas supplies from alternative sources.

Traditionally, Consumers' earnings for its gas business have not been dependent upon gas purchased and resold to customers because of gas cost recovery provisions in Michigan's Public Act 304. However, in a proactive move by Consumers to prepare for an unbundled market, where gas commodity supply is separated from gas distribution, Consumers filed a request to conduct an expanded experimental gas customer choice program which will be effective until April 2001.

Consumers is aggressively pursuing legislation to give all Michigan consumers a choice of natural gas suppliers permanently. While the prospect of passage by the Michigan Legislature is uncertain, such legislation could have a significant impact on the Consumers' natural gas business. See the discussion of the MPSC's order authorizing the expanded experimental gas program above in CMS ENERGY, CONSUMERS AND PANHANDLE REGULATION - MPSC REGULATORY CHANGES.

CMS Energy's non-utility gas subsidiaries face significant competition from other gas pipeline companies, gas producers, gas storage companies, and brokers/marketers.

For additional information concerning gas competition, see ITEM 7. CMS ENERGY'S MANAGEMENT DISCUSSION AND ANALYSIS - OUTLOOK, ITEM 7. CONSUMERS' MANAGEMENT'S DISCUSSION AND ANALYSIS - OUTLOOK and ITEM 7. PANHANDLE'S MANAGEMENT'S DISCUSSION AND ANALYSIS - OUTLOOK.

## PANHANDLE COMPETITION

Panhandle's interstate pipelines compete with other interstate and intrastate pipeline companies in the transportation and storage of natural gas. The principal elements of competition among pipelines are rates, terms of service and flexibility and reliability of service. Panhandle competes directly with ANR Pipeline Company, Natural Gas Pipeline Company of America and Texas Gas Transmission Corporation in the Midwest market area.

Natural gas competes with other forms of energy available to Panhandle's customers and end-users, including electricity, coal and fuel oils. The primary competitive factor is price. Changes in the availability or price of natural gas and other forms of energy, the level of business activity, conservation, legislation and governmental regulations, the capability to convert to alternative fuels, and other factors, including weather, affect the demand for natural gas in the areas served by Panhandle.

## EMPLOYEES

## CMS ENERGY

As of December 31, 1999, CMS Energy and its subsidiaries, including Consumers and Panhandle, had 11,462 full-time equivalent employees of which 11,324 are full-time employees and 138 full-time equivalent employees associated with the part-time work force. Included in the total are 4,007 employees who are covered by union contracts.

## CONSUMERS

As of December 31, 1999, Consumers and its subsidiaries had 8,799 full-time equivalent employees of which 8,674 are full-time employees and 125 full-time equivalent employees associated with the part-time work force. Included in the total are 3,759 full-time operating, maintenance and construction employees of Consumers who are represented by the Union. Consumers and the Union negotiated a collective bargaining agreement that became effective as of June 1, 1995. By its terms, it will continue in full force and effect until June 1, 2000.

## PANHANDLE

At December 31, 1999, Panhandle had 1,060 full-time equivalent employees. Of these employees, 248 were represented by the Paper, Allied-Industrial Chemical and Energy Workers International Union, AFL-CIO, CLC.

## CMS ENERGY, CONSUMERS AND PANHANDLE FORWARD-LOOKING STATEMENTS CAUTIONARY FACTORS.

The Private Securities Litigation Reform Act of 1995 provides a "safe harbor" for forward-looking statements to encourage such disclosures without the threat of litigation, providing those statements are identified as forward-looking and are accompanied by meaningful, cautionary statements identifying important factors that could cause the actual results to differ materially from those projected in the statement. Forward-looking statements give our expectations or forecasts of future events. You can identify these statements by the fact that they do not relate strictly to historical or current facts. Forward-looking statements have been and will be made in this Item 1, MD&A and in our other written documents (such as press releases, visual presentations, and securities disclosure documents) and oral presentations (such as analyst conference calls). Such statements are based on management's beliefs as well as assumptions made by and information currently available to management. When used in our documents or oral presentations, the words "anticipate", "believe", "estimate", "expect", "forecast", "intend", "objective", "plan", "possible", "potential", "project" and variations of such words and similar expressions are intended to identify forward-looking statements that involve risk and uncertainty.

Any or all of our forward-looking statements in oral or written statements or in other publications may turn out to be wrong. They can be affected by inaccurate assumptions or by known or unknown risks and uncertainties. Many such factors will be important in determining our actual future results. Consequently, no forward-looking statement can be guaranteed.

In addition to any assumptions and other factors referred to specifically in connection with such forward-looking statements, factors that could cause our actual results to differ materially from those contemplated in any forward-looking statements include, among others, the following:

- - ability to sell assets in accordance with our plans;
- - ability to achieve operating synergies and revenue enhancements;
- - capital and financial market conditions, including:
  - current price of our common stock,
  - interest rates and availability of financing,
  - market perceptions of the energy industry, our company, or any of our subsidiaries,
  - our, or any of our subsidiaries', securities ratings, and
  - currency exchange controls;
- - factors affecting utility and diversified energy operations, such as:
  - unusual weather conditions,
  - catastrophic weather-related damage,
  - unscheduled generation outages, maintenance or repairs,
  - unanticipated changes to fossil fuel, nuclear fuel or gas supply costs or availability due to higher demand, shortages, transportation problems or other developments,
  - environmental incidents, or
  - electric transmission or gas pipeline system constraints;
- - international, national, regional and local economic, competitive and regulatory conditions and developments, particularly the trade, monetary, fiscal, taxation and environmental policies of governments, agencies and similar organizations in geographic areas where we have a financial interest;
- - adverse regulatory or legal decisions, including:
  - a possible MPSC order to reduce rates or refund alleged excess revenues in resolution of a complaint by ABATE, and
  - environmental laws and regulations;
- - pace, implementation and provisions for deregulation of the natural gas and electric industries whether by legislative or regulatory action, particularly:
  - the ability of the electric utility business to purchase energy at prices below that allowed in its rates due to frozen power supply cost recovery,
  - the ability of the gas utility to protect against gas price increases due to implementation of a suspended gas cost recovery,
  - the extension of the direct access pilot program to all our gas utility business customers,
  - the ability of our electric utility business to recover its current investment in generating facilities and the cost of purchased power,
  - the number of customers that will elect other power suppliers when customer choice becomes available to them,
  - former customers generating their own power, and
  - new pricing structures;
- - federal regulation of electric sales and transmission of electricity that grants independent power producers and electricity marketers "direct access" to the interstate electric transmission systems owned by electric utilities, creating opportunity for competitors to market electricity to our wholesale customers;
- - energy markets, including the timing and extent of unanticipated changes in commodity prices for oil, coal, natural gas, natural gas liquids, electricity and certain related products due to higher demand, shortages, transportation problems or other developments;
- - the timing and success of business development efforts, including:
  - significant sums of money spent for international development start-up and obtaining financing is at risk until all elements of the project development are successfully finalized,

- international projects may be expropriated, required agreements, licenses, permits and other approvals may be changed or terminated in violation of their terms, or newer or higher taxes may be imposed upon the project,
- the local foreign currency may be devalued or the conversion of the currency may be restricted or prohibited or other actions may be taken which adversely affect the value and the recovery of the investment such as taxes, royalties, or import duties being increased, and
- adverse financial, operating, management, or other issues with project partners;
- - the increased competition caused by Federal Energy Regulatory Commission approval of new pipeline and pipeline expansion projects that transport large additional volumes of natural gas to the Midwest from Canada, which could reduce volumes of gas transported by our natural gas transmission businesses or cause them to lower rates in order to meet competition;
- - potential disruption, expropriation or interruption of facilities or operations due to accidents or political events;
- - nuclear power performance, decommissioning, policies, procedures, incidents, and regulation, including spent nuclear fuel storage availability;
- - technological developments in energy production, delivery and usage that may result in competitive disadvantages and create the potential for impairment of existing assets;
- - financial or regulatory accounting principles or policies imposed by the Financial Accounting Standards Board, the Securities and Exchange Commission, the Federal Energy Regulatory Commission, the Michigan Public Service Commission and similar entities with regulatory oversight;
- - cost and other effects of legal and administrative proceedings, settlements, investigations and claims;
- - certain project investments made by our subsidiaries consist of minority interests, and some future investments may take the form of minority interests, which limits our ability to control the development or operation of the project;
- - other uncertainties, all of which are difficult to predict and many of which are beyond our control; and
- - other business or investment considerations that may be disclosed from time to time in CMS Energy's, Consumers' or Panhandle's Securities and Exchange Commission filings or in other publicly disseminated written documents.

CMS Energy, Consumers, Panhandle and their affiliates undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. The foregoing review of factors pursuant to the Private Securities Litigation Reform Act should not be construed as exhaustive or as any admission regarding the adequacy of our disclosures prior to the effective date of the Act. Certain risk factors are detailed from time to time in our various public filings. You are advised, however to consult any further disclosures we make on related subjects in our reports to the Securities and Exchange Commission. In particular, you should read the discussion in the section entitled "Forward-Looking Statements" in our most recent reports to the Securities and Exchange Commission on Form 10-Q or Form 8-K filed subsequent to this Form 10-K.

CMS ENERGY AND CONSUMERS EXECUTIVE OFFICERS  
As of February 29, 2000

Name -----	Age ---	Position -----	Period -----
William T. McCormick, Jr.	55	Chairman of the Board and Chief Executive Officer of CMS Energy	1987-Present
		Chairman of the Board of Consumers	1985-Present
		Chairman of the Board of Enterprises	1987-Present
		Chairman of the Board and Chief Executive Officer of Enterprises	1987-1995
Victor J. Fryling	52	President and Chief Operating Officer of CMS Energy	1996-Present
		Vice Chairman of the Board and President of Consumers	1998-Present
		President and Chief Executive Officer of Enterprises	1995-Present
		President of Consumers	1997-1998
		President of CMS Energy	1992-1995
		President of Enterprises	1993-1995
John W. Clark	55	Senior Vice President of CMS Energy	1987-Present
		Senior Vice President of Consumers	1985-Present
James W. Cook	59	Senior Vice President of CMS Energy	1995-Present
		Senior Vice President of Enterprises	1994-Present
		Executive Vice President of Enterprises	1989-1994
		President and Chief Executive Officer of CMS Generation	1989-1995
Preston D. Hopper	49	Senior Vice President, Controller and Chief Accounting Officer of CMS Energy	1996-Present
		Senior Vice President and Chief Accounting Officer of Enterprises	1997-Present
		Vice President, Controller and Chief Accounting Officer of CMS Energy	1992-1996
		Senior Vice President and Controller of Enterprises	1996-1997
		Vice President and Controller of Enterprises	1992-1996

Name ----	Age ---	Position -----	Period -----
Rodger A. Kershner	51	Senior Vice President and General Counsel of CMS Energy	1996-Present
		Senior Vice President and General Counsel of Enterprises	1996-Present
		Vice President, General Counsel and Assistant Secretary of Enterprises	1989-1995
		Deputy General Counsel and Assistant Secretary of CMS Energy	1994-1995
Alan M. Wright	54	Senior Vice President and Chief Financial Officer of CMS Energy	1998-Present
		Senior Vice President and Chief Financial Officer of Consumers	1993-Present
		Senior Vice President and Chief Financial Officer of Enterprises	1998-Present
		Senior Vice President, Chief Financial Officer and Treasurer of Enterprises	1994-1998
		Senior Vice President, Chief Financial Officer and Treasurer of CMS Energy	1994-1998
Rodney E. Boulanger	59	Senior Vice President of Enterprises President and Chief Executive Officer of CMS Generation	1996-Present 1995-Present
Carl L. English	53	Executive Vice President of Consumers and President and Chief Executive Officer - Gas Business Unit	1999-Present
		Vice President of Consumers	1990-1999
Bradley W. Fischer	53	President and Chief Executive Officer of CMS Oil and Gas	1998-Present
		Vice President of CMS Oil and Gas	1997-1998
William J. Haener	58	Senior Vice President of Enterprises President and Chief Executive Officer of CMS Gas Transmission	1998-Present 1994-Present

Name -----	Age ---	Position -----	Period -----
David W. Joos	46	Executive Vice President of Consumers and President and Chief Executive Officer - Electric Business Unit	1997-Present
		Executive Vice President of Consumers and Chief Operating Officer - Electric Business Unit	1994-1997
		Senior Vice President of Consumers	1994-1994
		Vice President of Consumers	1990-1994
Tamela W. Pallas	42	President and Chief Operating Officer of CMS MST	1999-Present
Christopher A. Helms	45	President and Chief Operating Officer of Panhandle Eastern Pipe Line Company	1999-Present
Robert A. Fenech	52	Senior Vice President of Consumers	1997-Present
		Vice President of Consumers	1994-1997
Doris F. Galvin	45	Senior Vice President of CMS Enterprises	1999-Present
		Vice President and Treasurer of CMS Energy	1998-1999
		Vice President and Treasurer of CMS Enterprises	1998-1999
		Treasurer of CMS Oil and Gas	1997-1999
		Vice President and Treasurer of Consumers	1993-1999
David A. Mikelonis	51	Senior Vice President and General Counsel of Consumers	1988-Present
Paul N. Preketes	50	Senior Vice President of Consumers	1999-Present
		Vice President of Consumers	1994-1999
Dennis DaPra	57	Vice President and Controller of Consumers	1991-Present

Ms. Pallas has served as President and Chief Operating Officer of CMS MST since November 1999. From 1997 until November 1999, Ms. Pallas served as Senior Vice President of Reliant Energy. From 1992 until 1997, Ms. Pallas was employed by Basis Energy as a Senior Vice President.

Mr. Helms has served as President and Chief Operating Officer of Panhandle Eastern Pipe Line Company since March 1999. From 1993 through March 1999, Mr. Helms served as Director of Corporate Development and Vice President of Corporate Affairs, respectively, of Duke Energy Corporation.

Mr. DaPra is an executive officer of Consumers but not of CMS Energy.

The present term of office of each of the executive officers extends to the first meeting of the Board of Directors after the next annual election of Directors of each of CMS Energy and Consumers (scheduled to be held on May 26, 2000).

There are no family relationships among executive officers and directors of CMS Energy and Consumers.

## ITEM 2. PROPERTIES.

## CHARACTER OF OWNERSHIP

The principal properties of CMS Energy, Consumers and their subsidiaries are owned in fee, except that most electric lines and gas mains are located, pursuant to easements and other rights, in public roads or on land owned by others. The statements under this item as to ownership of properties are made without regard to tax and assessment liens, judgments, easements, rights of way, contracts, reservations, exceptions, conditions, immaterial liens and encumbrances, and other outstanding rights. None of these outstanding rights impair the usefulness of such properties.

Substantially all of Consumers' properties are subject to the lien of its First Mortgage Bond Indenture. Substantially all properties of the subsidiaries of CMS Generation that own interests in operating plants are subject to liens of creditors of the respective subsidiaries. Properties of certain Consumers, CMS Gas Transmission and CMS Oil and Gas subsidiaries are also subject to liens of creditors of the respective subsidiaries.

## CONSUMERS ELECTRIC UTILITY PROPERTIES

At December 31, 1999, Consumers' electric generating system consists of four fossil-fueled coal plant sites, one oil/gas plant, one gas plant, one pumped storage hydroelectric facility, one nuclear plant, eight gas combustion turbine plants and 13 conventional hydroelectric plants.

Name and Location (Michigan)	Size and Year Entering Service	1999 Summer Net Demonstrated Capability (Kilowatts)	1999 Net Generation (Thousands of kWhs)
<b>COAL GENERATION</b>			
J H Campbell 1&2 - West Olive	2 Units, 1962-1967	609,000	4,012,534
J H Campbell 3 - West Olive	1 Unit, 1980	737,100(a)	5,279,004
D E Karn - Essexville	2 Units, 1959-1961	515,000	3,515,678
B C Cobb - Muskegon	2 Units, 1956-1957	300,000	2,087,808
J R Whiting - Erie	3 Units, 1952-1953	310,000	2,110,618
J C Weadock - Essexville	2 Units, 1955-1958	310,000	2,079,779
Total coal generation		2,781,100	19,085,421
<b>OIL/GAS GENERATION</b>			
B C Cobb - Muskegon	1 Unit, 1999	60,000(b)	27,113
D E Karn - Essexville	2 Units, 1975-1977	1,276,000	1,160,699
Total oil/gas generation		1,336,000	1,187,812
LUDINGTON PUMPED STORAGE	6 Units, 1973	954,700(c)	(475,561)(d)
<b>NUCLEAR GENERATION</b>			
Palisades - South Haven	1 Unit, 1971	760,000	5,104,581
<b>GAS/OIL COMBUSTION TURBINE GENERATION</b>			
	8 Plants, 1966-1999	346,800(e)	62,415
<b>CONVENTIONAL HYDRO GENERATION</b>			
	13 Plants, 1907-1949	73,500	364,684
Total owned generation		6,252,100	25,329,352
PURCHASED AND INTERCHANGE POWER CAPACITY		1,824,500(f)	
Total		8,076,600	

(a) Represents Consumers' share of the capacity of the Campbell Plant Unit 3, net of 6.69 percent (ownership interests of the Michigan Public Power Agency and Wolverine Power Supply Cooperative, Inc.).

(b) Consumers is in the process of converting two previously retired B C Cobb coal units to natural gas. The conversion of these units, totaling 120 MW, is expected to be completed mid-year 2000.

(c) Represents Consumers' share of the capacity of Ludington. Consumers and Detroit Edison have 51 percent and 49 percent undivided ownership, respectively, in the plant, and the capacity of the plant is shared accordingly.

(d) Represents Consumers' share of net pumped storage generation. This facility electrically pumps water during off-peak hours for storage to later generate electricity during peak-demand hours.

(e) Includes 1.8 MW diesel generator entering service in 1999.

(f) This amount includes: (i) dispatchable and must-take contracts with a duration of six-months or longer, including 1,240 MW of purchase contract capacity from the MCV Facility, and (ii) an obligation of approximately 52 MW to the co-owners of the Campbell 3 Units which is not otherwise reflected in purchased capacity in ITEM 1. BUSINESS - CONSUMERS ELECTRIC UTILITY OPERATIONS. This amount does not include (A) 128 MW of purchased capacity not required to be included prior to the year 2000 under certain regulations and capacity being used as back-up service and (B) 488 MW (net) of contracts with a duration less than 6 months; whereby both (A) and (B) are reflected in purchased capacity in ITEM 1. BUSINESS - CONSUMERS ELECTRIC UTILITY OPERATIONS.

Consumers owns 8,640 miles of electric transmission lines operating at up to 345 kilovolts, owns 60,456 miles of electric distribution lines and owns substations having an aggregate transformer capacity of 40,452,870 kilovoltamperes.

CONSUMERS GAS UTILITY PROPERTIES

Consumers' gas distribution and transmission system consists of 23,933 miles of distribution mains and 1,156 miles of transmission lines throughout the lower peninsula of Michigan. Consumers owns and operates six compressor stations with a total of 115,400 installed horsepower.

Consumers' gas storage fields, listed below, have an aggregate storage capacity of 221.3 bcf.

Field Name	Location	Storage Capacity (bcf)
Overisel	Allegan and Ottawa Counties	62.0
Salem	Allegan and Ottawa Counties	35.0
Ira	St Clair County	6.8
Lenox	Macomb County	3.5
Ray	Macomb County	64.5
Northville	Oakland, Washtenaw and Wayne Counties	12.1
Puttygut	St Clair County	14.6
Four Corner	St Clair County	3.8
Swan Creek	St Clair County	.6
Hessen	St Clair County	17.0
Lyon - 34	Oakland County	1.4

Michigan Gas Storage owns and operates two compressor stations with a total of 46,600 installed horsepower. Its transmission system consists of 518 miles of pipelines within the lower peninsula of Michigan.

Michigan Gas Storage's gas storage fields, listed below, have an aggregate certified storage capacity of 109.5 bcf.

Field Name	Location	Total Certified Storage Capacity (bcf)
Winterfield	Osceola and Clare Counties	72.3
Cranberry Lake	Clare and Missaukee Counties	28.2
Riverside	Missaukee County	9.0

In April 1998, Consumers sold gas properties related to the Marysville Gas Reforming Plant, located in Marysville, Michigan. In addition, Huron Hydrocarbons, Inc., which is a wholly-owned subsidiary of Consumers, sold its ownership in St. Clair Underground Storage. These facilities were sold to an affiliate of Consumers, CMS Gas Transmission and Storage Company. The effective date of the sale was January 1, 1998.

#### CMS ENERGY OIL AND GAS EXPLORATION AND PRODUCTION PROPERTIES

Net oil and gas production by CMS Oil and Gas for the years 1997 through 1999 is shown in the following table.

	1999	1998	1997
Oil and condensate (Mbbbls) (a)	7,288	7,307	6,564
Natural gas (MMcf) (a)	26,412	26,495	27,157
Plant products (Mbbbls) (a)	396	413	321
Average daily production (b)			
Oil (Mbbbls)	24.8	23.8	20.5
Gas (MMcf)	119.6	89.3	89.1
Reserves to annual production ratio			
Oil (MMbbbls)	15.2	11.5	14.3
Gas (bcf)	29.9	21.3	11.9

(a) Revenue interest to CMS Oil and Gas

(b) CMS Oil and Gas working interest (includes CMS Oil and Gas' share of royalties)

The following table shows CMS Oil and Gas' undeveloped net acres of oil and gas leasehold interests.

December 31	1999	1998
-----	-----	-----
Wyoming	177,691	137,098
Montana	96,994	107,242
Michigan	71,718	113,911
Texas (including offshore acreage)	50,735	18,657
Indiana	12,212	10,293
Ohio	6,887	9,394
Louisiana (including offshore acreage in 1998)	3,480	4,155
Other states	-	583
-----	-----	-----
Total domestic	419,717	401,333
-----	-----	-----
Venezuela	339,521	339,521
Colombia	251,680	294,157
Cameroon	187,636	187,636
Equatorial Guinea	148,977	117,366
Ecuador	66,430	66,430
Tunisia	64,761	64,761
Congo	17,364	17,364
Cote d'Ivoire	-	89,868
-----	-----	-----
Total international	1,076,369	1,177,103
-----	-----	-----
Total net acres	1,496,086	1,578,436
=====	=====	=====

The following table shows CMS Oil and Gas' estimated proved reserves of oil and gas for the years 1997 through 1999.

	Total Worldwide		United States		International	
	Oil (MMbbls)	Gas (bcf)	Oil (MMbbls)	Gas (bcf)	Oil (MMbbls)	Gas (bcf)
<b>PROVED DEVELOPED AND UNDEVELOPED RESERVES</b>						
December 31, 1996	76.4	323.2	1.8	273.7	74.6	49.5
Revisions and other changes	10.6	6.4	0.2	(7.2)	10.4	13.6
Extensions and discoveries	9.9	26.3	0.3	14.6	9.6	11.7
Acquisitions of reserves	8.3	-	-	-	8.3	-
Sales of reserves	-	(6.5)	-	(6.5)	-	-
Production	(6.9)	(27.2)	(0.7)	(26.5)	(6.2)	(0.7)
December 31, 1997	98.3	322.2	1.6	248.1	96.7	74.1
Revisions and other changes	(8.2)	(27.4)	0.5	(28.8)	(8.7)	1.4
Extensions and discoveries	3.3	278.3	-	7.4	3.3	270.9
Acquisitions of reserves	2.9	17.4	-	-	2.9	17.4
Sales of reserves	-	-	-	-	-	-
Production	(7.7)	(26.5)	(0.7)	(24.6)	(7.0)	(1.9)
December 31, 1998	88.6	564.0	1.4	202.1	87.2	361.9
Revisions and other changes	15.2	135.2	0.5	4.1	14.7	131.1
Extensions and discoveries	12.0	23.2	0.7	21.1	11.3	2.1
Acquisitions of reserves	8.8	92.1	-	-	8.8	92.1
Sales of reserves	-	-	-	-	-	-
Production	(7.7)	(26.4)	(0.7)	(23.1)	(7.0)	(3.3)
December 31, 1999	116.9	788.1	1.9	204.2	115.0	583.9
<b>ESTIMATED PROVED DEVELOPED RESERVES (a)</b>						
December 31, 1996	39.2	270.0	1.8	270.0	37.4	-
December 31, 1997	45.3	267.8	1.7	238.2	43.6	29.6
December 31, 1998	50.6	448.8	1.4	197.8	49.2	251.0
December 31, 1999	74.3	652.7	1.8	191.8	72.5	460.9

EQUITY INTEREST IN ESTIMATED  
PROVED RESERVES OF COMECO  
PETROLEUM, INC. (YEMEN) (B)

December 31, 1996	3.2	-	-	-	3.2	-
December 31, 1997	-	-	-	-	-	-
December 31, 1998	-	-	-	-	-	-
December 31, 1999	-	-	-	-	-	-

- (a) The government license in Venezuela is an oil service contract whereby CMS Oil and Gas is paid a fee per barrel for oil discovered, lifted, and delivered to Maraven S.A., a subsidiary of Petroleos de Venezuela S.A.. Additionally, CMS Oil and Gas receives a fee for reimbursement of certain capital expenditures. The volumes presented represent actual production with respect to which CMS Oil and Gas is paid a per barrel fee.
- (b) CMS Oil & Gas holdings in Comeco Petroleum, Inc. sold on December 5, 1997.

PANHANDLE PROPERTIES

PANHANDLE GAS TRANSMISSION PROPERTIES

Panhandle owns approximately 10,400 miles of interstate pipeline systems. Panhandle Eastern Pipe Line Company's natural gas transmission system, which consists of four large-diameter parallel pipelines and 13 mainline compressor stations, extends a distance of approximately 1,300 miles from producing areas in the Anadarko Basin of Texas, Oklahoma and Kansas through the states of Missouri, Illinois, Indiana and Ohio into Michigan. Trunkline's transmission system extends approximately 1,400 miles from the Gulf Coast areas of Texas and Louisiana through the states of Arkansas, Mississippi, Tennessee, Kentucky, Illinois and Indiana to a point on the Indiana-Michigan border. The system consists principally of three large-diameter parallel pipelines, 18 mainline compressor stations and one offshore compressor platform.

Trunkline also owns and operates two offshore Louisiana gas supply systems consisting of 337 miles of pipeline extending approximately 81 miles into the Gulf of Mexico.

PANHANDLE GAS STORAGE PROPERTIES

Effective April 1, 1999, Panhandle Eastern Pipe Line Company transferred four underground storage fields located in Kansas, Illinois, Michigan and Oklahoma with working gas capacity of 57 bcf to its subsidiary, Pan Gas Storage. Panhandle Eastern Pipe Line Company contracts with Pan Gas Storage for storage service. Trunkline owns and operates one 13 bcf storage field in Louisiana. Since the implementation of Order 636, Panhandle Eastern Pipe Line Company, Trunkline and Pan Gas Storage each provide firm and interruptible storage on an open-access basis. In addition to owning and operating storage fields, Panhandle also leases storage capacity. Panhandle Eastern Pipe Line Company and Trunkline have retained the right to use up to 15 bcf and 10 bcf, respectively, of their storage capacity for system needs.

CONSUMERS OTHER PROPERTIES

CMS Midland owns a 49 percent interest in the MCV Partnership, which was formed to construct and operate the MCV Facility. The MCV Facility was sold to five owner trusts and leased back to the MCV

Partnership. CMS Holdings is a limited partner in the FMLP, which is a beneficiary of one of these trusts. CMS Holdings' indirect beneficial interest in the MCV Facility is 35 percent.

Consumers owns fee title to 1,140 acres of land in the City and Township of Midland, Midland County, Michigan, occupied by the MCV Facility. The land is leased to the owners of the MCV Facility by five separate leases, each leasing an undivided interest and in the aggregate totaling 100 percent, for an initial term ending December 31, 2035 with possible renewal terms to June 15, 2090.

Consumers owns or leases three principal general office buildings in Jackson, Michigan and 51 field offices at various locations in Michigan's lower peninsula. Of these, two general office buildings and 14 field offices are leased. Also owned are miscellaneous parcels of real estate not now used in utility operations.

For information on capital expenditures, see ITEM 7. CONSUMERS MANAGEMENT'S DISCUSSION AND ANALYSIS - OUTLOOK AND ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA - NOTE 10 OF CONSUMERS' NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

#### CMS ENERGY OTHER PROPERTIES

CMS Generation has ownership interests in certain facilities such as Loy Yang, Jorf Lasfar and El Chocon. The Loy Yang assets are owned in fee, but are subject to the security interests of its creditors. The Jorf Lasfar facility is held pursuant to a right of possession agreement with the Moroccan state owned Office National de l'Electricite. The El Chocon facility is held pursuant to a 30-year possession agreement.

In Michigan, CMS Gas Transmission has ownership interests in natural gas pipelines with transmission capacity of 770 MMcf per day, and gathering systems with capacity of 385 MMcf per day. CMS Gas Transmission also owns five treating plants that remove carbon dioxide from up to 360 MMcf per day of natural gas. CMS Gas Transmission owns a hydrocarbon fractionation plant, which has a capacity of 30,000 barrels per day, and has a 51 percent ownership interest in an underground storage terminal for liquified petroleum gas products, which has a storage capacity of 6,600,000 barrels.

CMS Gas Transmission owns CMS Field Services (formerly Continental Natural Gas, Inc. and Heritage Gas Services, L.L.C.), which is based in Oklahoma and Texas and operates over 4,300 miles of gas gathering systems and four active processing plants producing 500,000 gallons per day of natural gas liquids. CMS Field Services has a 51 percent interest in Bighorn Gas Gathering L.L.C. (Bighorn), which began service in December 1999. Bighorn serves the northern part of northeastern Wyoming's Powder River Basin and has a gathering capacity of more than 250 million cubic feet per day of coal bed methane gas. It delivers gas to the Fort Union Gathering System (Fort Union) and other market areas via interstate pipelines connected to Fort Union. Bighorn consists of 60 miles of large-diameter gathering pipeline, with about 40 additional miles under construction. CMS Field Services also has a one-third interest in the Fort Union Gas Gathering System, a 106 mile pipeline that will provide gathering services through the center of the Powder River Basin.

In South America, CMS Gas Transmission owns a 29.42 percent interest in TGN, which owns and operates 3,200 miles of pipeline that provides natural gas transmission service to the northern and central parts of Argentina. CMS Gas Transmission has a 20 percent interest in the 272 mile TGM pipeline, which is under construction and, when completed in mid-2000, will transport about 100 MMcf per day of natural gas from Argentina to Brazil. CMS Gas Transmission and CMS Generation together own a 50 percent interest in GasAtacama, which went into service in 1999. GasAtacama owns and operates a 585 mile, 20-inch diameter pipeline that originates in northern Argentina and transports natural gas across the Andes

Mountains to northern Chile. The pipeline supplies GasAtacama's 720 MW electric generating units. An 88 mile extension to supply a power plant connected to Chile's central electricity grid was completed in January 2000.

In western Australia, CMS Gas Transmission owns a 260 mile pipeline that transports natural gas from the north Perth Basin to markets in the Perth area. In December 1998 and April 1999, a consortium in which CMS Gas Transmission has a 45 percent interest acquired an 88 percent interest in the 860 mile Goldsfields Gas Transmission Pipeline, which transports natural gas from the Northwest Shelf to the mining regions of western Australia.

CMS Gas Transmission and a partner are constructing a methanol plant in Equatorial Guinea in west Africa. The plant, which will go into service in mid-2001, will have a capacity of 2,500 metric tons per day and will use about 115 MMcf of residue gas from the CMS Oil and Gas facilities nearby.

CMS Gas Transmission also has an ownership interest in an enhanced oil recovery project which involves flooding depleted oil reservoirs with carbon dioxide.

CMS Electric and Gas owns electric distribution facilities in South America. Empresa Distribuidora de Electricidad de Entre Rios S.A. serves approximately 233,000 customers in the province of Entre Rios, Argentina. Sistema Electrico Nueva Esparta C.A. serves more than 91,000 customers on Margarita Island, Venezuela. In October 1999, CMS Electric and Gas purchased Companhia Paulista de Energia Eletrica (CPEE), which serves more than 139,000 customers in the states of Minas Gerais and Sao Paulo, Brazil. Through its ownership in CPEE, CMS Electric and Gas has ownership interests in three additional electric distribution facilities, Companhia Sue Paulista de Energia, Companhia Jaguari de Energia and Companhia Luz e Forca de Mococa.

CMS Energy, through certain subsidiaries; owns a 50 percent interest in Bay Harbor Company, L.L.C., a development in Emmet County, Michigan and owns approximately 6,000 acres of undeveloped land in Benzie and Manistee Counties, Michigan. In December 1999, the undeveloped land in Muskegon County, Michigan was sold.

The following table shows interests in independent power plants at December 31, 1999.

Location	Ownership Interest (%)	Gross Capacity (MW)
-----		
CMS GENERATION		
Wood-Fueled		
Domestic	37.8 - 50.0	155
Fossil-Fueled		
Domestic	8.8 - 100.0	813
International		
Andhra Pradesh, India	25.3	235
Mendoza Province, Argentina	92.6	540
Port of Jorf Lasfar, Morocco	50.0	660
Prachinburi Province, Thailand	66.2	300
Second Region, Chile	50.0	555
State of Victoria, Australia	49.6	2,000
Tamil Nadu, India	49.0	200
Other	41.2-100.0	337
Scrap Tire-Fueled		
Domestic	50.0	31
Hydro Generation		
Domestic	1.0 - 55.5	82
International		
Limay River, Argentina	17.2	1,320
Wind Generation		
Domestic	8.5 - 22.7	102
Other		
International		
Scudder Fund, Latin America	Various	780
CMS MIDLAND		
Fossil-Fueled		
Midland, Michigan	49.0(a)	1,370
=====		

(a) See the previous section - CONSUMERS OTHER PROPERTIES - for more information.

For information on capital expenditures, see ITEM 7. CMS ENERGY MANAGEMENT'S DISCUSSION AND ANALYSIS - CAPITAL RESOURCES AND LIQUIDITY AND ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA - NOTE 3 OF CMS ENERGY'S NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

## ITEM 3. LEGAL PROCEEDINGS

CMS Energy, Consumers, Panhandle and some of their subsidiaries and affiliates are parties to certain routine lawsuits and administrative proceedings incidental to their businesses involving, for example, claims for personal injury and property damage, contractual matters, various taxes, and rates and licensing. Reference is made to the combined ITEM 1. BUSINESS - CMS ENERGY, CONSUMERS AND PANHANDLE REGULATION, as well as to each of CMS Energy's, Consumers' and Panhandle's ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS and CMS Energy's, Consumers' and Panhandle's ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA - NOTES TO CONSOLIDATED FINANCIAL STATEMENTS included herein for additional information regarding various pending administrative and judicial proceedings involving regulatory, operating and environmental matters.

## CMS ENERGY

FTC CONSENT AGREEMENT: In March 1999, CMS Energy signed a consent agreement with the FTC to settle the FTC's investigation of CMS Energy's acquisition of the Panhandle Companies and to terminate the waiting period under the Hart-Scott-Rodino Antitrust Improvements Act. Pursuant to the consent agreement, CMS Energy agreed that Consumers would receive natural gas tendered for delivery at all material interconnections with pipelines (other than those of the Panhandle Companies and other pipelines affiliated with CMS Energy) up to design capacity of the interconnections, except as the capacity may be reduced for maintenance or force majeure. If CMS Energy does not provide service at the agreed capacity, Consumers agrees to provide gas on Consumers' side of the interconnection and accept delayed repayment in kind. The FTC accepted the consent agreement on March 18, 1999, and this permitted the acquisition to close on March 29, 1999. The consent agreement became final on June 2, 1999 and expires on June 2, 2009. The requirements in the proposed FTC order are consistent with Consumers' previous practices, and the MPSC has approved new tariffs to reflect the proposed order.

## CMS ENERGY AND CONSUMERS

ANTITRUST LITIGATION: In October 1997, Indeck Energy Services, Inc. and Indeck Saginaw Limited Partnership, independent power producers, filed a lawsuit against Consumers Energy Company and CMS Energy Corporation in the United States District Court for the Eastern District of Michigan. The suit alleges antitrust violations relating to contracts that Consumers entered into with some of its customers as well as claims relating to independent power production projects. The plaintiffs claim damages of \$100 million (which can be trebled in antitrust cases as provided by law). The transactions of which plaintiffs complain have been regulated by and are subject to the jurisdiction of the MPSC. In September 1998, the United States District Court for the Eastern District of Michigan granted CMS Energy's motion to dismiss the complaint for failure to state a claim against which relief may be granted. On March 31, 1999, the Court issued an opinion and order granting Consumers' motion for summary judgment, resulting in dismissal of the case. The plaintiffs appealed this decision to the 6th Circuit Court of Appeals. Each of the litigants has filed final briefs. Consumers and CMS Energy believe the lawsuit is without merit and will vigorously defend against it, but cannot predict the outcome of this matter.

## CONSUMERS

CONSUMERS' JOINT LAWSUIT AGAINST DOE: Under the Nuclear Waste Policy Act of 1982, the DOE was required to begin accepting deliveries of spent nuclear fuel from commercial operators by January 31, 1998 for disposal, even if a permanent storage repository was not then operational. In January 1997, in response to the DOE's declaration in December 1996 that it would not begin to accept spent nuclear fuel deliveries in 1998, Consumers and other utilities filed suit in the United States Court of Appeals for the District of Columbia Circuit. In November 1997, the United States Court of Appeals decided that the contract between DOE and the utilities provided a potentially adequate remedy if the DOE failed to fulfill its obligations by January 31, 1998. For further information on this litigation, see Consumers' ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - NOTE 1 - NUCLEAR FUEL COST incorporated by reference herein.

## PANHANDLE

ILLINOIS ENFORCEMENT PROCEEDINGS: The Illinois Environmental Protection Agency has indicated that it intends to initiate an environmental enforcement proceeding relating to alleged air quality permit violations at a natural gas compressor station. This proceeding could result in a penalty in excess of \$100,000. Under the terms of the sale of Panhandle to CMS Energy, as discussed see Panhandle's ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA - NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - NOTE 1, penalties incurred related to this proceeding were retained by a subsidiary of Duke Energy. Panhandle believes the resolution of this matter will not have a material adverse effect on consolidated results of operations or financial position.

REGULATORY MATTERS: For a discussion of certain Panhandle regulatory matters, see Panhandle's ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA - NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - NOTE 3 - REGULATORY MATTERS, as incorporated by reference herein.

OTHER MATTERS: For a discussion of Panhandle's other litigation matters, see Panhandle's ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA - NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - NOTE 11 - LITIGATION, as incorporated by reference herein.

## CMS ENERGY, CONSUMERS AND PANHANDLE

ENVIRONMENTAL MATTERS: CMS Energy, Consumers, Panhandle and their subsidiaries and affiliates are subject to various federal, state and local laws and regulations relating to the environment. Several of these companies have been named parties to various actions involving environmental issues. Based on their present knowledge and subject to future legal and factual developments, CMS Energy and Consumers believe that it is unlikely that these actions, individually or in total, will have a material adverse effect on their financial condition. See ITEM 1. BUSINESS - CMS ENERGY, CONSUMERS AND PANHANDLE ENVIRONMENTAL COMPLIANCE; CMS Energy's, Consumers' and Panhandle's ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS; and CMS Energy's, Consumers' and Panhandle's ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF  
SECURITY HOLDERS.

CMS ENERGY

None in the fourth quarter of 1999 for CMS Energy.

CONSUMERS

None in the fourth quarter of 1999 for Consumers.

## ITEM 5. MARKET FOR CMS ENERGY'S, CONSUMERS' AND PANHANDLE'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.

## CMS ENERGY

Market prices for CMS Energy's Common Stock and related security holder matters are contained in ITEM 7. CMS ENERGY'S MANAGEMENT'S DISCUSSION AND ANALYSIS - RECAPITALIZATION and ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA - CMS ENERGY'S QUARTERLY FINANCIAL AND COMMON STOCK INFORMATION, which is incorporated by reference herein. At February 29, 2000, the number of registered shareholders totaled 68,048.

## CONSUMERS

Consumers' common stock is privately held by its parent, CMS Energy, and does not trade in the public market. In January, May, August and November 1999, Consumers paid \$97 million, \$76 million, \$34 million and \$55 million in cash dividends, respectively, on its common stock. In February, May, August and November 1998, Consumers paid \$80 million, \$49 million, \$44 million and \$68 million in cash dividends, respectively, on its common stock.

## PANHANDLE

Panhandle's common stock is privately held by its parent, CMS Gas Transmission, and does not trade in the public market. In June, September and December 1999, Panhandle paid \$13 million, \$16 million and \$12 million in cash dividends, respectively, on its common stock to CMS Gas Transmission. In 1998 and the first quarter of 1999, Panhandle recorded dividends on common stock of \$34 million and \$81 million, respectively, to a subsidiary of Duke Energy.

## ITEM 6. SELECTED FINANCIAL DATA.

## CMS ENERGY

Selected financial information is contained in ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA - CMS ENERGY'S SELECTED FINANCIAL INFORMATION, which is incorporated by reference herein.

## CONSUMERS

Selected financial information is contained in ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA - CONSUMERS' SELECTED FINANCIAL INFORMATION, which is incorporated by reference herein.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

CMS ENERGY

Management's discussion and analysis of financial condition and results of operations is contained in ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA - CMS ENERGY'S MANAGEMENT'S DISCUSSION AND ANALYSIS, which is incorporated by reference herein.

CONSUMERS

Management's discussion and analysis of financial condition and results of operations is contained in ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA - CONSUMERS' MANAGEMENT'S DISCUSSION AND ANALYSIS, which is incorporated by reference herein.

PANHANDLE

Management's discussion and analysis of financial condition and results of operations is contained in ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA - PANHANDLE'S MANAGEMENT'S DISCUSSION AND ANALYSIS, which is incorporated by reference herein.

ITEM 7A. QUANTITATIVE AND QUALITATIVE  
DISCLOSURES ABOUT MARKET RISK

CMS ENERGY

Quantitative and Qualitative Disclosures About Market Risk is contained in ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA - CMS ENERGY'S MANAGEMENT'S DISCUSSION AND ANALYSIS - RESULTS OF OPERATIONS - MARKET RISK INFORMATION, which is incorporated by reference herein.

CONSUMERS

Quantitative and Qualitative Disclosures About Market Risk is contained in ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA - CONSUMERS' MANAGEMENT'S DISCUSSION AND ANALYSIS - OTHER MATTERS - MARKET RISK INFORMATION, which is incorporated by reference herein.

PANHANDLE

Quantitative and Qualitative Disclosures About Market Risk is contained in ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA - PANHANDLE'S MANAGEMENT'S DISCUSSION AND ANALYSIS - OTHER MATTERS - MARKET RISK INFORMATION, which is incorporated by reference herein.

## ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

## Index to Financial Statements:

CMS ENERGY	Page
Selected Financial Information.....	CMS-2
Management's Discussion and Analysis.....	CMS-4
Consolidated Statements of Income.....	CMS-20
Consolidated Statements of Cash Flows.....	CMS-23
Consolidated Balance Sheets.....	CMS-24
Consolidated Statements of Preferred Stock.....	CMS-26
Consolidated Statements of Common Stockholders' Equity.....	CMS-27
Notes to Consolidated Financial Statements.....	CMS-28
Report of Independent Public Accountants.....	CMS-69
Quarterly Financial and Common Stock Information.....	CMS-70
CONSUMERS ENERGY	
Selected Financial Information.....	CE-2
Management's Discussion and Analysis.....	CE-3
Consolidated Statements of Income.....	CE-12
Consolidated Statements of Cash Flows.....	CE-13
Consolidated Balance Sheets.....	CE-14
Consolidated Statements of Long-Term Debt.....	CE-16
Consolidated Statements of Preferred Stock.....	CE-17
Consolidated Statements of Common Stockholder's Equity.....	CE-18
Notes to Consolidated Financial Statements.....	CE-19
Report of Independent Public Accountants.....	CE-44
Quarterly Financial Information.....	CE-45
PANHANDLE EASTERN PIPE LINE COMPANY	
Management's Discussion and Analysis.....	PE-2
Consolidated Statements of Income.....	PE-6
Consolidated Statements of Cash Flows.....	PE-7
Consolidated Balance Sheets.....	PE-8
Consolidated Statements of Common Stockholder's Equity.....	PE-10
Notes to Consolidated Financial Statements.....	PE-11
Report of Independent Public Accountants - Arthur Andersen LLP.....	PE-27
Report of Independent Public Accountants - Deloitte & Touche LLP.....	PE-28

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[CMS ENERGY LOGO]

1999 FINANCIAL STATEMENTS

CMS-1

	1999	1998	1997	1996	1995	
Operating revenue (in millions)	(\$)	6,103	5,141	4,781	4,324	3,890
Consolidated net income (in millions)	(\$)	277	285	244	224	195
Average common shares outstanding (in thousands)						
CMS Energy		110,140	102,446	96,144	92,462	88,810
Class G		-	8,333	8,015	7,727	7,511
Earnings per average common share						
CMS Energy - Basic	(\$)	2.18 (a)	2.65	2.39	2.27	2.16
- Diluted	(\$)	2.17 (a)	2.62	2.37	2.26	2.16
Class G - Basic and Diluted	(\$)	4.21 (a)	1.56	1.84	1.82	0.38
Cash from operations (in millions)	(\$)	917	516	624	647	640
Capital expenditures, excluding acquisitions, capital lease additions and DSM (in millions)	(\$)	1,124	1,295	678	643	508
Total assets (in millions)	(\$)	15,462	11,310	9,508	8,363	7,909
Long-term debt, excluding current maturities (in millions)	(\$)	6,987	4,726	3,272	2,842	2,906
Non-current portion of capital leases (in millions)	(\$)	88	105	75	103	106
Total preferred stock (in millions)	(\$)	44	238	238	356	356
Total Trust Preferred Securities (in millions)	(\$)	1,119	393	393	100	-
Cash dividends declared per common share						
CMS Energy	(\$)	1.39	1.26	1.14	1.02	0.90
Class G	(\$)	0.99	1.27	1.21	1.15	0.56
Market price of common stock at year-end						
CMS Energy	(\$)	31-3/16	48-7/16	44-1/16	33-5/8	29-7/8
Class G	(\$)	24-9/16 (b)	25-1/4	27-1/8	18-3/8	18-7/8
Book value per common share at year-end						
CMS Energy	(\$)	21.17	19.61	16.84	15.24	13.51
Class G	(\$)	-	11.46	10.91	11.38	10.60
Return on average common equity	(%)	11.8	14.2	14.7	15.7	17.1
Return on assets	(%)	5.2	5.5	5.6	5.4	5.2
Number of employees at year-end (full-time equivalents)		11,462	9,710	9,682	9,712	10,105

## SELECTED FINANCIAL INFORMATION (CONTINUED)

## CMS ENERGY CORPORATION

	1999	1998	1997	1996	1995	
<b>ELECTRIC UTILITY STATISTICS</b>						
Sales (billions of kWh)	41.0	40.0	37.9	37.1	35.5	
Customers (in thousands)	1,665	1,640	1,617	1,594	1,570	
Average sales rate per kWh (cents)	6.54	6.50	6.57	6.55	6.36	
<b>GAS UTILITY STATISTICS</b>						
Sales and transportation deliveries (bcf)	389	360	420	448	404	
Customers (in thousands) (c)	1,584	1,558	1,533	1,504	1,476	
Average sales rate per mcf (%)	4.52	4.56	4.44	4.45	4.42	
<b>INTERNATIONAL DIVERSIFIED ENERGY STATISTICS</b>						
CMS Energy's share of unconsolidated revenue (in millions):						
Independent power production Natural gas transmission, storage and processing Marketing, services and trading	(\$) (\$) (\$)	802 130 524	761 67 291	621 51 202	493 42 -	497 26 -
Independent power production sales (millions of kWh)		20,472	19,017	13,126	7,823	7,422
Gas pipeline throughput (bcf)		1,131	253	226	177	79
Gas managed and marketed for end users (bcf)		470	366	243	108	101
Electric power marketed (millions of kWh)		3,709	6,973	900	-	-
<b>EXPLORATION AND PRODUCTION STATISTICS</b>						
Sales (net equiv. MMbbls)		12.1	12.1	11.4	10.1	9.0
Proved reserves (net equiv. MMbbls)		248.2	182.6	152.0	133.5	124.5
Proved reserves added (net equiv. MMbbls) (d)		77.7	42.7	29.9	19.1	25.6
Finding cost per net equiv. barrel (%)		1.94	3.35	2.38	2.94	5.06

(a) 1999 earnings per average common share includes allocation of the premium on redemption of Class G Common Stock of \$(.26) per CMS Energy basic share, \$(.25) per CMS Energy diluted share and \$3.31 per Class G basic and diluted share.

(b) Reflects closing price at the October 25, 1999 exchange date.

(c) Excludes off-system transportation customers.

(d) Certain prior year amounts were restated for comparative purposes.

CMS Energy Corporation (CMS Energy) is the parent holding company of Consumers Energy Company (Consumers) and CMS Enterprises Company (Enterprises). Consumers is a combination electric and gas utility company serving the Lower Peninsula of Michigan. Enterprises, through subsidiaries, is engaged in several domestic and international diversified energy businesses including: natural gas transmission, storage and processing; independent power production; oil and gas exploration and production; energy marketing, services and trading; and international energy distribution. On March 29, 1999, CMS Energy completed the acquisition of Panhandle Eastern Pipe Line Company, including its subsidiaries Trunkline and Pan Gas Storage, and its affiliates Panhandle Storage and Trunkline LNG (Panhandle), as further discussed in the Capital Resources and Liquidity section of this Management's Discussion and Analysis (MD&A) and Note 3. Panhandle is primarily engaged in the interstate transportation and storage of natural gas.

This MD&A also refers to, and in some sections specifically incorporates by reference, CMS Energy's Notes to Consolidated Financial Statements and should be read in conjunction with such Statements and Notes. This Annual Report and other written and oral statements made by CMS Energy from time to time contain forward-looking statements as defined by the Private Securities Litigation Reform Act of 1995. The words "anticipates," "believes," "estimates," "expects," "intends," and "plans," and variations of such words and similar expressions, are intended to identify forward-looking statements that involve risk and uncertainty. These forward-looking statements are subject to various factors which could cause CMS Energy's actual results to differ materially from those anticipated in such statements. CMS Energy disclaims any obligation to update or revise forward-looking statements, whether from new information, future events or otherwise. CMS Energy details certain risk factors, uncertainties and assumptions in this MD&A and particularly in the section entitled "Forward Looking Statements Cautionary Factors" in CMS Energy's Form 8-K filed on February 1, 2000, and periodically in various public filings it makes with the Securities and Exchange Commission (SEC). This discussion of potential risks and uncertainties is by no means complete but is designed to highlight important factors that may impact CMS Energy's outlook. This Annual Report also describes material contingencies in the Notes to Consolidated Financial Statements and readers are encouraged to read such Notes.

#### RESULTS OF OPERATIONS

In October 1999, CMS Energy exchanged .7041 shares of one of two classes of common stock of CMS Energy, par value \$.01 (CMS Energy Common Stock) for each of the approximately 8.7 million outstanding shares of one of two classes of common stock of CMS Energy, no par value (Class G Common Stock). This exchange ratio represented the fair market value of CMS Energy Common Stock equal to 115 percent of the fair market value of one share of Class G Common Stock, and resulted in a reallocation of earnings per share. CMS Energy's basic and diluted earnings per share were reduced \$.26 and \$.25, respectively, and Class G's basic and diluted earnings per share were increased \$3.31, as more fully discussed in Note 8. The per share allocation does not affect CMS Energy's net income for 1999 or for future periods.

Also in 1999, CMS Energy recorded losses of \$84 million, or \$49 million net of tax, relating to its investments in Nitrotec Corporation, a proprietary gas processing company which has patents for its helium removal and nitrogen rejection processes for purifying natural gas (Nitrotec). After reviewing the business alternatives and strategic outlook for its investments in Nitrotec, CMS Energy determined that the

probability of recovering any portion of its investments was unlikely. Accordingly, CMS Energy has recorded losses equal to the carrying amount of its investments.

The following table depicts CMS Energy's Results of Operations before and after the effects of the above-mentioned events of 1999.

CMS ENERGY CONSOLIDATED EARNINGS

Years Ended December 31	In Millions, Except Per Share Amounts		
	1999	1998 (a)	Change
CONSOLIDATED NET INCOME	\$ 277	\$ 285	\$ (8)
Net Income Attributable to CMS Energy Common Stock	\$ 269	\$ 272	\$ (3)
Net Income Attributable to Class G Common Stock	\$ 8	\$ 13	\$ (5)
CONSOLIDATED NET INCOME OF CMS ENERGY			
Net Income Before Losses on Investments in Nitrotec	\$ 318	\$ 272	\$ 46
Effects of Losses on Investments in Nitrotec, Net of \$35 Tax	(49)	-	(49)
Net Income Attributable to CMS Energy Common Stock	\$ 269	\$ 272	\$ (3)
BASIC EARNINGS PER AVERAGE COMMON SHARE OF CMS ENERGY			
Net Income Before Reconciling Items	\$ 2.89	\$ 2.65	\$ .24
Effects of Losses on Investments in Nitrotec	(.45)	-	(.45)
Effects of Class G Common Stock Exchange	2.44 (.26)	2.65 -	(.21) (.26)
Net Income Available After Reconciling Items	\$ 2.18	\$ 2.65	\$ (.47)
DILUTED EARNINGS PER AVERAGE COMMON SHARE OF CMS ENERGY			
Net Income Before Reconciling Items	\$ 2.85	\$ 2.62	\$ .23
Effects of Losses on Investments in Nitrotec	(.43)	-	(.43)
Effects of Class G Common Stock Exchange	2.42 (.25)	2.62 -	(.20) (.25)
Net Income Available After Reconciling Items	\$ 2.17	\$ 2.62	\$ (.45)

(a) Includes the cumulative effect of an accounting change for property taxes which increased net income by \$43 million, or \$.40 per basic and diluted share of CMS Energy Common Stock.

The increase in consolidated net income for 1999 over 1998 before the effects of losses on investments in Nitrotec resulted from increased earnings from the electric and gas utilities; the natural gas transmission, storage and processing business, primarily as a result of the Panhandle acquisition; the independent power production business; the oil and gas exploration and production business; and lower losses from the international energy distribution business. Partially offsetting these increases was higher interest expense principally related to the Panhandle acquisition.

The increase in consolidated net income for 1998 over 1997 resulted from increased earnings from the electric utility; independent power production; natural gas transmission, storage and processing; and marketing, services and trading businesses. Partially offsetting these increases were lower earnings from

the gas utility, oil and gas exploration and production and international energy distribution businesses; the recognition of a \$37 million loss (\$24 million after-tax) for the underrecovery of power costs under the power purchase agreement between Consumers and the Midland Cogeneration Venture Limited Partnership (MCV Partnership), and higher interest expense.

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

#### CONSUMERS' ELECTRIC UTILITY RESULTS OF OPERATIONS

##### ELECTRIC PRETAX OPERATING INCOME:

In Millions		
Change Compared to Prior Year	1999 vs 1998	1998 vs 1997
Electric deliveries	\$ 37	\$ 40
Power supply costs and related revenue	27	14
Net energy option costs	(19)	6
Non-commodity revenue	(13)	(4)
Operations and maintenance	(3)	(3)
General taxes and depreciation	(10)	(10)
<b>Total change</b>	<b>\$ 19</b>	<b>\$ 43</b>

**ELECTRIC DELIVERIES:** Electric deliveries were 41 billion kilowatt-hours (kWh) for 1999, an increase of 1 billion kWh or 2.5 percent compared with 1998. Total electric deliveries increased in all customer classes. Total electric deliveries in 1998 were 40 billion kWh, an increase of 2.2 billion kWh or 6 percent compared with 1997. The increase was primarily attributable to increased sales to other utilities and a 3 percent increase in deliveries to ultimate customers.

##### POWER SUPPLY COSTS:

In Millions						
Years Ended December 31	1999	1998	Change	1998	1997	Change
	\$1,193	\$1,175	\$18	\$1,175	\$1,139	\$36

Power supply costs increased for 1999 to meet increased electric delivery requirements. Both the 1999 and 1998 power supply cost increases reflect higher internal generation to meet the increased demand for electricity. In addition, the cost increase in 1998 over the prior year reflects increased power purchases from outside sources to meet sales demand. In 1999 and 1998 respectively, Consumers purchased \$19 million and \$5 million of energy options for physical delivery of electricity to ensure a reliable source of power during the summer months. As a result of periodic excess daily capacity, some options were sold for \$6 million and \$11 million during June, July, and August of 1999 and 1998, respectively. All of the remaining options were exercised or expired. The costs relating to the expired options, offset by income received from the sale of options, were reflected as purchased power costs.

## CONSUMERS' GAS UTILITY RESULTS OF OPERATIONS

## GAS PRETAX OPERATING INCOME:

Change Compared to Prior Year	In Millions	
	1999 vs 1998	1998 vs 1997
Gas deliveries	\$ 32	\$(42)
Gas commodity and related revenue	(5)	19
Gas wholesale and retail services	5	1
Operation and maintenance	(14)	(1)
General taxes and depreciation	(12)	(4)
<b>Total change</b>	<b>\$ 6</b>	<b>\$(27)</b>

GAS DELIVERIES: Gas system deliveries in 1999, including miscellaneous transportation, totaled 389 billion cubic feet (bcf), an increase of 29 bcf or 8 percent compared with 1998. The increased deliveries reflect colder temperatures during the first quarter of 1999. System deliveries in 1998, including miscellaneous transportation, totaled 360 bcf, a decrease of 60 bcf or 14 percent compared with 1997. The decreased deliveries reflect milder winter temperatures in the first and fourth quarters of 1998.

## COST OF GAS SOLD:

Years Ended December 31	In Millions					
	1999	1998	Change	1998	1997	Change
	\$637	\$564	\$73	\$564	\$694	\$(130)

The cost of gas sold increase for 1999 was the result of increased sales due to colder temperatures during 1999 and higher gas prices. The cost of gas decrease for 1998 was the result of decreased sales from milder temperatures during 1998 and decreased gas prices.

## NATURAL GAS TRANSMISSION, STORAGE AND PROCESSING RESULTS OF OPERATIONS

PRETAX OPERATING INCOME: Pretax operating income for 1999, including \$84 million of losses on investments in Nitrotec, increased \$58 million (176 percent) from the comparable period in 1998. The increase reflects earnings from Panhandle, which CMS Energy acquired in March 1999, increased earnings from other international and domestic operations, and a gain on the sale of a partial interest in the Northern Header gathering system in Wyoming's Powder River Basin. Partially offsetting these increases were 1998 gains on the sale of Petal Gas Storage Company and Australian gas reserves. Pretax operating income for 1998 increased \$6 million (22 percent) from the comparable period in 1997 primarily due to a gain on the sale of Petal Gas Storage Company, a gain on the sale of Australian gas reserves, and lower operating expenses. These increases were partially offset by a decrease in earnings from international operations.

## INDEPENDENT POWER PRODUCTION RESULTS OF OPERATIONS

PRETAX OPERATING INCOME: Pretax operating income for 1999 increased \$13 million (9 percent) from the comparable period in 1998. This increase primarily reflects increased operating income from international and domestic plant earnings and fees and an increase in income earned from management service fees. Partially offsetting these year-over-year increases were 1998 gains of \$26 million on the sale of two power purchase agreements and \$9 million on the sale of two plants. Pretax operating income for 1998 increased \$48 million (50 percent) from the comparable period in 1997. This increase primarily reflects increased operating income from international plant earnings and fees, a \$26 million gain on the sale of two power purchase agreements, and a \$9 million gain on the sale of two plants. These increases were partially offset by higher net operating expenses and a scheduled reduction in the industry expertise service fee income earned in connection with the 2,000 megawatt (MW) brown coal-fueled Loy Yang A power plant and an associated coal mine in Victoria, Australia (Loy Yang).

## OIL AND GAS EXPLORATION AND PRODUCTION RESULTS OF OPERATIONS

PRETAX OPERATING INCOME: Pretax operating income for 1999 increased \$11 million (183 percent) from the comparable period in 1998 as a result of higher realized commodity prices and lower exploration expenses. Partially offsetting this increase were higher operating expenses. Pretax operating income for 1998 decreased \$20 million (77 percent) from the comparable period in 1997 due to lower oil prices and a gain in the prior period from the sale of CMS Oil and Gas Company's (CMS Oil and Gas) entire interest in oil and gas properties in Yemen. Partially offsetting this decrease were increased oil production, decreased exploration expenses, and decreased depreciation, depletion and amortization expenses.

## MARKETING, SERVICES AND TRADING RESULTS OF OPERATIONS

PRETAX OPERATING INCOME: Pretax operating income for 1999 was unchanged from the comparable period in 1998. Increased earnings from retail gas sales, wholesale gas price volatility and a recent acquisition in energy management services were offset by costs related to market development activities. Pretax operating income for 1998 increased \$9 million from the comparable period in 1997. This increase is the result of improved margins on electricity and gas sales combined with increased electric and gas sales volumes. The increase was partially offset by additional operating costs relating to growth objectives.

## MARKET RISK INFORMATION

CMS Energy is exposed to market risks including, but not limited to, changes in interest rates, currency exchange rates, and certain commodity and equity prices. Management employs established policies and procedures to manage its risks associated with these market fluctuations, including the use of various derivative instruments such as futures, swaps, options and forward contracts. Management believes that any losses incurred on derivative instruments used to hedge risk would be offset by an opposite movement of the value of the hedged item.

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

**COMMODITY PRICE RISK:** Management uses commodity futures contracts, options and swaps (which require a net cash payment for the difference between a fixed and variable price) to manage commodity price risk. The prices of energy commodities, such as gas, oil, electric and natural gas liquids, fluctuate due to changes in the supply of and demand for those commodities. To reduce price risk caused by these market fluctuations, CMS Energy hedges certain inventory and purchases and sales contracts. A hypothetical 10 percent adverse shift in quoted commodity prices in the near term would not have had a material impact on CMS Energy's consolidated financial position, results of operations or cash flows as of December 31, 1999. The analysis assumes that the maximum exposure associated with purchased options is limited to prices paid. The analysis also does not quantify short-term exposure to hypothetically adverse price fluctuations in inventories.

**INTEREST RATE RISK:** Management uses a combination of fixed-rate and variable-rate debt to reduce interest rate exposure. Interest rate swaps and rate locks may be used to adjust exposure when deemed appropriate, based upon market conditions. These strategies attempt to provide and maintain the lowest cost of capital. The carrying amount of long-term debt was \$7 billion at December 31, 1999 with a fair value of \$6.7 billion. The fair value of CMS Energy's interest rate swaps at December 31, 1999, with a notional amount of \$2.9 billion, was \$6 million, representing the amount CMS Energy would receive upon settlement. A hypothetical 10 percent adverse shift in interest rates in the near term would not have a material effect on CMS Energy's consolidated financial position, results of operations or cash flows as of December 31, 1999.

**CURRENCY EXCHANGE RISK:** Management uses forward exchange and option contracts to hedge certain investments in foreign operations. A hypothetical 10 percent adverse shift in currency exchange rates would not have a material effect on CMS Energy's consolidated financial position or results of operations as of December 31, 1999, but would result in a net cash settlement of approximately \$71 million. The estimated fair value of the foreign exchange and option contracts at December 31, 1999 was \$64 million, representing the amount CMS Energy would pay upon settlement.

**EQUITY SECURITY PRICE RISK:** CMS Energy and certain of its subsidiaries have equity investments in companies in which they hold less than a 20 percent interest. A hypothetical 10 percent adverse shift in equity security prices would not have a material effect on CMS Energy's consolidated financial position, results of operations or cash flows as of December 31, 1999.

For a discussion of accounting policies related to derivative transactions, see Note 9.

#### CAPITAL RESOURCES AND LIQUIDITY

##### CASH POSITION, INVESTING AND FINANCING

CMS Energy's primary ongoing source of cash is dividends and distributions from subsidiaries. In 1999, Consumers paid \$262 million in common dividends and Enterprises paid \$118 million in common dividends to CMS Energy. In January 2000, Consumers declared and paid a \$79 million dividend to CMS Energy. In June 1999, CMS Energy contributed \$150 million of paid-in capital to Consumers. CMS Energy's consolidated cash requirements are met by its operating and financing activities.

**OPERATING ACTIVITIES:** CMS Energy's consolidated net cash provided by operating activities is derived mainly from the processing, storage, transportation and sale of natural gas; the generation, transmission, distribution and sale of electricity; and the sale of oil. Consolidated cash from operations totaled \$917 million and \$516 million for 1999 and 1998, respectively. The \$401 million increase resulted from an increase in cash earnings, reflecting higher non-cash charges to earnings in 1999 as compared to 1998, combined with a reduction in working capital in 1999. CMS Energy uses its cash derived from operating

activities primarily to maintain and expand its international and domestic businesses, to maintain and expand electric and gas systems of Consumers, to pay interest on and retire portions of its long-term debt, and to pay dividends.

INVESTING ACTIVITIES: CMS Energy's consolidated net cash used in investing activities totaled \$3.564 billion and \$1.634 billion for 1999 and 1998, respectively. The increase of \$1.930 billion primarily reflects the acquisition of Panhandle in March 1999. CMS Energy's expenditures (excluding acquisitions) during 1999 for its utility and international businesses were \$464 million and \$1.06 billion, respectively, compared to \$429 million and \$1.271 billion, respectively, during the comparable period in 1998.

FINANCING ACTIVITIES: CMS Energy's net cash provided by financing activities totaled \$2.678 billion in 1999, primarily for funding the approximately \$2 billion Panhandle acquisition, and \$1.150 billion in 1998. The increase of \$1.5 billion in net cash provided by financing activities resulted from an increase of \$1.212 billion in the issuance of debt and trust preferred securities (see table below) and a decrease in the retirement of bonds and other long-term debt (\$403 million), partially offset by an increase in the retirement of preferred stock (\$194 million) and a decrease in the issuance of common stock (\$185 million).



- (1) CMS Energy General Term Notes (R) (GTNs) are issued from time to time with varying maturity dates. The rate shown herein is a weighted average interest rate.
- (2) The securities representing an undivided beneficial interest in the assets of statutory business trusts (Trust Preferred Securities) pay quarterly distributions at a floating rate of LIBOR plus 1.75 percent. For detailed information, see Note 7, incorporated by reference herein.
- (3) The interest rate may be reset in July 2001. For detailed information, see Note 6, incorporated by reference herein.
- (4) The interest rate may be reset in July 2003. For detailed information, see Note 6, incorporated by reference herein.
- (5) For detailed information regarding the conversion provisions of these securities, see Note 7, incorporated by reference herein.
- (6) These notes were privately placed by CMS Panhandle Holding Company (CMS Panhandle Holding) on March 29, 1999, with an irrevocable and unconditional guarantee by Panhandle. On June 15, 1999, CMS Panhandle Holding merged into Panhandle, at which point the notes became direct obligations of Panhandle. In September 1999, Panhandle exchanged the \$800 million of notes originally issued by CMS Panhandle Holding with substantially identical SEC-registered notes.

In 1999, CMS Energy declared and paid \$154 million in cash dividends to holders of CMS Energy Common Stock and \$9 million in cash dividends to holders of Class G Common Stock. In January 2000, the Board of Directors of CMS Energy (Board of Directors) declared a quarterly dividend of \$.365 per share on CMS Energy Common Stock, payable in February 2000.

OTHER INVESTING AND FINANCING MATTERS: At December 31, 1999, the book value per share of CMS Energy Common Stock was \$21.17.

At January 31, 2000, CMS Energy had an aggregate \$1.7 billion in securities registered for future issuance.

CMS Energy has \$725 million of senior credit facilities consisting of a \$600 million three-year revolving credit facility and a five-year \$125 million term loan facility (Senior Credit Facilities), unsecured lines of credit and letters of credit as anticipated sources of funds to finance working capital requirements and to pay for capital expenditures between long-term financings. At December 31, 1999, the total amount available under the Senior Credit Facilities was \$241 million, and under the unsecured lines of credit and letters of credit was \$218 million. For detailed information, see Note 6, incorporated by reference herein.

Consumers has credit facilities, lines of credit and a trade receivable sale program in place as anticipated sources of funds to fulfill its currently expected capital expenditures. For detailed information about these sources of funds, see Note 5, incorporated by reference herein.

In March 1999, CMS Energy acquired Panhandle from Duke Energy Corporation (Duke Energy) for a cash payment of \$1.9 billion and existing Panhandle debt of \$300 million. Initially, CMS Energy financed the acquisition of Panhandle with funds from a \$600 million bridge loan negotiated with domestic banks, proceeds from CMS Energy long-term debt, and proceeds from approximately \$800 million of notes privately placed by CMS Panhandle Holding. As of June 30, 1999, the entire bridge loan had been repaid from proceeds of the sale of \$250 million of Trust Preferred Securities and \$400 million of senior notes.

In April 1999, Consumers redeemed all 8 million outstanding shares of its \$2.08 preferred stock at \$25.00 per share for a total of \$200 million.

In October 1999, CMS Energy exchanged approximately 6.1 million shares of CMS Energy Common Stock for all of the approximately 8.7 million issued and outstanding shares of Class G Common Stock in

a tax-free exchange for United States federal income tax purposes. For detailed information, see Note 8, incorporated by reference herein.

In October 1999, CMS Energy announced that because of the low market price of CMS Energy Common Stock at that time, it identified an alternative way to improve its balance sheet through the sale of non-strategic assets. At that time, CMS Energy identified for possible sale \$1 billion of assets which were expected to contribute little or no earnings benefit in the short to medium term. In addition, in February 2000, CMS Energy announced its intention to sell its interest in Loy Yang. The amount CMS Energy ultimately realizes from the sale of Loy Yang could differ materially from the \$500 million investment amount currently reflected in the financial statements. Excluding Loy Yang, CMS Energy plans to sell, or have agreements to sell, \$600 to \$750 million of such assets by the end of April 2000. As of February 1, 2000, CMS Energy had sold a partial interest in its Northern Header gathering system and all of its ownership interest in a Brazilian distribution system. In addition, CMS Energy has an agreement to sell all of its northern Michigan oil and gas properties. These sales are expected to generate approximately \$370 million in proceeds.

#### CAPITAL EXPENDITURES

CMS Energy estimates that capital expenditures, including new lease commitments and investments in partnerships and unconsolidated subsidiaries, will total \$4.2 billion during 2000 through 2002. These estimates are prepared for planning purposes and are subject to revision. CMS Energy expects to satisfy a substantial portion of the capital expenditures with cash from operations. CMS Energy will continue to evaluate capital markets in 2000 as a potential source for financing its subsidiaries' investing activities. CMS Energy estimates capital expenditures by business segment over the next three years as follows:

Years Ended December 31	In Millions		
	2000	2001	2002
Consumers electric operations (a) (b)	\$ 426	\$ 520	\$ 473
Consumers gas operations (a)	113	130	127
Natural gas transmission, storage and processing	234	198	248
Independent power production	577	220	223
Oil and gas exploration and production	153	210	212
Marketing, services and trading	32	12	12
International energy distribution	66	--	--
Other	16	--	--
	\$1,617	\$1,290	\$1,295

(a) These amounts include an attributed portion of Consumers' anticipated capital expenditures for plant and equipment common to both the electric and gas utility businesses. (b) These amounts do not include preliminary estimates for capital expenditures possibly required to comply with recently revised national air quality standards under the Federal Clean Air Act, as amended (Clean Air Act). For further information see Note 4, Uncertainties.

CMS Energy currently plans investments from 2000 to 2002 in focused regions, which include: North and South America; West and North Africa; the Middle East and select areas of Asia, including India, and Western Australia. Investments will be made in market segments which align with CMS Energy's varied business units' skills with a focus on optimization and integration of existing assets.

## OUTLOOK

As the deregulation and privatization of the energy industry takes place in the United States and in foreign countries, CMS Energy has positioned itself to be a leading international integrated energy company acquiring, developing and operating energy facilities and providing energy services in major world growth markets. CMS Energy provides a complete range of international energy expertise from energy production to consumption. CMS Energy intends to pursue its global growth by making energy investments that provide expansion opportunities for multiple CMS Energy businesses.

CMS Energy also enhances its growth strategy through an active portfolio management program (the ongoing sale of non-strategic assets), with proceeds reinvested in assets with greater potential for synergies with existing or planned assets. In particular, CMS Energy is reviewing its options regarding certain assets performing below prior expectations, including Argentine generating assets. CMS Energy also continues to seek improvement in the profitability of all assets retained in its portfolio.

## RECAPITALIZATION

On February 1, 2000, CMS Energy announced a financial restructuring plan to strengthen significantly its balance sheet, to reduce fixed charges and to enhance earnings per share growth. During the second or third quarter of 2000, subject to market conditions, CMS Energy intends to make an initial public offering of approximately \$600 million of a tracking stock representing 20 percent of the economic interest in its electric and gas utility. CMS Energy expects to pay about 75 percent of the electric and gas utility earnings as dividends. The proceeds of the offering will be used mostly to reduce debt. Some of the proceeds may also be used to repurchase CMS Energy Common Stock, which management believes is currently undervalued. The CMS Energy Board of Directors approved the repurchase of up to 10 million shares of CMS Energy Common Stock, from time to time, in open market or private transactions. Substantial progress has been made toward the 10 million share limit. In addition, the Board of Directors has indicated its intention that the CMS Energy dividend, currently at an annual rate of \$1.46 per share, will be reduced after the initial public offering to an annual rate of \$.40 per share. The Board of Directors also authorized a tax-free exchange offer to provide an opportunity for CMS Energy Common Stock to be converted into the new tracking stock.

CMS Energy anticipates this restructuring program, along with the proceeds from the planned sale of \$600 to \$750 million of assets discussed above, will improve CMS Energy's balance sheet. If market conditions are not satisfactory for issuance of the tracking stock, CMS Energy will improve its balance sheet through additional asset sales or alternate means. These actions are expected to make further issuance of CMS Energy Common Stock unnecessary in the foreseeable future, except for issuances in connection with existing convertible securities or a major acquisition.

## DIVERSIFIED ENERGY OUTLOOK

CMS Energy expects to grow its diversified energy businesses by focusing on acquisitions and greenfield (new construction) projects in the central portion of the United States, as well as high-growth markets in India, South America and the Middle East. Additionally, the growth strategy includes exploiting its West Africa oil and gas reserves, further developing markets for the fuel and methanol product derived in West Africa, and investigating expansion opportunities for its existing independent power project in West Africa. CMS Energy seeks to minimize operational and financial risks when operating internationally by utilizing multilateral financing institutions, procuring political risk insurance and hedging foreign currency exposure where appropriate.

CMS Energy intends to use its marketing, services and trading business to improve the return on CMS Energy's other business assets. One method to achieve this goal is to use marketing and trading to enhance performance of assets, such as gas reserves and power plants. Other strategies include expanding CMS Energy's industrial and commercial energy services to enhance our commodity marketing business, using CMS Energy's gas production as a hedge to commodity risk in other areas of our business, and developing risk management products that address customer needs.

#### CONSUMERS' ELECTRIC UTILITY OUTLOOK

**GROWTH:** Consumers expects average annual growth of 2.5 percent per year in electric system deliveries for the years 2000 to 2004. This growth rate does not take into account the possible impact of restructuring or changed regulation on the industry. Abnormal weather, changing economic conditions, or the developing competitive market for electricity may affect actual electric sales by Consumers in future periods.

**COMPETITION AND REGULATORY RESTRUCTURING:** Generally, electric restructuring is the regulatory and legislative attempt to introduce competition to the electric industry by allowing customers to choose their electric generation supplier, while the transmission and distribution services remain regulated. As a result, the electric generation suppliers ultimately compete in a less regulated environment. Competition affects, and will continue to affect, Consumers' retail electric business. To remain competitive, Consumers has multi-year electric supply contracts with some of its largest industrial customers to provide power to some of their facilities. The Michigan Public Service Commission (MPSC) approved these contracts as part of its phased introduction to competition. Beginning in 2000 through 2005, some customers, depending on future business and regulatory circumstances, can terminate or restructure their contracts. The termination or restructuring of these contracts could affect approximately 600 MW of customer power supply requirements. The ultimate financial impact of changes related to these power supply contracts is not known at this time.

As a result of a transition of the wholesale and retail electric businesses in Michigan to competition, The Detroit Edison Company (Detroit Edison), in December 1996, gave Consumers the required four-year notice of its intent to terminate the current agreements under which the companies jointly operate the Michigan Electric Power Coordination Center (MEPCC). At the same time, Detroit Edison filed with the Federal Energy Regulatory Commission (FERC) seeking early termination of the agreements. The FERC has not acted on Detroit Edison's application. Detroit Edison and Consumers are currently in negotiations to terminate or restructure the MEPCC operations. Consumers is unable to predict the outcome of these negotiations, but does not anticipate any adverse impacts caused by termination or restructuring of the MEPCC.

In December 1999, a large coalition of utilities, businesses, and commercial and industrial energy users agreed upon proposed electric restructuring legislation for Michigan. This legislation: 1) provides for customer choice of power suppliers for all customers by January 2002; 2) ensures full recovery of costs incurred by utilities in order to serve their customers in a regulated monopoly environment (Stranded Costs) calculated by taking into account the difference between the market value and the net book value of the generation assets; and 3) provides for deregulation of electric power suppliers who control less than 30 percent of the sum of Michigan's transmission import and generating capacity by December 31, 2002. It also provides for a three-year rate freeze through 2002 for all utility customers who keep their utility as their electric supplier. To be able to sell electric generation services on a deregulated basis, Consumers would be required to transfer control of sufficient generation resources to meet the 30 percent test. The legislation precludes Consumers' generating resources from being deregulated prior to December 31, 2002. The proposed legislation was introduced into the Michigan Legislature in January 2000, and is expected to be considered in hearings during the first quarter of 2000. Consumers supports this specific legislation.

Uncertainty exists with respect to the enactment of federal legislation restructuring the electric power industry. A variety of bills introduced in Congress in recent years seek to change existing federal regulation of the industry. These federal bills could potentially affect or supercede state regulation; however, none have been enacted. Consumers cannot predict the outcome of electric restructuring on its financial position, liquidity, or results of operations.

**RATE MATTERS:** There are several pending rate issues that could affect Consumers' electric business. These matters include MPSC rate proceedings and electric restructuring orders and a complaint by ABATE alleging excess revenues.

For further information and material changes relating to the rate matters and restructuring of the electric utility industry, see Note 2, Summary of Significant Accounting Policies and Other Matters, and Note 4, Uncertainties, "Consumers' Electric Utility Rate Matters - Electric Proceedings" and "Consumers' Electric Utility Rate Matters - Electric Restructuring," incorporated by reference herein.

**UNCERTAINTIES:** Several trends or uncertainties may affect CMS Energy's financial results and condition as a result of Consumers' electric business. These trends or uncertainties have, or CMS Energy reasonably expects could have, a material impact on net sales, revenues, or income from continuing electric operations. Such trends and uncertainties include: 1) capital expenditures for compliance with the Clean Air Act; 2) environmental liabilities arising from compliance with various federal, state and local environmental laws and regulations, including potential liability or expenses relating to the Michigan Natural Resources and Environmental Protection Act and Comprehensive Environmental Response, Compensation and Liability Act (Superfund); 3) cost recovery relating to the MCV Partnership; 4) an ABATE rate complaint; 5) electric industry restructuring; 6) implementation of a frozen power supply cost recovery (PSCR) and initiatives undertaken to reduce exposure to energy price increases; and 7) nuclear decommissioning issues and ongoing issues relating to the storage of spent fuel and the operating life of Palisades Nuclear Power Plant (Palisades). For detailed information about these trends or uncertainties, see Note 4, Uncertainties, incorporated by reference herein.

#### CONSUMERS' GAS UTILITY OUTLOOK

**GROWTH:** Consumers currently anticipates gas deliveries, including gas customer choice deliveries (excluding transportation to the natural gas-fueled, combined-cycle cogeneration facility operated by the MCV Partnership (MCV Facility) and off-system deliveries), to grow at an average annual rate of between one and two percent over the next five years based primarily on a steadily growing customer base. Actual gas deliveries in future periods may be affected by abnormal weather, alternative energy prices, changes in competitive conditions, and the level of natural gas consumption. Consumers' gas business also offers a variety of energy-related services to electric and gas customers focused upon appliance maintenance, home safety, commodity choice and assistance to customers purchasing heating, ventilation and air conditioning equipment.

**REGULATORY RESTRUCTURING:** In December 1999, several bills related to gas industry restructuring were introduced into the Michigan Legislature. Combined, these bills constitute the "gas choice program." Consumers is participating in the legislative process as part of a gas utility coalition that also includes Michigan Consolidated Gas Company and Southeastern Michigan Gas Company. These bills provide for 1) a phased-in approach to gas choice requiring 40 percent of the customers to be allowed choice by April 2002, 60 percent by April 2003 and all customers by April 2004; 2) a market-based, unregulated pricing mechanism for gas commodity for customers who exercise choice; and 3) a new "safe haven" pricing mechanism for customers who do not exercise choice under which NYMEX pricing would be used to establish a statutory cap on gas commodity prices that could be charged by gas utilities instead of

traditional cost of service regulation. The proposed bills also provide for a gas distribution service rate freeze until December 31, 2005, a code of conduct governing business relationships with affiliated gas suppliers and the MPSC licensing of all gas suppliers doing business in Michigan and imposes financial penalties for noncompliance. They also provide customer protection by preventing "slamming", the switching of a customer's gas supplier without consent, and "cramming", the inclusion of optional products and services without the customer's authorization. The bills establishing the gas choice program will become the subject of extensive legislative hearings during which there will undoubtedly be various amendments offered by many parties, including the gas utility coalition. Consumers cannot predict the outcome of this legislative process.

UNCERTAINTIES: CMS Energy's financial results and position may be affected by a number of trends or uncertainties that have, or CMS Energy reasonably expects could have, a material impact on net sales or revenues or income from continuing gas operations. Such trends and uncertainties include: 1) potential environmental costs at a number of sites, including sites formerly housing manufactured gas plant facilities; 2) a statewide experimental gas industry restructuring program; 3) permanent gas industry restructuring; and 4) implementation of a suspended gas cost recovery (GCR) and initiatives undertaken to protect against gas price increases. For detailed information about these uncertainties see Note 4, Uncertainties, incorporated by reference herein.

#### PANHANDLE OUTLOOK

CMS Energy intends to use Panhandle as a platform for expansion in the United States. Panhandle plays an important role in the growth strategy by providing services for the development of existing gas wells, production, and throughput of gas to the market. To this end, CMS Energy must also consider expansion of its existing gathering and processing facilities to accommodate anticipated increased production. The market for transmission of natural gas to the Midwest is increasingly competitive, however, and may become more so in light of projects in progress to increase Midwest transmission capacity for gas originating in Canada and the Rocky Mountain region. As a result, there continues to be pressure on prices charged by Panhandle and an increasing necessity to discount the prices charged from the legal maximum. Panhandle continues to be selective in offering discounts to maximize revenues from existing capacity and to advance projects that provide expanded services to meet the specific needs of customers.

REGULATORY MATTERS: For detailed information about Panhandle's regulatory uncertainties see Note 4, Uncertainties - Panhandle Matters, incorporated by reference herein.

#### OTHER MATTERS

##### NEW ACCOUNTING RULES

In 1999, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) 137, Accounting for Derivative Instruments and Hedging Activities - Deferral of the Effective Date of FASB Statement No.133. SFAS 137 defers the effective date of SFAS 133, Accounting for Derivative Instruments and Hedging Activities, to January 1, 2001. CMS Energy is currently studying SFAS 133 and plans to adopt SFAS 133 as of January 1, 2001, but has yet to quantify the effects of adoption on its financial statements.

##### YEAR 2000 COMPUTER MODIFICATIONS

In 1999, CMS Energy completed a detailed assessment and inventory of all technology related to business processes, with an emphasis on mission-critical systems. CMS Energy identified, remediated and tested

those systems that were not year 2000 ready to ensure that those systems would operate as desired on and after January 1, 2000.

As a result of its year 2000 efforts, CMS Energy successfully transitioned to the new year without experiencing year 2000-related system failures, power outages or disruptions in services provided to its customers.

CMS Energy expensed the cost of software modifications as incurred, and capitalized the cost of new software and equipment, which is being amortized over its useful life. Since 1995, the total cost of the Year 2000 Program modifications was approximately \$30 million. CMS Energy funded year 2000 compliance work primarily from operations. This cost did not have a material effect on CMS Energy's financial position, liquidity or results of operations. The commitment of CMS Energy resources to the year 2000 issue has not deferred any information technology projects that could have a material adverse effect on CMS Energy's financial position, liquidity, or results of operations.

While CMS Energy does not expect any significant year 2000 issues to develop after year-end 1999, CMS Energy will continue to monitor its systems throughout the year 2000 to ensure that any year 2000 issues that may arise are addressed promptly.

#### FOREIGN CURRENCY TRANSLATION

CMS Energy adjusts common stockholders' equity to reflect foreign currency translation adjustments for the operation of long-term investments in foreign countries. The adjustment is primarily due to the exchange rate fluctuations between the United States dollar and each of the Australian dollar, Brazilian real and Argentine peso. During 1999, the change in the foreign currency translation adjustment increased equity by \$28 million, net of after-tax hedging proceeds. Although management currently believes that the currency exchange rate fluctuations over the long term will not have a material adverse affect on CMS Energy's financial position, liquidity or results of operations, CMS Energy has hedged its exposure to the Australian dollar, the Brazilian real and the Argentine peso. CMS Energy uses forward exchange and option contracts to hedge certain receivables, payables, long-term debt and equity value relating to foreign investments. The notional amount of the outstanding foreign exchange contracts was \$1.6 billion at December 31, 1999, which includes \$207 million, \$435 million and \$880 million for Australian, Brazilian and Argentine foreign exchange contracts, respectively. The estimated fair value of the foreign exchange and option contracts at December 31, 1999 was \$64 million, representing the amount CMS Energy would pay upon settlement.

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Years Ended December 31		1999	1998	In Millions 1997
<b>OPERATING REVENUE</b>				
	Electric utility	\$ 2,667	\$ 2,606	\$ 2,515
	Gas utility	1,156	1,051	1,204
	Natural gas transmission, storage and processing	785	160	96
	Independent power production	390	277	168
	Oil and gas exploration and production	98	63	93
	Marketing, services and trading	799	939	692
	Other	208	45	13
		6,103	5,141	4,781
<b>OPERATING EXPENSES</b>				
	Operation			
	Fuel for electric generation	406	359	319
	Purchased power - related parties	560	573	599
	Purchased and interchange power	509	584	265
	Cost of gas sold	1,546	1,212	1,311
	Other	1,021	763	719
		4,042	3,491	3,213
	Maintenance	216	176	174
	Depreciation, depletion and amortization	595	484	467
	General taxes	254	215	211
	Write-off of investments in Nitrotec	84	-	-
		5,191	4,366	4,065
<b>PRETAX OPERATING INCOME (LOSS)</b>				
	Electric utility	494	475	432
	Gas utility	132	126	153
	Natural gas transmission, storage and processing, net of \$84 Nitrotec write-off in 1999	91	33	27
	Independent power production	157	144	96
	Oil and gas exploration and production	17	6	26
	Marketing, services and trading	4	4	(5)
	Other	17	(13)	(13)
		912	775	716
<b>OTHER INCOME (DEDUCTIONS)</b>				
	Accretion income	4	6	8
	Accretion expense	(14)	(16)	(17)
	Loss on MCV power purchases	-	(37)	-
	Other, net	20	1	(3)
		10	(46)	(12)
<b>FIXED CHARGES</b>				
	Interest on long-term debt	502	318	273
	Other interest	58	47	49
	Capitalized interest	(41)	(29)	(13)
	Preferred dividends	6	19	25
	Trust Preferred Securities distributions	56	32	18
		581	387	352
<b>INCOME BEFORE INCOME TAXES</b>		341	342	352
<b>INCOME TAXES</b>		64	100	108
<b>CONSOLIDATED NET INCOME BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE</b>		277	242	244
<b>CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING FOR PROPERTY TAXES, NET OF \$23 TAX</b>		-	43	-
<b>CONSOLIDATED NET INCOME</b>		\$ 277	\$ 285	\$ 244

Years Ended December 31	In Millions, Except Per Share Amounts		
	1999	1998	1997
<hr/>			
CMS ENERGY			
NET INCOME			
Net Income Attributable to Common Stock	\$ 269	\$ 272	\$ 229
Premium on Redemption of Class G Stock	(28)	-	-
Net Income Available to Common Stock	\$ 241	\$ 272	\$ 229
=====			
BASIC EARNINGS PER AVERAGE COMMON SHARE			
Net Income Attributable to Common Stock	\$ 2.44	\$ 2.65	\$ 2.39
Premium on Redemption of Class G Stock	(0.26)	-	-
Net Income Available to Common Stock	\$ 2.18	\$ 2.65	\$ 2.39
=====			
DILUTED EARNINGS PER AVERAGE COMMON SHARE			
Net Income Attributable to Common Stock	\$ 2.42	\$ 2.62	\$ 2.37
Premium on Redemption of Class G Stock	(0.25)	-	-
Net Income Available to Common Stock	\$ 2.17	\$ 2.62	\$ 2.37
=====			
DIVIDENDS DECLARED PER COMMON SHARE	\$ 1.39	\$ 1.26	\$ 1.14
<hr/>			
CLASS G			
NET INCOME			
Net Income Attributable to Common Stock	\$ 8	\$ 13	\$ 15
Premium on Redemption of Class G Stock	28	-	-
Net Income Available to Common Stock	\$ 36	\$ 13	\$ 15
=====			
BASIC EARNINGS PER AVERAGE COMMON SHARE			
Net Income Attributable to Common Stock	\$ 0.90	\$ 1.56	\$ 1.84
Premium on Redemption of Class G Stock	3.31	-	-
Net Income Available to Common Stock	\$ 4.21	\$ 1.56	\$ 1.84
=====			
DILUTED EARNINGS PER AVERAGE COMMON SHARE			
Net Income Attributable to Common Stock	\$ 0.90	\$ 1.56	\$ 1.84
Premium on Redemption of Class G Stock	3.31	-	-
Net Income Available to Common Stock	\$ 4.21	\$ 1.56	\$ 1.84
=====			
DIVIDENDS DECLARED PER COMMON SHARE	\$ 0.99	\$ 1.27	\$ 1.21
<hr/>			

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS.

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CMS-22

Years Ended December 31		In Millions		
		1999	1998	1997
<hr/>				
CASH FLOWS FROM OPERATING ACTIVITIES	Consolidated net income	\$ 277	\$ 285	\$ 244
	Adjustments to reconcile net income to net cash provided by operating activities			
	Depreciation, depletion and amortization (includes nuclear decommissioning of \$50, \$51 and \$50, respectively)	595	484	467
	Deferred income taxes and investment tax credit	10	54	24
	Capital lease and debt discount amortization	35	51	44
	Loss on MCV power purchases	-	37	-
	Accretion expense	14	16	17
	Accretion income	(4)	(6)	(8)
	Write-off of investments in Nitrotec	84	-	-
	Undistributed earnings of related parties	(45)	(95)	(58)
	Cumulative effect of accounting change	-	(66)	-
	MCV power purchases	(62)	(64)	(62)
	Changes in other assets and liabilities	13	(180)	(44)
		<hr/>		
	Net cash provided by operating activities	917	516	624
<hr/>				
CASH FLOWS FROM INVESTING ACTIVITIES	Capital expenditures (excludes assets placed under capital lease)	(1,124)	(1,295)	(678)
	Investments in partnerships and unconsolidated subsidiaries	(380)	(345)	(830)
	Cost to retire property, net	(93)	(83)	(46)
	Other	(29)	32	(46)
	Acquisition of companies, net of cash acquired	(1,938)	-	-
	Proceeds from sale of property	-	57	49
		<hr/>		
	Net cash used in investing activities	(3,564)	(1,634)	(1,551)
<hr/>				
CASH FLOWS FROM FINANCING ACTIVITIES	Proceeds from notes, bonds and other long-term debt	2,836	2,348	1,214
	Issuance of Common Stock	84	269	224
	Proceeds from Trust Preferred Securities	726	-	286
	Retirement of bonds and other long-term debt	(258)	(661)	(521)
	Repayments of lines of credit, net	(237)	(574)	(29)
	Payment of Common Stock dividends	(163)	(140)	(119)
	Increase (decrease) in notes payable, net	(97)	(53)	49
	Payment of capital lease obligations	(19)	(36)	(44)
	Retirement of Common Stock	-	(3)	(2)
	Retirement of preferred stock	(194)	-	(120)
		<hr/>		
	Net cash provided by financing activities	2,678	1,150	938
<hr/>				
NET INCREASE IN CASH AND TEMPORARY CASH INVESTMENTS		31	32	11
CASH AND TEMPORARY CASH INVESTMENTS, BEGINNING OF PERIOD		101	69	58
		<hr/>		
CASH AND TEMPORARY CASH INVESTMENTS, END OF PERIOD		\$ 132	\$ 101	\$ 69
<hr/>				

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS.

ASSETS		In Millions	
December 31		1999	1998
<hr/>			
PLANT AND PROPERTY (AT COST)	Electric utility	\$ 6,981	\$ 6,720
	Gas utility	2,461	2,360
	Natural gas transmission, storage and processing	1,934	341
	Independent power production	974	518
	Oil and gas properties (successful efforts method)	817	670
	International energy distribution	445	324
	Other	62	49
		<hr/>	<hr/>
		13,674	10,982
	Less accumulated depreciation, depletion and amortization	6,157	5,213
		<hr/>	<hr/>
	Construction work-in-progress	7,517	5,769
		604	271
		<hr/>	<hr/>
		8,121	6,040
<hr/>			
INVESTMENTS	Independent power production	950	888
	Natural gas transmission, storage and processing	369	494
	International energy distribution	150	209
	Midland Cogeneration Venture Limited Partnership	247	209
	First Midland Limited Partnership	240	240
	Other	40	33
		<hr/>	<hr/>
		1,996	2,073
<hr/>			
CURRENT ASSETS	Cash and temporary cash investments at cost, which approximates market	132	101
	Accounts receivable, notes receivable and accrued revenue, less allowances \$12 in 1999 and \$13 in 1998	959	720
	Inventories at average cost		
	Gas in underground storage	225	219
	Materials and supplies	158	99
	Generating plant fuel stock	47	43
	Deferred income taxes	33	-
	Prepayments and other	263	225
		<hr/>	<hr/>
		1,817	1,407
<hr/>			
NON-CURRENT ASSETS	Goodwill, net	891	46
	Nuclear decommissioning trust funds	602	557
	Unamortized nuclear costs	519	-
	Postretirement benefits	348	373
	Notes receivable - related parties	251	20
	Abandoned Midland project	48	71
	Other	869	723
		<hr/>	<hr/>
		3,528	1,790
<hr/>			
TOTAL ASSETS		\$ 15,462	\$ 11,310
<hr/>			

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS.

## CMS ENERGY CORPORATION

STOCKHOLDERS' INVESTMENT AND LIABILITIES		In Millions	
December 31		1999	1998
<hr/>			
CAPITALIZATION	Common stockholders' equity	\$ 2,456	\$ 2,216
	Preferred stock of subsidiary	44	238
	Company-obligated mandatorily redeemable Trust Preferred Securities of:		
	Consumers Power Company Financing I (a)	100	100
	Consumers Energy Company Financing II (a)	120	120
	Consumers Energy Company Financing III (a)	175	-
	Company-obligated convertible Trust Preferred Securities of:		
	CMS Energy Trust I (b)	173	173
	CMS Energy Trust II (b)	301	-
	Company-obligated Trust Preferred Securities of CMS RHINOS Trust (c)	250	-
	Long-term debt	6,987	4,726
	Non-current portion of capital leases	88	105
		<hr/>	<hr/>
		10,694	7,678
<hr/>			
CURRENT LIABILITIES	Current portion of long-term debt and capital leases	552	293
	Notes payable	230	328
	Accounts payable	775	501
	Accrued taxes	320	272
	Accounts payable - related parties	61	79
	Accrued interest	148	65
	Power purchases - MCV Partnership	47	47
	Accrued refunds	11	11
	Other	363	211
		<hr/>	<hr/>
		2,507	1,807
<hr/>			
NON-CURRENT LIABILITIES	Deferred income taxes	703	652
	Postretirement benefits	485	489
	Deferred investment tax credit	125	135
	Power purchases - MCV Partnership	73	121
	Regulatory liabilities for income taxes, net	64	87
	Other	811	341
		<hr/>	<hr/>
		2,261	1,825
<hr/>			
Commitments and Contingencies (Notes 2, 4, 14 and 19)			
TOTAL STOCKHOLDERS' INVESTMENT AND LIABILITIES		\$ 15,462	\$ 11,310
<hr/>			

(a) The primary asset of Consumers Power Company Financing I is \$103 million principal amount of 8.36 percent subordinated deferrable interest notes due 2015 from Consumers. The primary asset of Consumers Energy Company Financing II is \$124 million principal amount of 8.20 percent subordinated deferrable interest notes due 2027 from Consumers. The primary asset of Consumers Energy Company Financing III is \$180 million principal amount of 9.25 percent subordinated deferrable interest notes due 2029 from Consumers. For further discussion, see Note 7 to the Consolidated Financial Statements.

(b) The primary asset of CMS Energy Trust I is \$178 million principal amount of 7.75 percent convertible subordinated deferrable interest debentures due 2027 from CMS Energy. The primary asset of CMS Energy Trust II is \$310 million principal amount of 8.625 percent convertible junior subordinated deferrable interest debentures due July 2004 from CMS Energy. For further discussion, see Note 7 to the Consolidated Financial Statements.

(c) As described in Note 7, the primary asset of CMS RHINOS Trust is \$258 million principal amount of LIBOR plus 1.75 percent subordinated deferrable interest debentures due September 2001 from CMS Energy.

December 31	Series	Optional Redemption Price	Number of Shares		In Millions		
			1999	1998	1999	1998	
CONSUMERS' PREFERRED STOCK							
	Cumulative, \$100 par value, authorized 7,500,000 shares, with no mandatory redemption	\$4.16 4.50	\$103.25 110.00	68,451 373,148	68,451 373,148	\$ 7 37	\$ 7 37
CONSUMERS' CLASS A PREFERRED STOCK							
	Cumulative, no par value, authorized 16,000,000 shares, with no mandatory redemption	2.08	25.00 (a)	-	8,000,000	-	194
TOTAL PREFERRED STOCK						\$ 44	\$ 238

(a) Redeemed April 1, 1999.

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS.

## CONSOLIDATED STATEMENTS OF COMMON STOCKHOLDERS' EQUITY CMS ENERGY CORPORATION

Years Ended December 31	Number of Shares in Thousands			In Millions		
	1999	1998	1997	1999	1998	1997
<b>COMMON STOCK</b>						
At beginning and end of period				\$ 1	\$ 1	\$ 1
<b>OTHER PAID-IN CAPITAL - CMS ENERGY</b>						
At beginning of period	108,104	100,792	94,813	2,452	2,131	1,916
Redemption of affiliate's preferred stock	-	-	-	(2)	-	-
Common stock reacquired	(61)	(72)	(54)	(2)	(3)	(2)
Common stock issued	1,823	7,383	6,031	83	324	217
Common stock reissued	39	1	2	1	-	-
Exchange of Class G common stock	6,133	-	-	217	-	-
At end of period	116,038	108,104	100,792	2,749	2,452	2,131
<b>OTHER PAID-IN CAPITAL - CLASS G</b>						
At beginning of period	8,453	8,219	7,877	142	136	129
Common stock reacquired	-	(1)	(1)	-	-	-
Common stock issued	257	235	343	6	6	7
Redemption of common stock	(8,710)	-	-	(148)	-	-
At end of period	-	8,453	8,219	-	142	136
<b>REVALUATION CAPITAL</b>						
At beginning of period				(9)	(6)	(6)
Change in unrealized investment-gain (loss) (a)				12	(3)	-
At end of period				3	(9)	(6)
<b>FOREIGN CURRENCY TRANSLATION</b>						
At beginning of period				(136)	(96)	-
Change in foreign currency translation (a)				28	(40)	(96)
At end of period				(108)	(136)	(96)
<b>RETAINED EARNINGS (DEFICIT)</b>						
At beginning of period				(234)	(379)	(504)
Consolidated net income (a)				277	285	244
Redemption of Class G common stock				(69)	-	-
Common stock dividends declared:						
CMS Energy				(154)	(129)	(109)
Class G				(9)	(11)	(10)
At end of period				(189)	(234)	(379)
<b>TOTAL COMMON STOCKHOLDERS' EQUITY</b>				<b>\$ 2,456</b>	<b>\$ 2,216</b>	<b>\$ 1,787</b>
<b>(A) DISCLOSURE OF COMPREHENSIVE INCOME:</b>						
Revaluation capital						
Unrealized investment-gain (loss), net of tax of						
\$(6), \$2 and \$0, respectively				\$ 12	\$ (3)	\$ -
Foreign currency translation				28	(40)	(96)
Consolidated net income				277	285	244
Total Consolidated Comprehensive Income				<b>\$ 317</b>	<b>\$ 242</b>	<b>\$ 148</b>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS.

## 1: CORPORATE STRUCTURE

CMS Energy Corporation (CMS Energy) is the parent holding company of Consumers Energy Company (Consumers) and CMS Enterprises Company (Enterprises). Consumers, a combination electric and gas utility company serving the Lower Peninsula of Michigan, is a subsidiary of CMS Energy. Enterprises, through subsidiaries, is engaged in several domestic and international diversified energy businesses including: natural gas transmission, storage and processing; independent power production; oil and gas exploration and production; energy marketing, services and trading; and international energy distribution. In March 1999, CMS Energy completed the acquisition of Panhandle Eastern Pipe Line Company, including its subsidiaries Trunkline and Pan Gas Storage, and its affiliates Panhandle Storage and Trunkline LNG (Panhandle), as discussed further below. Panhandle is primarily engaged in the interstate transportation, storage and processing of natural gas.

## 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND OTHER MATTERS

**BASIS OF PRESENTATION:** The consolidated financial statements include CMS Energy, Consumers and Enterprises and their majority owned subsidiaries. The financial statements are prepared in conformity with generally accepted accounting principles and use management's estimates where appropriate. Affiliated companies (where CMS Energy has more than 20 percent but less than a majority ownership interest) are accounted for by the equity method.

**CHANGE IN METHOD OF ACCOUNTING FOR PROPERTY TAXES:** During the first quarter of 1998, Consumers implemented a change in the method of accounting for property taxes so that such taxes are recognized during the fiscal period of the taxing authority for which the taxes are levied. This change better matches property tax expense with the services provided by the taxing authorities, and is considered the most acceptable basis of recording property taxes. Prior to 1998, Consumers recorded property taxes monthly during the year following the assessment date (December 31). The cumulative effect of this one-time change in accounting increased other income in 1998 by \$66 million, and earnings, net of tax, by \$43 million or \$.40 per basic and diluted share of CMS Energy Common Stock, including increased other income by \$18 million and earnings, net of tax, of \$12 million, or \$.36 per basic and diluted share of Class G Common Stock. The pro forma effect on prior years' consolidated net income of retroactively recording property taxes as if the new method of accounting had been in effect for all periods presented is not material.

**NON-RECURRING CHARGE:** In 1999, CMS Gas Transmission and Storage Company (CMS Gas Transmission) wrote off the carrying amounts of investments in Nitrotec Corporation, a proprietary gas processing company which has patents for its helium removal and nitrogen rejection processes for purifying natural gas. This write-off occurred after determining that it was unlikely CMS Gas Transmission would recover any portion of its investments. The write-off of these investments resulted in a reduction in 1999 operating income of \$84 million and reduced net earnings by \$49 million, or \$.45 and \$.43 per basic and diluted share of CMS Energy Common Stock, respectively.

**ACCRETION INCOME AND EXPENSE:** In 1991, the Michigan Public Service Commission (MPSC) allowed Consumers to recover a portion of its abandoned Midland investment over a 10-year period, but did not allow Consumers to earn a return on that amount. Consumers reduced the recoverable investment to the present value of the future recoveries. During the recovery period, Consumers adjusts the unrecovered asset to its present value. It reflects this adjustment as accretion income. Conversely, Consumers recorded a loss in 1992 for the present value of its estimated future underrecoveries of power costs resulting from purchases from the Midland Cogeneration Venture Limited Partnership (MCV Partnership) (see Note 4). It now recognizes accretion expense annually to reflect the time value of money on the recorded loss.

**GAS INVENTORY:** Consumers uses the weighted average cost method for valuing working gas inventory. It records cushion gas, which is gas stored to maintain reservoir pressure for recovery of working gas, in the appropriate gas utility plant account. Consumers stores gas inventory in its underground storage facilities.

**GOODWILL AMORTIZATION:** Goodwill represents the excess of the purchase price over the fair value of the net assets of acquired companies and is amortized using the straight-line method principally over 40 years. The carrying amount of goodwill is reviewed annually using undiscounted cash flows for the businesses acquired over the remaining amortization periods. At December 31, 1999, no impairments existed. Accumulated amortization of goodwill at December 31, 1999 and 1998 was \$25 million and \$2 million, respectively.

**MAINTENANCE, DEPRECIATION AND DEPLETION:** Consumers charges property repairs and minor property replacements to maintenance expense. Depreciable property retired or sold, plus cost of removal (net of salvage credits), is charged to accumulated depreciation. Consumers bases depreciation provisions for utility property on straight-line and units-of-production rates approved by the MPSC. The composite depreciation rate for electric utility property was 3.0 percent for 1999, 3.5 percent for 1998 and 3.6 percent for 1997. The composite rate for gas utility property was 4.4 percent for 1999, 4.2 percent for 1998 and 4.1 percent for 1997. The composite rate for other property was 8.6 percent for 1999, 7.4 percent for 1998 and 8.2 percent for 1997.

**CMS Oil and Gas Company (CMS Oil and Gas)** follows the successful efforts method of accounting for its investments in oil and gas properties. CMS Oil and Gas capitalizes, as incurred, the costs of property acquisitions, successful exploratory wells, all development costs, and support equipment and facilities. It expenses unsuccessful exploratory wells when they are determined to be non-productive. CMS Oil and Gas also charges to expense, as incurred, production costs, overhead, and all exploration costs other than exploratory drilling. CMS Oil and Gas determines depreciation, depletion and amortization of proved oil and gas properties on a field-by-field basis using the units-of-production method over the life of the remaining proved reserves.

Other nonutility depreciable property is amortized over its estimated useful life; gains and losses on asset sales are recognized at the time of sale.

**NUCLEAR FUEL COST:** Consumers amortizes nuclear fuel cost to fuel expense based on the quantity of heat produced for electric generation. Interest on leased nuclear fuel is expensed as incurred. Under current federal law, as confirmed by court decision, the U.S. Department of Energy (DOE) was to begin accepting deliveries of spent nuclear fuel for disposal by January 31, 1998. For fuel used after April 6, 1983, Consumers charges disposal costs to nuclear fuel expense, recovers them through electric rates, and then remits them to the DOE quarterly. Consumers elected to defer payment for disposal of spent nuclear fuel burned before April 7, 1983. At December 31, 1999, Consumers had a recorded liability to the DOE of \$123 million, including interest, which is payable upon the first delivery of spent nuclear fuel to the DOE.

Consumers recovered through electric rates the amount of this liability, excluding a portion of interest. In January 1997, in response to the DOE's declaration that it would not begin to accept spent nuclear fuel deliveries in 1998, Consumers and other utilities filed suit in federal court. The court issued a decision in late 1997 affirming the DOE's duty to take delivery of spent fuel, but was not specific as to the relief available for failure of the DOE to comply. Further litigation brought by Consumers and others in 1998 that was intended to produce specific relief for the DOE's failure to comply has not been successful to date, although such litigation efforts continue. In January 1999, federal legislation was reintroduced in the House of Representatives to clarify the timing of the DOE's obligation to accept spent nuclear fuel and to direct the DOE to establish an integrated spent fuel management system that includes designing and constructing an interim storage facility in Nevada. Similar legislation was reintroduced in the Senate. Consumers cannot predict the outcome of this process.

**NUCLEAR PLANT DECOMMISSIONING:** Consumers collected \$50 million in 1999 from its electric customers for decommissioning of its two nuclear plants. Amounts collected from electric retail customers and deposited in trusts (including trust earnings) are credited to accumulated depreciation. On March 22, 1999, Consumers received a decommissioning order from the MPSC that approved estimated decommissioning costs for Big Rock Point nuclear power plant (Big Rock) and Palisades nuclear power plant (Palisades) of \$315 million and \$566 million (calculated in 1999 dollars), respectively. Consumers' site-specific decommissioning cost estimates for Big Rock and Palisades assume that each plant site will eventually be restored to conform to the adjacent landscape, and all contaminated equipment will be disassembled and disposed of in a licensed burial facility. The MPSC order also set the annual decommissioning surcharges for Big Rock and Palisades at \$32 million and \$14 million a year, respectively, and required Consumers to file revised decommissioning surcharges for Palisades that incorporate a gradual reduction in the decommissioning trust's equity investments following the plant's retirement. On December 16, 1999, the MPSC approved a revised decommissioning surcharge for Palisades in the amount of \$6 million a year, effective January 1, 2000.

Big Rock closed permanently in 1997 because management determined that it would be uneconomical to operate in an increasingly competitive environment. The plant was originally scheduled to close on May 31, 2000, at the end of the plant's operating license. The MPSC allowed Consumers to continue collecting decommissioning surcharges through December 31, 2000. Plant decommissioning began in 1997 and it may take five to ten years to return the site to its original condition. For 1999, Consumers incurred costs of \$51 million that were charged to the accumulated depreciation reserve for decommissioning and withdrew \$43 million from the Big Rock nuclear decommissioning trust fund. In total, Consumers has incurred costs of \$126 million that have been charged to the accumulated depreciation reserve for decommissioning and withdrew \$112 million from the Big Rock nuclear decommissioning trust fund. These activities had no material impact on net income. At December 31, 1999, Consumers is the beneficiary of the investment in nuclear decommissioning trust funds of \$181 million for Big Rock.

After retirement of Palisades, Consumers plans to maintain the facility in protective storage if radioactive waste disposal facilities are not available. Consumers will incur most of the Palisades decommissioning costs after the plant's Nuclear Regulatory Commission (NRC) operating license expires. When Palisades' NRC license expires in 2007, the trust funds are currently estimated to have accumulated \$667 million, assuming currently approved MPSC surcharge levels. Consumers estimates that at the time Palisades is fully decommissioned in the year 2046, the trust funds will have provided \$1.9 billion, including trust earnings, over this decommissioning period. At December 31, 1999, Consumers is the beneficiary of the investment in nuclear decommissioning trust funds of \$421 million for Palisades.

RECLASSIFICATIONS: CMS Energy has reclassified certain prior year amounts for comparative purposes. These reclassifications did not affect consolidated net income for the years presented.

RELATED-PARTY TRANSACTIONS: In 1999, 1998 and 1997, Consumers paid \$52 million, \$51 million and \$51 million, respectively, for electric generating capacity and the energy generated by that capacity from affiliates of Enterprises. Affiliates of CMS Energy sold, stored and transported natural gas and provided other services to the MCV Partnership totaling \$37 million, \$21 million and \$21 million for 1999, 1998 and 1997. For additional discussion of related-party transactions with the MCV Partnership and the First Midland Limited Partnership (FMLP), see Notes 4 and 19. Other related-party transactions are immaterial.

UTILITY REGULATION: Consumers accounts for the effects of regulation based on the regulated utility accounting standard Statement of Financial Accounting Standards (SFAS) 71, Accounting for the Effects of Certain Types of Regulation. As a result, the actions of regulators affect when Consumers recognizes revenues, expenses, assets and liabilities.

In March 1999, Consumers received MPSC electric restructuring orders which, among other things, identified the terms and timing for implementing electric restructuring in Michigan. Consistent with these orders, Consumers discontinued application of SFAS 71 for the energy supply portion of its business in the first quarter of 1999 because Consumers expected to implement retail open access for its electric customers in September 1999. Discontinuation of SFAS 71 for the energy supply portion of Consumers' business resulted in Consumers reducing the carrying value of its Palisades plant-related assets by approximately \$535 million and establishing a regulatory asset for a corresponding amount. The regulatory asset is collectible as part of the costs incurred by Stranded Costs, as defined, plus the costs incurred in the transition to competition (Transition Costs) which are recoverable through the regulated transmission and distribution portion of Consumers' business as approved by an MPSC order in 1998. This order also allowed Consumers to recover any energy supply-related regulatory assets, plus a return on any unamortized balance of those assets, from its transmission and distribution customers. According to current accounting standards, Consumers can continue to carry its energy supply-related regulatory assets if legislation or an MPSC rate order allows the collection of cash flows, to recover these regulatory assets, from its regulated transmission and distribution customers. At December 31, 1999, Consumers had a net investment in energy supply facilities of \$949 million included in electric plant and property.

SFAS 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of, imposes stricter criteria for retention of regulatory-created assets by requiring that such assets be probable of future recovery at each balance sheet date. Management believes these assets will be recovered.

The following regulatory assets (liabilities), which include both current and non-current amounts, are reflected in the Consolidated Balance Sheets. These costs are being recovered through rates over periods of up to 13 years.

December 31	In Millions	
	1999	1998
Postretirement benefits	\$ 366	\$ 397
Income taxes	193	148
Abandoned Midland project	48	71
Manufactured gas plant sites	65	48
Demand-side management (DSM) - deferred costs	13	32
Uranium enrichment facility	18	20
Other	33	38
<b>Total regulatory assets</b>	<b>\$ 736</b>	<b>\$ 754</b>
Income taxes	\$(257)	\$(235)
DSM - deferred revenue	(17)	(24)
<b>Total regulatory liabilities</b>	<b>\$(274)</b>	<b>\$(259)</b>

**IMPLEMENTATION OF NEW ACCOUNTING STANDARDS:** In 1999, CMS Energy implemented statement of position (SOP) 98-1, Accounting for the Costs of Computer Software Developed for Internal Use, and SOP 98-5, Reporting on the Costs of Start-Up Activities. Application of these standards has not had a material effect on CMS Energy's financial position, liquidity, or results of operations. Effective January 1, 1999, CMS Energy adopted Emerging Issues Task Force (EITF) Issue 98-10, Accounting for Energy Trading and Risk Management Activities, which requires mark-to-market accounting for energy contracts entered into for trading purposes. Under mark-to-market accounting, gains and losses resulting from changes in market prices on contracts entered into for trading purposes are reflected in current earnings. The after-tax mark-to-market adjustment resulting from the adoption of EITF 98-10 did not have a material effect on CMS Energy's consolidated financial position, results of operations and cash flows as of December 31, 1999. For energy contracts that are hedges of non-trading activities, CMS Energy will continue to use accrual accounting until it adopts SFAS 133, Accounting for Derivative Instruments and Hedging Activities, which will be effective January 1, 2001.

**FOREIGN CURRENCY TRANSLATION:** Foreign currency translation adjustments relating to the operation of CMS Energy's long-term investments in foreign countries are included in common stockholders' equity. For the year ended December 31, 1999 the change in the foreign currency translation adjustment increased equity by \$28 million, net of after-tax hedging proceeds.

**OTHER:** For significant accounting policies regarding cash equivalents, see Note 17; for income taxes, see Note 10; for executive incentive compensation, see Note 12; and for pensions and other postretirement benefits, see Note 13.

### 3: ACQUISITION

In March 1999, CMS Energy completed the acquisition of Panhandle from Duke Energy Corporation (Duke Energy) for a cash payment of \$1.9 billion and existing Panhandle debt of \$300 million. CMS Energy used the purchase method of accounting to account for the acquisition and, accordingly, included

the results of operations of Panhandle for the period from March 29, 1999 in the accompanying consolidated financial statements. Assets acquired and liabilities assumed are recorded at their estimated fair values and are subject to adjustment when additional information concerning asset and liability valuations is finalized by the end of the first quarter of 2000. CMS Energy allocated the tentative excess purchase price over the estimated fair value of net assets acquired of approximately \$800 million to goodwill and amortizes this amount on a straight-line basis over 40 years.

The following unaudited pro forma amounts for operating revenue, consolidated net income, basic earnings per share and diluted earnings per share, as if the acquisition had occurred on January 1, 1998, illustrate the effects of: (1) various restructuring, realignment, and elimination of activities between Panhandle and Duke Energy prior to the closing of the acquisition by CMS Energy; (2) the adjustments resulting from the acquisition by CMS Energy; and (3) financing transactions which include the public issuance of \$800 million of senior notes by Panhandle, \$850 million of senior notes by CMS Energy, and the private sale of \$250 million of Trust Preferred Securities by CMS Energy.

	In Millions, Except Per Share Amounts	
Years Ended December 31	1999	1998
Operating revenue	\$6,216	\$5,566
Consolidated net income	\$287	\$289
<b>BASIC EARNINGS PER SHARE:</b>		
Basic earnings per share before Class G Common Stock Exchange	\$2.53	\$2.70
Effects of Premium on Redemption of Class G Common Stock	(.26)	-
Basic earnings per share after Class G Common Stock Exchange	\$2.27	\$2.70
<b>DILUTED EARNINGS PER SHARE:</b>		
Diluted earnings per share before Class G Common Stock Exchange	\$2.51	\$2.67
Effects of Premium on Redemption of Class G Common Stock	(.25)	-
Diluted earnings per share after Class G Common Stock Exchange	\$2.26	\$2.67

#### 4: UNCERTAINTIES

##### CONSUMERS' ELECTRIC UTILITY CONTINGENCIES

**ELECTRIC ENVIRONMENTAL MATTERS:** The Clean Air Act limits emissions of sulfur dioxide and nitrogen oxides and requires emissions and air quality monitoring. Consumers currently operates within these limits and meets current emission requirements. The Clean Air Act requires the Environmental Protection Agency (EPA) to review periodically the effectiveness of the national air quality standards in preventing adverse health effects. In 1997, the EPA revised these standards to impose further limitations on nitrogen oxide and small particulate-related emissions. In May 1999, a United States Court of Appeals ruled that

the grant of authority to the EPA, to revise the standards as the EPA did, would amount to an unconstitutional delegation of legislative power. As a result, the EPA will not implement the standards under the 1997 rule. On October 28, 1999, the United States Court of Appeals denied a request by the EPA for a rehearing. On January 27, 2000, the Department of Justice filed a petition for the United States Supreme Court to review the case. Because of the United States Court of Appeals decisions, the EPA has proposed to reinstate the pre-1997 standards.

In September 1998, based in part upon the 1997 standards, the EPA Administrator issued final regulations requiring the state of Michigan to limit further nitrogen oxide emissions. Consumers anticipates a reduction in nitrogen oxide emissions by 2003 to only 32 percent of levels allowed for the year 2000. The state of Michigan had one year to submit an implementation plan. The state of Michigan filed a lawsuit objecting to the extent of the required emission reductions and requesting an extension of the submission date. In May 1999 the United States Court of Appeals granted an indefinite stay of the submission date for the state of Michigan's implementation plan. In early 2000, the United States Court of Appeals upheld the EPA's final regulations. The state of Michigan is expected to appeal this ruling. Until the appeal is decided, it is unlikely that the state of Michigan will establish Consumers' nitrogen oxide emissions reduction target. In December 1999, the EPA Administrator signed a revised final rule under Section 126 of the Clean Air Act. The rule requires some electric utility generators, including some of Consumers' electric generating facilities, to achieve the same emission rate as that required by the currently challenged September 1998 EPA final rule. Under the revised Section 126 rule, the emission rate will become effective on May 1, 2003 and apply during the ozone season in 2003 and during each subsequent year. Various parties' petitions challenging the EPA's rule have been filed. Until these targets are lawfully established, the estimated cost of compliance discussed below is subject to revision.

The preliminary estimates of capital expenditures to reduce nitrogen oxide-related emissions to the level proposed by the state of Michigan for Consumers' fossil-fueled generating units range from \$150 million to \$290 million, calculated in 1999 dollars. If Consumers had to meet the EPA's 1997 proposed requirements, the estimated cost to Consumers would be between \$290 million and \$500 million, calculated in 1999 dollars. In both these cases the lower estimate represents the capital expenditure level that would satisfactorily meet the proposed emissions limits but would result in higher operating expense. The higher estimate in the range includes expenditures that result in lower operating costs while complying with the proposed emissions limit. Consumers anticipates that it will incur these capital expenditures between 2000 and 2004, or between 2000 and 2003 if the EPA ultimately imposes its limits.

Consumers may need an equivalent amount of capital expenditures to comply with the new small particulate standards sometime after 2004 if those standards become effective.

Consumers' coal-fueled electric generating units burn low-sulfur coal and are currently operating at or near the sulfur dioxide emission limits that will be effective in the year 2000. During the past few years, to comply with the Clean Air Act, Consumers incurred capital expenditures totaling \$67 million to install equipment at certain generating units. Consumers estimates an additional \$5 million of capital expenditures for ongoing and proposed modifications at the remaining coal-fueled units to meet year 2000 requirements. Management believes that these expenditures will not materially affect Consumers' annual operating costs.

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

Consumers is a potentially responsible party at several contaminated sites administered under the Comprehensive Environmental Response, Compensation and Liability Act (Superfund). Superfund liability is joint and several; along with Consumers, many other creditworthy, potentially responsible parties with substantial assets cooperate with respect to the individual sites. Based upon past negotiations, Consumers estimates that its share of the total liability for the known Superfund sites will be between \$2 million and \$9 million. At December 31, 1999, Consumers has accrued the minimum amount of the range for its estimated Superfund liability.

While decommissioning Big Rock, Consumers found that some areas of the plant have coatings that contain both metals and poly chlorinated biphenyls (PCBs). Consumers believes it now has viable disposal options for these materials. It estimates the additional cost associated with PCB waste at \$1.5 million. The cost of removal and disposal will constitute part of the cost to decommission the plant and will be paid from the decommissioning fund.

ANTITRUST: In October 1997, two independent power producers sued Consumers in a federal court. The suit alleged antitrust violations relating to contracts which Consumers entered into with some of its customers, and interference with contract claims relating to proposed power facilities. On March 31, 1999, the court issued an opinion and order granting Consumers' motion for summary judgment, resulting in the dismissal of the case. The plaintiffs have appealed this decision. Consumers cannot predict the outcome of this appeal.

#### CONSUMERS' ELECTRIC UTILITY RATE MATTERS

ELECTRIC PROCEEDINGS: In 1996, the MPSC issued a final order that authorized Consumers to recover costs associated with the purchase of the additional 325 megawatts (MW) of the natural gas-fueled, combined-cycle cogeneration facility operated by the MCV Partnership (MCV Facility) capacity (see "Power Purchases from the MCV Partnership" in this Note). In addition, the order allowed Consumers to recover its nuclear plant investment by increasing prospective annual nuclear plant depreciation expense by \$18 million, with a corresponding decrease in fossil-fueled generating plant depreciation expense. The order also established an experimental direct-access program. Customers having a maximum demand for electric power of 2 MW or greater are eligible to purchase generation services directly from any eligible third-party power supplier. Consumers will transmit that power for a fee. Delivery of electric power through this direct-access program is limited to 134 MW. In accordance with the MPSC order, Consumers held a lottery to select the customers that would participate in the direct-access program. Subsequently, direct-access for a portion of this 134 MW began in late 1997. The program was substantially filled by the end of March 1999. The Michigan Attorney General (Attorney General), Association of Businesses Advocating Tariff Equity (ABATE), the MCV Partnership and other parties filed appeals with the Michigan Court of Appeals (Court of Appeals) challenging the MPSC's 1996 order. In August 1999, the Court of Appeals affirmed the MPSC's 1996 order in all respects. In October 1999, the Attorney General filed an application for leave to appeal this decision to the Michigan Supreme Court.

In November 1997, ABATE filed a complaint with the MPSC. The complaint alleged that Consumers' electric earnings are more than its authorized rate of return and sought an immediate reduction in Consumers' electric rates. In testimony filed in this case, ABATE claimed that Consumers received approximately \$189 million in excess revenues for 1998. In its testimony, the MPSC staff stated that 1998 financial results show excess revenues of \$118 million compared to the previously authorized electric return on equity. The MPSC staff offered several alternatives for the MPSC to consider. These alternatives involve several different refunds or reductions that the MPSC could consider separately or in combination,

but if made, would not result in a permanent future reduction in electric rates in the amount being sought by ABATE. Consumers filed testimony showing that after ratemaking adjustments and normalizations, there is a revenue deficiency of approximately \$3 million. ABATE and other interveners bear the burden of convincing the MPSC to reduce electric rates, which will otherwise remain unchanged. Consumers believes that ABATE has not met its burden of proving that a reduction in rates is required. Consumers also believes that ABATE's request for refunds from 1995 to present is inappropriate and unlawful; no such retroactive rate adjustment has ever been granted by the MPSC. In December 1999, an announcement was made that an agreement concerning legislation in Michigan on electric deregulation had been reached by Consumers, ABATE, and numerous other industrial and commercial business interests. In anticipation of the legislation being introduced, ABATE and Consumers jointly filed a request with the MPSC to suspend ABATE's electric rate complaint to allow for consideration of the proposed legislation. The MPSC granted a temporary suspension for 120 days (expiring in April 2000), subject to its authority to withdraw the suspension at any time. As part of the suspension, Consumers agreed that, if the case is resumed and a rate reduction is ultimately ordered by the MPSC, it would implement the rate reduction retroactively for a period equal to the length of the actual suspension. In January 2000, the legislation was introduced into the Michigan Legislature. Consumers is unable to predict the outcome of this matter.

In January 1998, the Court of Appeals affirmed an MPSC conclusion that the MPSC has statutory authority to authorize an experimental electric retail wheeling program. In June 1999, the Michigan Supreme Court reversed the Court of Appeals and held that the MPSC does not have the statutory authority to order a utility to provide a mandatory retail wheeling service. For more information on the experimental retail wheeling program see "Electric Restructuring" below.

**ELECTRIC RESTRUCTURING:** As part of ongoing proceedings relating to the restructuring of the electric utility industry in Michigan, the MPSC issued numerous orders since June 1997 proposing that Consumers transmit and distribute energy for competing power suppliers to retail customers (also known as "retail open access"). The restructuring orders provide for: 1) recovery of estimated Stranded Costs of \$1.755 billion through a charge to all customers purchasing their power from other sources until the end of the transition period in 2007, subject to an adjustment through a true-up mechanism; 2) commencement of the phase-in of retail open access beginning September 1999; 3) suspension of the power supply cost recovery (PSCR) clause as discussed below; and 4) the right of all customers to choose their power suppliers on January 1, 2002. The recovery of costs of implementing a retail open access program, preliminarily estimated at an additional \$200 million, will be reviewed for prudence by the MPSC and recovered via a charge approved by the MPSC. Nuclear decommissioning costs will also continue to be collected through a separate surcharge to all customers.

Consumers submitted its plan for implementing retail open access to the MPSC in 1998. The primary issues addressed in the plan are: 1) the implementation schedule; 2) the retail open access service options available to customers and suppliers; 3) the process and requirements for customers and others to obtain retail open access service; and 4) the roles and responsibilities for Consumers, customers and suppliers. In March 1999, Consumers received MPSC electric restructuring orders, which generally supported Consumers' implementation plan. Consumers began implementing electric retail customer open access in September 1999, and will extend open access to 750 MW of Consumers' retail market by 2001. On January 1, 2002, all of Consumers' electric customers will have the right to choose generation suppliers.

Numerous appeals are pending at the Court of Appeals relating to the MPSC's restructuring orders. Because of the June 1999 Michigan Supreme Court decision described above in "Electric Proceedings", Consumers believes that the MPSC lacks statutory authority to mandate industry restructuring. The MPSC

ultimately issued an order in August 1999 finding that it has jurisdiction to approve rates, terms, and conditions for electricity retail wheeling (also known as electric customer choice) if a utility voluntarily chooses to offer that service. ABATE and the Attorney General have each appealed the August 1999 order to the Court of Appeals. It is uncertain how the issues raised by the MPSC's August 1999 order will be resolved by the regulatory process, the appellate courts or by legislation addressing electric restructuring issues.

During periods when electric demand is high, the cost of purchasing energy on the spot market can be substantial. Consumers is planning to maintain sufficient generation and to purchase electricity from others to create a power reserve (also called a reserve margin) that provides Consumers with approximately 15 percent additional power above its anticipated power demands. This allows Consumers to provide reliable service to its electric service customers and to protect itself against unscheduled plant outages and unanticipated demand. Before 1998, the PSCR process provided for the recovery of any prudent and necessary power supply costs through customer rates, thus minimizing the risk to shareholders for fluctuations in such costs. In 1998, as a result of an MPSC order associated with electric restructuring efforts, the PSCR process was suspended for 4 years. Under the suspension, customers' rates previously subject to adjustment under the PSCR process, will not be adjusted to reflect the actual costs of fuel, interchange power and purchased power, through 2001. To reduce the risk of high energy prices during peak demand periods, Consumers has employed a strategy of purchasing electric option contracts for the physical delivery of electricity during the months of June through September in order to achieve its reserve margin target. Consumers expects to use a similar strategy in the future. In 1999, Consumers' purchase of electric option contracts cost approximately \$19 million.

In June 1999, Consumers and four other electric utility companies sought approval from the Federal Energy Regulatory Commission (FERC) to form the Alliance Regional Transmission Organization (Alliance). The proposed structure provided for the creation of a transmission entity that would control, operate and own transmission facilities of one or more of the member companies, and would control and operate, but not necessarily own, the transmission facilities of other companies. The proposal was structured to give the member companies the flexibility to maintain or divest ownership of their transmission facilities while ensuring independent operation of the regional transmission system. In December 1999, the FERC conditionally approved formation of Alliance, but asked the applicants to make a number of changes in the proposal and to provide additional information. Among other things, the FERC expressed concern about the proposed governance of Alliance, its rates and its geographic configuration. On the same day as the Alliance order, the FERC issued Order No. 2000, which describes the characteristics the FERC would find acceptable in an Regional Transmission Organization (RTO). In Order No. 2000, the FERC declined to mandate that utilities join RTOs, but did order utilities to make filings in October 2000 and January 2001 declaring their intentions with respect to RTO membership. Consumers and the Alliance companies have sought a rehearing on the Alliance order. Consumers is uncertain about the outcome of the Alliance matter before the FERC and its continued participation in Alliance.

## OTHER CONSUMERS' ELECTRIC UTILITY UNCERTAINTIES

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

Summarized Statements of Income for CMS Midland and CMS Holdings (unaudited)

	In Millions		
Years Ended December 31	1999	1998	1997
Pretax operating income	\$49	\$49	\$46
Income taxes and other	15	15	14
Net income	\$34	\$34	\$32

Power Purchases from the MCV Partnership: Consumers' annual obligation to purchase capacity from the MCV Partnership is 1,240 MW through the termination of the power purchase agreement (PPA) between Consumers and the MCV Partnership in 2025. The PPA provides that Consumers is to pay, based on the MCV Facility's availability, a levelized average capacity charge of 3.77 cents per kilowatt-hour (kWh), a fixed energy charge, and a variable energy charge based primarily on Consumers' average cost of coal consumed for all kWh delivered. Since January 1, 1993, the MPSC has permitted Consumers to recover capacity charges averaging 3.62 cents per kWh for 915 MW, plus a substantial portion of the fixed and variable energy charges. Since January 1, 1996, the MPSC has also permitted Consumers to recover capacity charges for the remaining 325 MW of contract capacity with an initial average charge of 2.86 cents per kWh, increasing periodically to an eventual 3.62 cents per kWh by 2004 and thereafter. Because the MPSC has already approved recovery of these capacity costs, Consumers will recover these increases through an adjustment to the currently frozen PSCR factor that will be effective through 2001. Consumers expects to recover the remaining increases through the Transition Cost true-up process and through further adjustments to the PSCR factor. After September 2007, under the terms of the PPA, Consumers will only be required to pay the MCV Partnership capacity and energy charges that the MPSC has authorized for recovery from electric customers.

In March 1999, Consumers signed a long-term power sales agreement to resell to PECO Energy Company (PECO) its capacity and energy purchases under the PPA until September 2007. After a three-year transition period during which 100 to 150 MW will be sold to PECO, beginning in 2002, Consumers will sell all 1,240 MW of PPA capacity and associated energy to PECO. In March 1999, Consumers also filed an application with the MPSC for accounting and ratemaking approvals related to the PECO agreement. If used as an offset to electric customers' Transition Cost responsibility, Consumers estimates that there could be a reduction of as much as \$58 million (on a net present value basis) of Transition Cost related to the MCV PPA. In an order issued in April 1999, the MPSC conditionally approved the requests for accounting and rate-making treatment to the extent that customer rates are not increased from the current level absent the agreement and as modified by the order. In response to Consumers' and other parties'

requests for clarification and rehearing, in an August 1999 opinion, the MPSC partially granted the relief Consumers requested on rehearing and attached certain additional conditions to its approval. Those conditions relate to Consumers' continued decision to carry out the electricity customer choice program (which Consumers has affirmed as discussed above) and a determination to revise its capacity solicitation process (which Consumers has filed but is awaiting an MPSC decision). The August opinion is a companion order to a power supply cost reconciliation order issued on the same date in another case. This order affects the level of frozen power supply costs recoverable in rates during future years when the transaction with PECO would be taking place. Consumers filed a motion for clarification of the order relating to the PECO agreement, which is still pending. Due to the pending electric industry restructuring legislation in Michigan and the overall uncertainty that exists concerning restructuring, Consumers and PECO have entered into an interim arrangement for the sale of 125MW of PPA capacity associated energy to PECO during 2000. Prices in the interim arrangement are identical to the March 1999 power sales agreement.

Consumers recognized a loss in 1992 for the present value of the estimated future underrecoveries of power costs under the PPA based on MPSC recovery orders. At December 31, 1999 and December 31, 1998, the remaining after-tax present value of the estimated future PPA liability associated with the 1992 loss totaled \$78 million and \$110 million, respectively. At December 31, 1999, the undiscounted after-tax amount associated with this liability totaled \$142 million. These after-tax cash underrecoveries are based on the assumption that the MCV Facility would be available to generate electricity 91.5 percent of the time over its expected life. Historically the MCV Facility has operated above the 91.5 percent level. Accordingly, in 1998, Consumers increased its PPA liability by \$37 million. Because the MCV Facility operated above the 91.5 percent level in 1998 and in 1999, Consumers has an accumulated unrecovered after-tax shortfall of \$30 million as of December 31, 1999. Consumers believes that this shortfall will be resolved in the context of the electric restructuring effort. If the MCV Facility generates electricity at the 91.5 percent level during the next five years, Consumers' after-tax underrecoveries associated with the PPA would be as follows.

	In Millions				
	2000	2001	2002	2003	2004
Estimated cash underrecoveries, net of tax	\$21	\$20	\$19	\$18	\$17

If the MCV Facility operates at availability levels above management's 91.5 percent estimate made in 1992 for the remainder of the PPA and expected shortfalls are not resolved in the context of the electric restructuring effort, Consumers will need to recognize additional losses for future underrecoveries. In March 1999, Consumers and the MCV Partnership reached an agreement effective January 1, 1999 that capped availability payments to the MCV Partnership at 98.5 percent. For further discussion on the impact of the frozen PSCR, see "Electric Restructuring" in this Note. Management is evaluating the adequacy of the contract loss liability considering actual MCV Facility operations and any other relevant circumstances.

In February 1998, the MCV Partnership filed a claim of appeal from the January 1998 and February 1998 MPSC orders in the electric utility industry restructuring. At the same time, the MCV Partnership filed suit in the United States District Court seeking a declaration that the MPSC's failure to provide Consumers and the MCV Partnership a certain source of recovery of capacity payments after 2007 deprived the MCV Partnership of its rights under the Public Utilities Regulatory Policies Act of 1978. In July 1999, the United States District Court issued an order granting the MCV Partnership's motion for summary

judgment. The order permanently prohibits enforcement of the restructuring orders in any manner which denies any utility the ability to recover amounts paid to qualifying facilities such as the MCV Facility or which precludes the MCV Partnership from recovering the avoided cost rate. The MPSC has appealed the United States District Court order. Consumers cannot predict the outcome of this litigation.

**NUCLEAR MATTERS:** In January 1997, the NRC issued its Systematic Assessment of Licensee Performance report for Palisades. The report rated all areas as good. The NRC suspended this assessment process for all licensees in 1998. Until the NRC completes its review of processes for assessing performance at nuclear power plants, the NRC uses the Plant Performance Review to provide an assessment of licensee performance. Palisades received its annual performance review dated March 26, 1999 in which the NRC stated that the overall performance at Palisades was acceptable.

Palisades' temporary on-site storage pool for spent nuclear fuel is at capacity. Consequently, Consumers is using NRC-approved steel and concrete vaults, commonly known as "dry casks", for temporary on-site storage. As of December 31, 1999, Consumers had loaded 18 dry storage casks with spent nuclear fuel at Palisades. In June 1997, the NRC approved Consumers' process for unloading spent fuel from a cask previously discovered to have minor weld flaws. Consumers intends to transfer the spent fuel to a new transportable cask when one is available.

Consumers maintains insurance against property damage, debris removal, personal injury liability and other risks that are present at its nuclear generating facilities. Consumers also maintains coverage for replacement power costs during prolonged accidental outages at Palisades. Insurance would not cover such costs during the first 12 weeks of any outage, but would cover most of such costs during the next 52 weeks of the outage, followed by reduced coverage to 80 percent for 110 additional weeks. If certain covered losses occur at its own or other nuclear plants similarly insured, Consumers could be required to pay maximum assessments of \$15.5 million in any one year to Nuclear Electric Insurance Limited (NEIL); \$88 million per occurrence under the nuclear liability secondary financial protection program, limited to \$10 million per occurrence in any year; and \$6 million if nuclear workers claim bodily injury from radiation exposure. Consumers considers the possibility of these assessments to be remote.

The NRC requires Consumers to make certain calculations and report on the continuing ability of the Palisades reactor vessel to withstand postulated pressurized thermal shock events during its remaining license life, considering the embrittlement of reactor materials. In December 1996, Consumers received an interim Safety Evaluation Report from the NRC indicating that the reactor vessel can be safely operated through 2003 before reaching the NRC's screening criteria for reactor embrittlement. Consumers believes that with fuel management designed to minimize embrittlement, it can operate Palisades to the end of its license life in the year 2007 without annealing the reactor vessel. Nevertheless, Consumers will continue to monitor the matter.

**COMMITMENTS FOR COAL SUPPLIES:** Consumers has entered into coal supply contracts with various suppliers for its coal-fired generating stations. Under the terms of these agreements, Consumers is obligated to take physical delivery of the coal and make payment based upon the contract terms. Consumers' current contracts have expiration dates that range from 2001 to 2004. Consumers enters into long-term contracts for approximately 50 to 75 percent of its annual coal requirements. In 1999, coal purchases totaled \$262.5 million of which \$197.2 million (75 percent of the tonnage requirement) was under long-term contract. Consumers supplements its long-term contracts with spot-market purchases.

## CONSUMERS' GAS UTILITY CONTINGENCIES

GAS ENVIRONMENTAL MATTERS: Under the Michigan Natural Resources and Environmental Protection Act, Consumers expects that it will ultimately incur investigation and remedial action costs at a number of sites. These include 23 sites that formerly housed manufactured gas plant facilities, even those in which it has a partial or no current ownership interest. Consumers has completed initial investigations at the 23 sites. On sites where Consumers has received site-wide study plan approvals, it will continue to implement these plans. It will also work toward closure of environmental issues at sites as studies are completed. Consumers has estimated its costs related to further investigation and remedial action for all 23 sites using the Gas Research Institute-Manufactured Gas Plant Probabilistic Cost Model. Using this model, Consumers estimates the costs to be between \$66 million and \$118 million. These estimates are based on undiscounted 1999 costs. As of December 31, 1999, Consumers has an accrued liability of \$62 million and a regulatory asset of \$65 million. Any significant change in assumptions, such as remediation techniques, nature and extent of contamination, and legal and regulatory requirements, could affect the estimate of remedial action costs for the sites. Consumers defers and amortizes, over a period of ten years, environmental clean-up costs above the amount currently being recovered in rates. Rate recognition of amortization expense cannot begin until after a prudence review in a future general gas rate case. Consumers is allowed current recovery of \$1 million annually. Consumers has initiated lawsuits against certain insurance companies regarding coverage for some or all of the costs that it may incur for these sites.

## CONSUMERS' GAS UTILITY MATTERS

GAS RESTRUCTURING: In December 1997, the MPSC approved Consumers' application to implement an experimental gas transportation program. The program will extend over a three-year period, ending March 31, 2001, eventually allowing 300,000 residential, commercial and industrial retail gas sales customers to choose an alternative gas commodity supplier in direct competition with Consumers. The program is voluntary and participating natural gas customers are selected on a first-come, first-served basis, up to a limit of 100,000 per year. As of December 31, 1999, more than 176,000 customers chose alternative gas suppliers, representing approximately 42.2 billion cubic feet (bcf) of gas load. Customers choosing to remain as sales customers of Consumers will not see a rate change in their natural gas rates. This three-year program: 1) freezes gas distribution rates through March 31, 2001, establishing a gas commodity cost at a fixed rate of \$2.84 per thousand cubic feet (mcf); 2) establishes an earnings sharing mechanism with customers if Consumers' earnings exceed certain pre-determined levels; and 3) establishes a gas transportation code of conduct that addresses the relationship between Consumers and marketers, including its affiliated marketers. In December 1999, the Court of Appeals affirmed in its entirety the December 1997 MPSC Order. Petitions for rehearing filed by several parties were subsequently denied by the Court of Appeals.

Consumers contracts to purchase gas to limit its risk associated with gas price increases. Management's intent is to take physical delivery of the commodity and failure could result in a significant penalty for nonperformance. At December 31, 1999, Consumers had an exposure to gas price increases if the ultimate cost of gas was to exceed \$2.84 per mcf for the following volumes: 50 percent of its 2000 requirements; and 50 percent of its first quarter 2001 requirements. Additional contract coverage is currently under review. The gas purchase contracts currently in place were consummated at an average price of less than \$2.84 per mcf. Consumers uses gas purchase contracts to protect against gas price increases in a three-year experimental gas program where Consumers is recovering from its customers \$2.84 per mcf for gas.

COMMITMENTS FOR GAS SUPPLIES: Consumers contracts to purchase gas and transportation from various

suppliers for its natural gas business. These contracts have expiration dates that range from 2000 to 2004. Consumers' 1999 gas requirements totaled 200 bcf at a cost of \$542 million, 80 percent of which was under long-term contracts for one year or more. As of the end of 1999, Consumers had 50 percent of its 2000 gas requirements under such long-term contracts, and will supplement them with additional long-term and short-term contracts and spot-market purchases.

#### PANHANDLE MATTERS

REGULATORY MATTERS: Effective August 1996, Trunkline placed into effect in Rate Proceeding 96-129 a general rate increase, subject to refund. On September 16, 1999, Trunkline filed a FERC settlement agreement to resolve certain issues in this proceeding. This settlement was approved on February 1, 2000 and will require refunds of approximately \$2 million expected to be made in April 2000, with supplemental refunds expected in July 2000. On January 12, 2000, the FERC issued an order on the remainder of the rate proceeding which, if approved without modification, would result in a substantial reduction to Trunkline's tariff rates which would impact future revenues and require additional refunds. Trunkline has requested rehearing of certain matters in this order.

In conjunction with a FERC order issued in September 1997, certain natural gas producers were required to refund previously collected Kansas ad-valorem taxes to interstate natural gas pipelines. These pipelines were ordered to refund these amounts to their customers. All payments are to be made in compliance with prescribed FERC requirements. At December 31, 1999, accounts receivable included \$54 million due from natural gas producers, and other current liabilities included \$54 million for related obligations.

ENVIRONMENTAL MATTERS: Panhandle is subject to federal, state and local regulations regarding air and water quality, hazardous and solid waste disposal and other environmental matters. Panhandle has identified environmental contamination at certain sites on its systems and has undertaken cleanup programs at these sites. The contamination resulted from the past use of lubricants in compressed air systems containing PCBs and the prior use of wastewater collection facilities and other on-site disposal areas. Under the terms of the sale of Panhandle to CMS Energy, a subsidiary of Duke Energy is obligated to complete the Panhandle cleanup programs at certain agreed-upon sites and to indemnify Panhandle against certain future environmental litigation and claims. The Illinois EPA included Panhandle and Trunkline, together with other non-affiliated parties, in a cleanup of former waste oil disposal sites in Illinois. Prior to a partial cleanup by the United States EPA, a preliminary study estimated the cleanup costs at one of the sites to be between \$5 million and \$15 million. The state of Illinois contends that Panhandle's and Trunkline's share for the costs of assessment and remediation of the sites, based on the volume of waste sent to the facilities, is 17.32 percent. Management believes that the costs of cleanup, if any, will not have a material adverse impact on CMS Energy's financial position, liquidity, or results of operations.

#### OTHER UNCERTAINTIES

CMS GENERATION CO. (CMS GENERATION) ENVIRONMENTAL MATTERS: CMS Generation does not currently expect to incur significant capital costs at its power facilities for compliance with current environmental regulatory standards.

CAPITAL EXPENDITURES: CMS Energy estimates capital expenditures, including investments in unconsolidated subsidiaries and new lease commitments, of \$1.617 billion for 2000, \$1.290 billion for 2001, and \$1.295 billion for 2002. For further information, see Capital Resources and Liquidity-Capital Expenditures in the Management's Discussion and Analysis

CMS MARKETING, SERVICES AND TRADING COMPANY (CMS MST) GAS SUPPLY CONTRACTS: During 1999, CMS MST entered into two sales arrangements to provide natural gas to various entities over periods of up to 12 years. These contracts obligate CMS MST to provide 179 bcf of gas to these entities at predetermined price levels over the period of the contracts. CMS MST has established a liability for these outstanding obligations and hedged its exposures under these arrangements.

OTHER: As of December 31, 1999, CMS Energy and Enterprises guaranteed up to \$517 million in contingent obligations of unconsolidated affiliates and related parties.

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

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

#### 5: SHORT-TERM FINANCINGS

CMS Energy utilized \$600 million of a bridge loan facility to partially fund the acquisition of Panhandle. As of December 31, 1999, CMS Energy had repaid this entire bridge loan facility.

At February 1, 2000, Consumers had FERC authorization to issue or guarantee through June 2000, up to \$900 million of short-term securities outstanding at any one time. Consumers also had remaining FERC authorization to issue through June 2000, up to \$275 million and \$365 million of long-term securities with maturities up to 30 years for refinancing purposes and for general corporate purposes, respectively.

Consumers has an unsecured \$300 million credit facility and unsecured lines of credit aggregating \$135 million. These facilities are available to finance seasonal working capital requirements and to pay for capital expenditures between long-term financings. At December 31, 1999, a total of \$214 million was outstanding at a weighted average interest rate of 6.6 percent, compared with \$215 million outstanding at December 31, 1998, at a weighted average interest rate of 5.8 percent. In January 1999, Consumers renegotiated a variable-to-fixed interest rate swap totaling \$175 million. In September 1999, Consumers entered into two variable-to-fixed interest rate swaps totaling \$740 million; this amount was reduced by \$70 million to \$670 million by December 31, 1999 and terminate January 31, 2000.

Consumers also has in place a \$325 million trade receivables sale program. At December 31, 1999 and 1998, receivables sold under the program totaled \$325 million and \$306 million, respectively. Accounts receivable and accrued revenue in the Consolidated Balance Sheets have been reduced to reflect receivables sold.

## 6: LONG-TERM DEBT

Long-term debt consists of the following:

December 31	Maturing/Expiring	Interest Rate	In Millions	
			1999	1998
First Mortgage Bonds	1999 to 2023	6.4% to 8.9%	\$ 563	\$ 628
Long-Term Bank Debt	2003	5.8%(a)	175	175
Senior Notes:				
CMS Energy	2000 to 2009	7.5%(a)	1,610	830
CMS Energy	2011	8.0%(b)	250	-
CMS Energy	2013	8.375%(c)	150	-
Consumers	2008 to 2028	6.5%(a)	1,074	1,075
Panhandle	2004 to 2029	6.9%(a)	1,100	-
Extendible Tenor Rate				
Adjusted Securities (d)	2005	7.0%(a)	180	180
Senior Credit Facilities	2000 to 2002	7.5%(a)	444	669
General Term Notes(TM)				
Series A to E	2000 to 2009	7.5%(a)	849	625
Pollution Control Revenue Bonds	2000 to 2018	5.1%(a)	131	131
Revolving Line of Credit	2002	7.1%(a)	175	168
Nuclear Fuel Disposal	(e)	4.7%(a)	123	117
Bank Loans and Other	2000 to 2014	7.2%(a)	709	410
Principal Amount Outstanding			7,533	5,008
Current Amounts			(516)	(258)
Net Unamortized Discount			(30)	(24)
<b>Total Long-Term Debt</b>			<b>\$6,987</b>	<b>\$4,726</b>

(a) Represents the weighted average interest rate at December 31, 1999.

(b) The interest rate may be reset in July 2001. For detailed information, see discussion below.

(c) The interest rate may be reset in July 2003. For detailed information, see discussion below.

(d) May be extended for an additional seven years.

(e) Maturity date uncertain (see Note 4).

The scheduled maturities of long-term debt and improvement fund obligations are as follows: \$516 million in 2000, \$88 million in 2001, \$988 million in 2002, \$599 million in 2003 and \$1.1 billion in 2004.

## CMS ENERGY

CMS Energy's \$725 million senior credit facilities consist of a \$600 million three-year revolving credit facility and a five-year \$125 million term loan facility (Senior Credit Facilities). Additionally, CMS Energy has unsecured lines of credit and letters of credit in an aggregate amount of \$357 million. At December 31, 1999, the total amount utilized under the Senior Credit Facilities was \$484 million, including

\$41 million of contingent obligations, and under the unsecured lines of credit and letters of credit was \$139 million.

In January 1999, CMS Energy received net proceeds of approximately \$473 million from the sale of \$480 million of senior notes. In February 1999, CMS Energy received net proceeds of approximately \$296 million from the sale of \$300 million of senior notes. Proceeds from these offerings were used to repay debt and for general corporate purposes.

In June 1999, CMS Energy sold \$250 million of 8 percent senior notes, due July 1, 2011 and \$150 million of 8.375 percent senior notes, due July 1, 2013. The \$250 million senior notes and the \$150 million senior notes are subject to a call option and mandatory put on July 1, 2001 and July 1, 2003, respectively. The call option allows the callholder to purchase the notes, at which point the coupon rate will be reset for the remaining term of the notes. If the call option is not exercised by the callholder, the notes will be mandatorily put to CMS Energy at a price equal to 100 percent of the principal amount. Net proceeds of approximately \$404 million, which includes approximately \$9 million for the sale of the call options, were also used to pay down the remaining portion of the bridge loan obtained for the acquisition of Panhandle.

#### CONSUMERS

Consumers issued long-term bank debt of \$15 million in February 1999, maturing in February 2002, at an initial interest rate of 5.3 percent.

In May 1999, Michigan Gas Storage Company (Michigan Gas Storage) repaid its \$20 million outstanding term loan with Toronto Dominion Bank.

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

In November 1999, \$64 million of Consumers' First Mortgage Bonds matured and were retired.

Consumers has a total of \$131 million of long-term pollution control revenue bonds outstanding, secured by first mortgage bonds and insurance policies. These bonds had a weighted average interest rate of 5.1 percent at December 31, 1999.

#### PANHANDLE

In March 1999, CMS Energy, through its subsidiary CMS Panhandle Holding Company (CMS Panhandle Holding), received net proceeds of approximately \$789 million from the sale of \$800 million of senior notes issued by CMS Panhandle Holding. Proceeds from this offering were used to initially fund the acquisition of Panhandle. On June 15, 1999 CMS Panhandle Holding merged into Panhandle, at which point the notes became direct obligations of Panhandle. In September 1999, Panhandle exchanged the \$800 million of notes originally issued by CMS Panhandle Holding with substantially identical Security and Exchange Commission (SEC)-registered notes.

In May 1999, CMS Oil and Gas renegotiated a three-year \$225 million floating rate revolving credit facility which matures in May 2002. At December 31, 1999, the amount utilized under the credit facility was \$175 million.

## 7: CAPITALIZATION

### CMS ENERGY

The authorized capital stock of CMS Energy consists of 250 million shares of CMS Energy Common Stock, one of two classes of common stock of CMS Energy, par value \$.01 per share (CMS Energy Common Stock), 60 million shares of Class G Common Stock, one of two classes of common stock of CMS Energy, no par value (Class G Common Stock) and 10 million shares of CMS Energy Preferred Stock, \$.01 par value.

In June 1999, a Delaware statutory business trust established by CMS Energy privately sold \$250 million of Trust Preferred Securities to an entity organized by Banc of America Securities LLC. The Trust Preferred Securities pay quarterly distributions at a floating rate. Under the terms of the Trust Preferred Securities, if the price of the CMS Energy Common Stock is less than \$29 per share, the holders may request that the Trust Preferred Securities be remarketed to third parties. In such case, the interest rate and certain other terms of the subordinated notes could be reset. Net proceeds of approximately \$244 million were used to pay down a portion of the bridge loan obtained for the acquisition of Panhandle. In exchange for these proceeds, CMS Energy sold subordinated notes to the trust. In connection with this financing, CMS Energy also agreed to sell \$250 million of CMS Energy Common Stock at prevailing market prices through Banc of America Securities LLC within 24 months.

In July 1999, 7.25 million units of 8.75 percent Adjustable Convertible Trust Securities were sold by CMS Energy and CMS Energy Trust II, a Delaware statutory business trust established by CMS Energy. Each security consists of a Trust Preferred Security of CMS Energy Trust II maturing in five years and a contract for the purchase of CMS Energy Common Stock in three years at a conversion premium up to 28 percent or an effective price of \$53 per common share. Net proceeds from the sale totaled \$291 million and were used to repay portions of various lines of credit and the revolving credit facility.

In November 1999, CMS Energy privately placed 125,000 shares of its Mandatorily Convertible Preferred Stock with CMS Share Trust, a Delaware statutory business trust established by CMS Energy, in connection with a \$125 million secured debt issuance by an unconsolidated subsidiary. The Mandatorily Convertible Preferred Stock has a liquidation preference of \$1,000 per share and does not pay dividends while held by the CMS Share Trust. Under certain circumstances involving the unconsolidated subsidiary's and CMS Energy's inability to pay principal and/or interest on the subsidiary's debt, the Mandatorily Convertible Preferred Stock may be remarketed to third parties with the proceeds applied to payment of the subsidiary's debt. At the time of remarketing, if any, a market-based dividend rate and the terms of the conversion into CMS Energy Common Stock would be established.

During the second or third quarter of 2000, subject to market conditions, CMS Energy intends to make an initial public offering of approximately \$600 million of a tracking stock representing 20 percent of the economic interest in its electric and gas utility. The proceeds of the offering will be used mostly to reduce debt, with the remaining proceeds to be used for repurchase of up to 10 million shares of CMS Energy Common Stock from time to time, in open market or private transactions.

OTHER: Under its most restrictive borrowing arrangement at December 31, 1999, none of CMS Energy's consolidated net income was restricted for payment of common dividends. CMS Energy could pay \$1 billion in common dividends under its most restrictive debt covenant.

#### CONSUMERS

On April 1, 1999, Consumers redeemed all 8 million outstanding shares of its \$2.08 preferred stock at \$25.00 per share for a total of \$200 million.

In October 1999, 7 million shares of 9.25 percent Trust Preferred Securities were issued and sold through Consumers Energy Company Financing III, a wholly owned business trust consolidated with Consumers. Net proceeds from the sale totaled approximately \$169 million. Consumers formed the trust for the sole purpose of issuing the Trust Preferred Securities. Consumers' obligations with respect to the Trust Preferred Securities under the related tax-deductible notes, under the indenture through which Consumers issued the notes, under Consumers' guarantee of the Trust Preferred Securities, and under the declaration by the trust, taken together, constitute a full and unconditional guarantee by Consumers of the trust's obligations under the Trust Preferred Securities.

Under the provisions of its Articles of Incorporation, Consumers had \$359 million of unrestricted retained earnings available to pay common dividends at December 31, 1999. In January 2000, Consumers declared and paid a \$79 million common dividend.

#### 8: EARNINGS PER SHARE AND DIVIDENDS

On October 25, 1999, CMS Energy exchanged approximately 6.1 million shares of CMS Energy Common Stock for all of the approximately 8.7 million issued and outstanding shares of Class G Common Stock in a tax-free exchange for United States federal income tax purposes. The exchange ratio of .7041 share of CMS Energy Common Stock for each share of Class G Common Stock represents the fair market value of CMS Energy Common Stock equal to 115 percent of the fair market value of one share of Class G Common Stock. Fair market values of CMS Energy Common Stock and Class G Common Stock were determined by calculating the average of the daily closing prices on the New York Stock Exchange from July 28, 1999 to August 24, 1999. The resulting 15 percent exchange premium of \$28 million resulted in a reallocation of earnings per share between CMS Energy Common Stock and Class G Common Stock. For the year ended December 31, 1999, CMS Energy's basic and diluted earnings per share were reduced \$.26 and \$.25, respectively, and Class G's basic and diluted earnings per share were increased \$3.31, as shown separately in the calculation of earnings per share in the Consolidated Statements of Income.

Earnings per share attributable to all classes of Common Stock of CMS Energy and each of its subsidiaries (Common Stock) from January 1, 1999 to October 25, 1999 and for the years ended December 31, 1998

and 1997 reflect the performance of the gas distribution, storage and transportation business currently conducted by Consumers and Michigan Gas Storage (Consumers Gas Group). The allocation of earnings attributable to each class of Common Stock and the related amounts per share are computed by considering the weighted average number of shares outstanding.

Earnings attributable to the outstanding shares of Class G Common Stock (Outstanding Shares) are equal to Consumers Gas Group net income multiplied by a fraction; the numerator is the weighted average number of Outstanding Shares during the period and the denominator is the weighted average number of Outstanding Shares and authorized but unissued shares of Class G Common Stock not held by holders of the Outstanding Shares during the period.

## COMPUTATION OF EARNINGS PER SHARE (EPS):

	In Millions, Except Per Share Amounts		
	1999	1998	1997
		(a)	
<b>NET INCOME APPLICABLE TO BASIC AND DILUTED EPS</b>			
Consolidated Net Income	\$277	\$285	\$ 244
Net Income Attributable to Common Stocks:			
CMS Energy - Basic	\$241(b)	\$272	\$ 229
Add conversion of 7.75% Trust Preferred Securities (net of tax)	9	9	5
CMS Energy - Diluted	\$250(b)	\$281	\$ 234
Class G:			
Basic and Diluted	\$36(b)(c)	\$ 13	\$ 15
<b>AVERAGE COMMON SHARES OUTSTANDING APPLICABLE TO BASIC AND DILUTED EPS</b>			
CMS Energy:			
Average Shares - Basic	110.1	102.4	96.1
Add conversion of 7.75% Trust Preferred Securities	4.3	4.3	2.3
Options-Treasury Shares	0.3	0.5	0.3
Average Shares - Diluted	114.7	107.2	98.7
Class G:			
Average Shares Basic and Diluted	8.6(c)	8.3	8.0
<b>EARNINGS PER AVERAGE COMMON SHARE</b>			
CMS Energy:			
Basic	\$2.18(b)	\$2.65	\$ 2.39
Diluted	\$2.17(b)	\$2.62	\$ 2.37
Class G:			
Basic and Diluted	\$4.21(b)(c)	\$1.56	\$ 1.84

(a) Includes the cumulative effect of an accounting change in the first quarter of 1998 which increased net income attributable to CMS Energy Common Stock \$43 million (\$.40 per share - basic and diluted) and Class G Common Stock \$12 million (\$.36 per share - basic and diluted).

(b) Reflects the reallocation of net income and earnings per share as a result of the premium on exchange of Class G Common Stock. As a result, CMS Energy's basic and diluted earnings per share were reduced \$.26 and \$.25, respectively, and Class G's basic and diluted earnings per share were increased \$3.31.

(c) From January 1, 1999 to October 25, 1999.

In February and May 1999, CMS Energy paid dividends of \$.33 per share on CMS Energy Common Stock and \$.325 per share on Class G Common Stock. In August 1999, CMS Energy paid dividends of \$.365 per share on CMS Energy Common Stock and \$.34 per share on Class G Common Stock. In November 1999, CMS Energy paid dividends of \$.365 per share on CMS Energy Common Stock. As a result of the exchange of Class G Common Stock for CMS Energy Common Stock, no Class G Common Stock dividend was declared in September. Class G Common Stock shareholders prior to the exchange received the CMS Energy Common Stock dividend. In January 2000, the Board of Directors of CMS Energy (Board of Directors) declared a quarterly dividend of \$.365 per share on CMS Energy Common Stock, which was paid in February 2000.

CMS Energy will reduce the CMS Energy Common Stock annual dividend to \$.40 per share at the time of a proposed initial public offering of approximately \$600 million of a tracking stock representing 20 percent of the financial interest in CMS Energy's electric and gas utility. The offering is currently expected for issuance during the second or third quarter of 2000, subject to market conditions.

#### 9: RISK MANAGEMENT ACTIVITIES AND DERIVATIVES TRANSACTIONS

CMS Energy and its subsidiaries use a variety of derivative instruments (derivatives), including futures contracts, swaps, options and forward contracts, to manage exposure to fluctuations in commodity prices, interest rates and foreign exchange rates. To qualify for hedge accounting, derivatives must meet the following criteria: i) the item to be hedged exposes the enterprise to price, interest or exchange rate risk; and ii) the derivative reduces that exposure and is designated as a hedge.

Derivative instruments contain credit risk if the counterparties, including financial institutions and energy marketers, fail to perform under the agreements. CMS Energy minimizes such risk by performing financial credit reviews using, among other things, publicly available credit ratings of such counterparties. Nonperformance by counterparties is not expected to have a material adverse impact on CMS Energy's financial position, liquidity, or results of operations.

**COMMODITY PRICE HEDGES:** CMS Energy engages in both energy trading and non-trading activities as defined by EITF 98-10, Accounting for Energy Trading and Risk Management Activities. CMS Energy accounts for its non-trading commodity price derivatives as hedges and, as such, defers any changes in market value and gains and losses resulting from settlements until the hedged transaction is complete. If there was a loss of correlation between the changes in the market value of the commodity price contracts and the market price ultimately received for the hedged item, and the impact was material, the open commodity price contracts would be marked-to-market and gains and losses would be recognized in the income statement currently. Effective January 1, 1999, CMS Energy adopted mark-to-market accounting for energy trading contracts in accordance with EITF 98-10. Mark-to-market accounting requires gains and losses resulting from changes in market prices on contracts entered into for trading purposes to be reflected in earnings currently. The after-tax mark-to-market adjustment resulting from the adoption of EITF 98-10 did not have a material effect on CMS Energy's financial position, results of operations and cash flows as of December 31, 1999.

Consumers enters into electric option contracts to ensure a reliable source of capacity to meet its customers'

electricity requirements and to limit its risk associated with electricity price increases. It is management's intent to take physical delivery of the commodity. Consumers continuously evaluates its daily capacity needs and sells the option contracts, if marketable, when it has excess daily capacity. Consumers' maximum exposure associated with these options is limited to premiums paid.

CMS Oil and Gas has one arrangement which is used to fix the prices that CMS Oil and Gas will pay for gas supplied to the MCV Facility for the years 2001 through 2006 by purchasing the economic equivalent of 10,000 million British thermal units (MMBtu) per day at a fixed price, escalating at 8 percent per year thereafter, starting at \$2.82 per MMBtu in 2001. The settlement periods are each a one-year period ending December 31, 2001 through 2006 on 3.65 million MMBtu. If the floating price, essentially the then-current Gulf Coast spot price, for a period is higher than the fixed price, the seller pays CMS Oil and Gas the difference, and vice versa.

The contract with the seller provides a calculation of exposure for the purpose of requiring an exposed party to post a standby letter of credit. Under this calculation, if a party's exposure at any time exceeds \$5 million, that party is required to obtain a letter of credit in favor of the other party for the excess over \$5 million and up to \$10 million. At December 31, 1999, the terms of this contract reflected no letter of credit by either party. As of December 31, 1999, the fair value of this contract is \$19 million, representing the amount CMS Oil and Gas would be required to pay to the counterparty at settlement if settled at this date.

A subsidiary of CMS Gas Transmission uses natural gas futures contracts and CMS Marketing, Services and Trading Company uses natural gas and oil futures contracts, options and swaps (which require a net cash payment for the difference between a fixed and variable price).

**INTEREST RATE HEDGES:** CMS Energy and some of its subsidiaries enter into interest rate swap agreements to exchange variable rate interest payment obligations to fixed rate obligations without exchanging the underlying notional amounts. These agreements convert variable rate debt to fixed rate debt to reduce the impact of interest rate fluctuations. The notional amounts parallel the underlying debt levels and are used to measure interest to be paid or received and do not represent the exposure to credit loss. The notional amount of CMS Energy's and its subsidiaries' interest rate swaps was \$2.9 billion at December 31, 1999. The difference between the amounts paid and received under the swaps is accrued and recorded as an adjustment to interest expense over the life of the hedged agreement.

**FOREIGN EXCHANGE HEDGES:** CMS Energy uses forward exchange and option contracts to hedge certain receivables, payables, long-term debt and equity value relating to foreign investments. The purpose of CMS Energy's foreign currency hedging activities is to protect the company from the risk that U.S. dollar net cash flows resulting from sales to foreign customers and purchases from foreign suppliers and the repayment of non-U.S. dollar borrowings as well as equity reported on the company's balance sheet, may be adversely affected by changes in exchange rates. These contracts do not subject CMS Energy to risk from exchange rate movements because gains and losses on such contracts offset losses and gains, respectively, on assets and liabilities being hedged. The notional amount of the outstanding foreign exchange contracts was \$1.6 billion at December 31, 1999, which includes \$207 million, \$435 million and \$880 million for Australian, Brazilian and Argentine foreign exchange contracts, respectively. The estimated fair value of the foreign exchange and option contracts at December 31, 1999 was \$64 million, representing the amount CMS Energy would pay upon settlement.

## 10: INCOME TAXES

CMS Energy and its subsidiaries file a consolidated federal income tax return. Income taxes are generally allocated based on each company's separate taxable income. CMS Energy and Consumers practice full deferred tax accounting for temporary differences, but federal income taxes have not been recorded on the undistributed earnings of international subsidiaries where CMS Energy intends to permanently reinvest those earnings. Upon distribution, those earnings may be subject to both U.S. income taxes (adjusted for foreign tax credits or deductions) and withholding taxes payable to various foreign countries. It is not practical to estimate the amount of unrecognized deferred income taxes or withholding taxes on undistributed earnings.

CMS Energy used investment tax credit (ITC) to reduce current income taxes payable, and amortizes ITC over the life of the related property. Any alternative minimum tax (AMT) paid generally becomes a tax credit that CMS Energy can carry-forward indefinitely to reduce regular tax liabilities in future periods when regular taxes paid exceed the tax calculated for AMT. The significant components of income tax expense (benefit) consisted of:

	In Millions		
Years Ended December 31	1999	1998	1997
Current income taxes			
Federal and other	\$ 40	\$ 61	\$ 76
State and local	2	5	3
Foreign	12	3	5
	-----	-----	-----
	54	69	84
Deferred income taxes			
Federal	21	77(a)	41
State	4	-	-
Foreign	(6)	(7)	(7)
	-----	-----	-----
	19	70	34
Deferred ITC, net	(9)	(16)	(10)
	-----	-----	-----
	\$ 64	\$123	\$108
	=====	=====	=====

(a) Includes \$23 million for 1998 change in property tax accounting.

The principal components of CMS Energy's deferred tax assets (liabilities) recognized in the balance sheet are as follows:

	In Millions	
December 31	1999	1998
Property	\$ (606)	\$ (564)
Unconsolidated investments	(208)	(288)
Postretirement benefits	(128)	(139)
Abandoned Midland project	(17)	(25)
Employee benefit obligations (includes postretirement benefits of \$140 and \$141)	174	182
AMT carryforward	112	134
Power purchases	42	59
Other	(34)	4
	\$ (665)	\$ (637)
Valuation allowances	(5)	(15)
	\$ (670)	\$ (652)
Gross deferred tax liabilities	\$(1,512)	\$(1,789)
Gross deferred tax assets	842	1,137
	\$ (670)	\$ (652)

The actual income tax expense differs from the amount computed by applying the statutory federal tax rate of 35% to income before income taxes as follows:

	In Millions		
Years Ended December 31	1999	1998	1997
Consolidated net income before preferred dividends			
Domestic	\$ 187	\$247	\$222
Foreign	96	57	47
	-----	-----	-----
	283	304	269
Income tax expense	64	123(a)	108
	-----	-----	-----
	347	427	377
Statutory federal income tax rate	x 35%	x 35%	x 35%
	-----	-----	-----
Expected income tax expense	121	149	132
Increase (decrease) in taxes from:			
Capitalized overheads previously flowed through	5	5	5
Differences in book and tax depreciation not previously deferred	19	14	14
Impact of foreign taxes, tax rates and credits	15	(5)	1
Undistributed earnings of international subsidiaries	(45)	(13)	(10)
ITC amortization/adjustments	(8)	(16)	(10)
Section 29 Fuel Tax Credits	(12)	(13)	(13)
Valuation allowances, net	(10)(b)	-	-
Reversal of income tax accruals	(8)	-	-
Other, net	(13)	2	(11)
	-----	-----	-----
	\$ 64	\$123	\$ 108
	=====	=====	=====
Effective tax rate	18.4%	28.8%	28.6%
	=====	=====	=====

(a) Includes \$23 million for 1998 change in property tax accounting.

(b) Benefit realization of preacquisition carryforwards.

#### 11: FINANCIAL INSTRUMENTS

The carrying amounts of cash, short-term investments and current liabilities approximate their fair values due to their short-term nature. The estimated fair values of long-term investments are based on quoted market prices or, in the absence of specific market prices, on quoted market prices of similar investments or other valuation techniques. Judgement may also be required to interpret market data to develop certain estimates of fair value. Accordingly, the estimates determined as of December 31, 1999 and 1998 are not necessarily indicative of the amounts which may be realized in current market exchanges.

The carrying amounts of all long-term investments in financial instruments, except as shown below, approximate fair value.

Years Ended December 31	1999			1998			In Millions
	Carrying Cost	Fair Value	Gross Unrealized Gain (Loss)	Carrying Cost	Fair Value	Gross Unrealized Gain (Loss)	
Long-Term Debt (a)	\$6,987	\$6,722	\$ (265)	\$4,726	\$4,762	\$ 36	
Interest Rate Swaps (b)	-	6	6	-	15	15	
Preferred Stock and Trust Preferred Securities	1,163	1,042	(121)	631	631	-	
Available-for-Sale Securities							
Investments	\$ -	\$ -	\$ -	\$82	\$67	\$(15)	
Nuclear Decommissioning	448	602	154	425	557	132	
SERP	56	60	4	40	53	13	

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

b) Amounts shown represent estimated amounts CMS Energy would receive if agreements were settled at current market rates.

Years Ended December 31	1999		1998	
Trading Securities	Fair Value	Gross Unrealized Gain (Loss)	Fair Value	Gross Unrealized Gain (Loss)
Investments	\$91	\$17	\$ 6	\$ 3

In 1999, CMS Energy transferred \$85 million of investment from the available-for-sale category into the trading category, and correspondingly, reflected \$14 million of unrealized gains in consolidated net income for the year ended December 31, 1999.

## 12: EXECUTIVE INCENTIVE COMPENSATION

Under CMS Energy's Performance Incentive Stock Plan, restricted shares of Common Stock as well as stock options and stock appreciation rights relating to Common Stock may be granted to key employees based on their contributions to the successful management of CMS Energy and its subsidiaries. Awards under the plan may consist of any class of Common Stock. Certain plan awards are subject to performance-based business criteria. The plan reserves for award not more than five percent, as amended January 1, 1999, of Common Stock outstanding on January 1 each year, less (i) the number of shares of restricted Common Stock awarded and (ii) Common Stock subject to options granted under the plan during the immediately preceding four calendar years. The number of shares of restricted Common Stock awarded under this plan cannot exceed 20% of the aggregate number of shares reserved for award. Any forfeitures of shares previously awarded will increase the number of shares available to be awarded under the plan. At December 31, 1999, awards of up to 2,466,524 shares of CMS Energy Common Stock may be issued.

Restricted shares of Common Stock are outstanding shares with full voting and dividend rights. These awards vest over five years at the rate of 25 percent per year after two years. The restricted shares are subject to achievement of specified levels of total shareholder return and are subject to forfeiture if employment terminates before vesting. If performance objectives are exceeded, the plan provides additional awards. Restricted shares vest fully if control of CMS Energy changes, as defined by the plan. At December 31, 1999, 679,232 of the 884,129 shares of restricted CMS Energy Common Stock outstanding are subject to performance objectives.

Under the plan, stock options and stock appreciation rights relating to Common Stock are granted with an exercise price equal to the closing market price on each grant date. Some options may be exercised upon grant; others vest over five years at the rate of 25 percent per year after one year. All options expire up to ten years and one month from date of grant. In 1999, all outstanding Class G Common Stock and options were converted to CMS Energy Common Stock and options at an exchange rate of .7041 per Class G Common Stock or option held. The original vesting or exercise period was retained for all converted shares or options. The status of the restricted stock granted to CMS Energy's key employees under the Performance Incentive Stock Plan and options granted under the plan follows.

	Restricted Stock	Options	
	Number of Shares	Number of Shares	Weighted-Average Exercise Price
-----			
CMS Energy Common Stock:			
Outstanding at January 1, 1997	600,838	1,716,626	\$ 26.24
Granted	366,360	431,500	\$ 35.91
Exercised or Issued	(159,405)	(479,422)	\$ 26.54
Forfeited	(59,582)	-	-
Expired	-	(2,987)	\$ 30.13
-----			
Outstanding at December 31, 1997	748,211	1,665,717	\$ 28.65
Granted	304,750	376,000	\$ 43.38
Exercised or Issued	(185,217)	(331,925)	\$ 27.69
Forfeited	(6,000)	-	-
-----			
Outstanding at December 31, 1998	861,744	1,709,792	\$ 32.07
Granted	284,364	1,137,912	\$ 39.23
Converted from Class G	6,060	19,503	\$ 32.62
Exercised or Issued	(172,916)	(258,267)	\$ 29.44
Forfeited	(95,123)	-	-
Expired	-	(78,900)	\$ 39.58
-----			
Outstanding at December 31, 1999	884,129	2,530,040	\$ 35.33
=====			
-----			
Class G Common Stock:			
Outstanding at January 1, 1997	16,347	21,000	\$ 17.88
Granted	8,784	12,000	\$ 20.24
Exercised or Issued	(1,385)	(5,000)	\$ 17.88
Forfeited	(3,955)	-	-
-----			
Outstanding at December 31, 1997	19,791	28,000	\$ 18.89
Granted	14,720	45,900	\$ 24.50
Exercised or Issued	(4,021)	-	-
-----			
Outstanding at December 31, 1998	30,490	73,900	\$ 22.37
Granted	3,427	-	-
Exercised or Issued	(7,360)	(19,000)	\$ 18.45
Forfeited	(17,949)	-	-
Expired	-	(27,200)	\$ 24.50
Converted to CMS Energy	(8,608)	(27,700)	\$ 22.98
-----			
Outstanding at December 31, 1999	-	-	-
=====			

The following table summarizes information about stock options outstanding at December 31, 1999:

Range of Exercise Prices	Number of Shares Outstanding	Weighted-Average Remaining Life	Weighted-Average Exercise Price
-----			
CMS Energy Common Stock:			
\$17.13 - \$35.94	1,151,128	5.61 years	\$29.11
\$37.19 - \$41.44	1,020,412	9.55 years	\$39.53
\$41.75 - \$44.06	358,500	8.66 years	\$43.34
-----			
\$17.13 - \$44.06	2,530,040	7.63 years	\$35.33
=====			

The weighted average fair value of options granted for CMS Energy Common Stock was \$5.93 in 1999, \$6.43 in 1998 and \$6.38 in 1997. Fair value is estimated using the Black-Scholes model, a mathematical formula used to value options traded on securities exchanges, with the following assumptions:

Years Ended December 31	1999	1998	1997
-----			
CMS ENERGY COMMON STOCK OPTIONS			
Risk-free interest rate	5.65%	5.45%	6.06%
Expected stock-price volatility	16.81%	15.93%	17.43%
Expected dividend rate	\$ .365	\$ .33	\$ .30
Expected option life (years)	4.5 years	4 years	5 years
=====			

CMS Energy applies Accounting Principles Board Opinion 25 and related interpretations in accounting for the Performance Incentive Stock Plan. Since stock options are granted at market price, no compensation cost has been recognized for stock options granted under the plan. The compensation cost charged against income for restricted stock was \$12 million in 1999, \$9 million in 1998 and \$6 million in 1997. If compensation cost for stock options had been determined in accordance with SFAS 123, Accounting for Stock-Based Compensation, CMS Energy's consolidated net income and earnings per share would have been as follows:

In Millions, Except Per Share Amounts

Years Ended December 31	Pro Forma		As Reported	
	1999	1998	1999	1998
Consolidated Net Income	\$ 272	\$ 283	\$ 277	\$ 285
Net Income Attributable to Common Stocks				
CMS Energy	236	270	241	272
Class G	36	13	36	13
Earnings Per Average Common Share				
CMS Energy				
Basic	2.14	2.64	2.18	2.65
Diluted	2.14	2.61	2.17	2.62
Class G				
Basic and Diluted	4.21	1.54	4.21	1.56

## 13: RETIREMENT BENEFITS

CMS Energy and its subsidiaries provide retirement benefits under a number of different plans, including certain health care and life insurance benefits under its postretirement benefit plans other than pensions for retired employees (OPEB), benefits to certain management employees under its Supplemental Executive Retirement Plan (SERP), and benefits to substantially all its employees under a trustee, non-contributory, defined benefit pension plan of Consumers and CMS Energy (Pension Plan), and a defined contribution 401(k) plan.

Amounts presented below for the Pension Plan include amounts for employees of CMS Energy and nonutility affiliates which were not distinguishable from the plan's total assets.

## Weighted-Average Assumptions:

Years Ended December 31	Pension & SERP			OPEB		
	1999	1998	1997	1999	1998	1997
Discount rate	7.75%	7.00%	7.50%	7.75%	7.00%	7.50%
Expected long-term rate of return on plan assets	9.25%	9.25%	9.25%	7.00%	7.00%	7.00%
Rate of compensation increase:						
Pension - to age 45	5.25%	5.25%	5.25%			
- age 45 to assumed retirement	3.75%	3.75%	3.75%			
SERP	5.50%	5.50%	5.50%			

Retiree health care costs at December 31, 1999 are based on the assumption that costs would increase 7.0 percent in 2000, then decrease gradually to 5.5 percent in 2006 and thereafter.

Net Pension Plan, SERP and OPEB costs consist of:

Years Ended December 31	In Millions					
	Pension & SERP			OPEB		
	1999	1998	1997	1999	1998	1997
Service cost	\$ 34	\$ 27	\$ 26	\$ 15	\$ 11	\$ 10
Interest expense	71	64	61	47	43	41
Expected return on plan assets	(84)	(73)	(70)	(25)	(18)	(13)
Amortization of unrecognized transition (asset)	(5)	(5)	(5)	-	-	-
Amortization of prior service cost	4	4	4	-	-	-
Ad Hoc Retiree Increase	3	-	-	-	-	-
Net periodic pension and postretirement benefit cost	\$ 23	\$ 17	\$ 16	\$ 37	\$ 36	\$ 38

The health care cost trend rate assumption significantly affects the amounts reported. A one percentage point change in the assumed health care cost trend assumption would have the following effects:

	In Millions	
	One Percentage Point Increase	One Percentage Point Decrease
Effect on total service and interest cost components	\$ 11	\$ (9)
Effect on postretirement benefit obligation	\$ 109	\$ (91)

The funded status of CMS Energy's Pension Plan, SERP and OPEB plans is reconciled with the liability recorded at December 31 as follows:

	In Millions					
	Pension Plan		SERP		OPEB	
	1999	1998	1999	1998	1999	1998
Benefit obligation, January 1	\$ 874	\$792	\$50	\$ 41	\$ 655	\$582
Service cost	31	25	3	2	15	11
Interest cost	68	60	4	3	47	43
Plan amendments	4	-	-	-	-	-
Business Combinations	70	-	3	-	29	-
Actuarial loss (gain)	3	76	(6)	5	21	47
Benefits paid	(79)	(79)	(1)	(1)	(31)	(28)
Benefit obligation, December	971	874	53	50	736	655
Plan assets at fair value, January 1	970	882	-	-	327	224
Actual return on plan assets	120	167	-	-	50	54
Company contribution	-	-	1	1	55	49
Business Combinations	83	-	-	-	-	-
Actual benefits paid	(79)	(79)	(1)	(1)	-	-
Plan assets at fair value, December 31	1,094(a)	970(a)	-	-	432	327
Benefit obligation less than (in excess of) plan assets	123	96	(52)	(50)	(305)	(328)
Unrecognized net (gain) loss from experience different than assumed	(212)	(176)	4	10	(68)	(72)
Unrecognized prior service cost	28	31	1	1	-	-
Unrecognized net transition (asset) obligation	(11)	(16)	-	-	-	-
Recorded liability	\$ (72)	\$ (65)	\$ (47)	\$ (39)	\$ (373)	\$ (400)

(a) Primarily stocks and bonds, including \$108 million in 1999 and \$168 million in 1998 of CMS Energy Common Stock.

SERP benefits are paid from a trust established in 1988. SERP is not a qualified plan under the Internal Revenue Code, and as such, earnings of the trust are taxable and trust assets are included in consolidated assets. At December 31, 1999 and 1998, trust assets were \$60 million and \$53 million, respectively, and were classified as other noncurrent assets. The accumulated benefit obligation for SERP was \$33 million in 1999 and \$31 million in 1998.

Contributions to the 401(k) plan are invested in CMS Energy Common Stock. Amounts charged to expense for this plan were \$20 million in 1999, \$18 million in 1998 and \$20 million in 1997.

Beginning January 1, 1986, the amortization period for the Pension Plan's unrecognized net transition asset is 16 years and 11 years for the SERP's unrecognized net transition obligation. Prior service costs are amortized on a straight-line basis over the average remaining service period of active employees.

CMS Energy and its subsidiaries adopted SFAS 106, Employers' Accounting for Postretirement Benefits Other Than Pensions, effective as of the beginning of 1992 and Consumers recorded a liability of \$466 million for the accumulated transition obligation and a corresponding regulatory asset for anticipated recovery in utility rates (see Note 2, Utility Regulation). The MPSC authorized recovery of the electric utility portion of these costs in 1994 over 18 years and the gas utility portion in 1996 over 16 years. At December 31, 1999, Consumers had recorded a FERC regulatory asset and liability of \$5 million. The FERC has authorized recovery of these costs.

#### 14: LEASES

CMS Energy, Consumers, and Enterprises lease various assets, including vehicles, rail cars, aircraft, construction equipment, computer equipment, nuclear fuel and buildings. Consumers' nuclear fuel capital leasing arrangement expires in November 2001, yet provides for additional one-year extensions upon mutual agreement by the parties. Upon termination of the lease, the lessor would be entitled to a cash payment equal to its remaining investment, which was \$58 million as of December 31, 1999. Consumers is responsible for payment of taxes, maintenance, operating costs, and insurance.

Minimum rental commitments under CMS Energy's non-cancelable leases at December 31, 1999 were:

	In Millions	
	Capital Leases	Operating Leases
2000	\$ 47	\$ 35
2001	58	30
2002	19	25
2003	15	18
2004	11	15
2005 and thereafter	10	69
	-----	-----
Total minimum lease payments	160	\$ 192 =====
Less imputed interest	35 -----	
Present value of net minimum lease payments	125	
Less current portion	36 -----	
Noncurrent portion	\$ 89	
	=====	

Consumers recovers lease charges from customers and accordingly charges payments for its capital and operating leases to operating expense. Operating lease charges, including charges to clearing and other accounts for the years ended December 31, 1999, 1998 and 1997, were \$35 million, \$19 million, and \$10 million, respectively.

Capital lease expenses for the years ended December 31, 1999, 1998 and 1997 were \$42 million, \$42 million and \$43 million, respectively. Included in these amounts for the years ended 1999, 1998 and 1997 are nuclear fuel lease expenses of \$23 million, \$23 million and \$31 million, respectively.

#### 15: JOINTLY OWNED UTILITY FACILITIES

Consumers is responsible for providing its share of financing for the jointly owned utility facilities. Consumers includes in operating expenses the direct expenses of the joint plants. The following table indicates the extent of Consumers' investment in jointly owned utility facilities:

December 31	In Millions			
	Net Investment		Accumulated Depreciation	
	1999	1998	1999	1998
Campbell Unit 3 - 93.3 percent	\$284	\$299	\$295	\$279
Ludington - 51 percent	104	106	100	94
Transmission lines - various	32	33	16	15

#### 16: REPORTABLE SEGMENTS

CMS Energy operates principally in the following six reportable segments: electric utility; gas utility; independent power production; oil and gas exploration and production; natural gas transmission, storage and processing; and energy marketing, services and trading.

The electric utility segment consists of regulated activities associated with the generation, transmission and distribution of electricity in the state of Michigan. The gas utility segment consists of regulated activities associated with the transportation, storage and distribution of natural gas in the state of Michigan. The other reportable segments consist of the development and management of electric, gas and other energy-related projects in the United States and internationally, including energy trading and marketing. CMS Energy's reportable segments are strategic business units organized and managed by the nature of the products and services each provides. The accounting policies of each reportable segment are the same as those described in the summary of significant accounting policies. CMS Energy's management evaluates performance based on pretax operating income. Intersegment sales and transfers are accounted for at current market prices and are eliminated in consolidated pretax operating income by segment.

The Consolidated Statements of Income show operating revenue and pretax operating income by reportable segment. Revenues from an international energy distribution business and a land development business fall below the quantitative thresholds for reporting. Neither of these segments has ever met any of the quantitative thresholds for determining reportable segments. Amounts shown for the natural gas transmission, storage and processing segment include Panhandle, which was acquired in March 1999. Other financial data for reportable segments and geographic area are as follows:

	In Millions		
Years Ended December 31	1999	1998	1997
<b>Depreciation, Depletion and Amortization</b>			
Electric utility	\$ 315	\$ 304	\$ 296
Gas utility	107	97	93
Natural gas transmission, storage and processing	68	14	14
Independent power production	35	22	13
Oil and gas exploration and production	44	38	48
Marketing, services and trading	3	2	1
Other	23	7	2
	\$ 595	\$ 484	\$ 467
<b>Identifiable Assets</b>			
Electric utility (a)	\$ 4,675	\$ 4,640	\$ 4,472
Gas utility (a)	1,731	1,726	1,644
Natural gas transmission, storage and processing	3,526	971	508
Independent power production	3,076	2,252	1,710
Oil and gas exploration and production	659	547	456
Marketing, services and trading	367	152	191
Other	1,428	1,022	527
	\$15,462	\$11,310	\$ 9,508
<b>Capital Expenditures (b)</b>			
Electric utility	\$ 385	\$ 331	\$ 255
Gas utility	120	114	116
Natural gas transmission, storage and processing	2,216	573	115
Independent power production	392	462	704
Oil and gas exploration and production	151	143	99
Marketing, services and trading	42	1	28
Other	99	76	202
	\$ 3,405	\$ 1,700	\$ 1,519
<b>Investments in Equity Method Investees</b>			
Natural gas transmission, storage and processing	\$ 369	\$ 494	\$ 241
Independent power production	1,437	1,337	1,205
Marketing, services and trading	27	25	26
Other	163	217	274
	\$ 1,996	\$ 2,073	\$ 1,746

Earnings from Equity Method Investees (c)			
Natural gas transmission, storage and processing	\$ 20	\$ 9	\$ 4
Independent power production	119	158	89
Marketing, services and trading	3	2	2
Other	(4)	2	8
	-----	-----	-----
	\$ 138	\$ 171	\$ 103

Geographic Areas (d)

	Operating Revenue	Pretax Operating Income	Identifiable Assets
-----	-----	-----	-----
1999			
United States	\$ 5,573	\$ 794	\$11,936
International	530	118	3,526
1998			
United States	\$ 4,867	\$ 702	\$ 8,842
International	274	73	2,468
1997			
United States	\$ 4,576	\$ 665	\$ 7,872
International	205	51	1,636
=====	=====	=====	=====

- (a) Amounts include an attributed portion of Consumers' other common assets to both the electric and gas utility businesses.
- (b) Includes electric restructuring implementation plan, capital leases for nuclear fuel and other assets and electric DSM costs. Amounts also include an attributed portion of Consumers' capital expenditures for plant and equipment common to both the electric and gas utility businesses.
- (c) These amounts are included in operating revenue in the Consolidated Statements of Income.
- (d) Revenues are attributed to countries based on location of customers.

17: SUPPLEMENTAL CASH FLOW INFORMATION

For purposes of the Consolidated Statements of Cash Flows, all highly liquid investments with an original maturity of three months or less are considered cash equivalents. Other cash flow activities and noncash investing and financing activities were:

In Millions

Years Ended December 31	1999	1998	1997
<b>CASH TRANSACTIONS</b>			
Interest paid (net of amounts capitalized)	\$ 424	\$313	\$293
Income taxes paid (net of refunds)	59	64	67
<b>NONCASH TRANSACTIONS</b>			
Nuclear fuel placed under capital leases	6	\$ 46	\$ 4
Other assets placed under capital leases	14	14	7
Common stock issued to retire Class G Common Stock	217	-	-
Common stock issued to acquire companies	-	61	-
Assumption of debt	305	88	-

Changes in other assets and liabilities as shown on the Consolidated Statements of Cash Flows are described below:

In Millions

Years Ended December 31	1999	1998	1997
Sale of receivables, net	\$ 19	\$ (29)	\$ 17
Accounts receivable	(293)	(183)	(160)
Accrued revenue	42	(5)	64
Inventories	(7)	(42)	(15)
Accounts payable	172	104	67
Accrued refunds	-	(1)	4
Other current assets and liabilities, net	124	126	(6)
Noncurrent deferred amounts, net	(44)	(150)	(15)
	-----	-----	-----
	\$ 13	\$(180)	\$ (44)

#### 18: EQUITY METHOD INVESTMENTS

Certain of CMS Energy's investments in companies, partnerships and joint ventures, where CMS Energy's ownership in its affiliates is more than 20 percent but less than a majority, are accounted for by the equity method. Consolidated net income includes undistributed equity earnings of \$45 million in 1999, \$95 million in 1998, and \$58 million in 1997 from these investments. The more significant of these investments are CMS Energy's 50 percent interest in Loy Yang, a 2,000 MW brown coal-fueled power plant and coal mine in Australia, and CMS Energy's 50 percent interest in Jorf Lasfar, a 1,356 MW coal-fueled power plant in Africa. Summarized combined financial information of CMS Energy's equity method investees follows, except for the MCV Partnership, which is disclosed separately in Note 19.

	In Millions		
Years Ended December 31	1999	1998	1997
Operating revenue	\$3,055	\$2,255	\$ 1,603
Operating expenses	2,186	1,503	1,154
Operating income	869	752	449
Other expense, net	558	409	271
Net income	\$ 311	\$ 343	\$ 178

BALANCE SHEET DATA (UNAUDITED)

	In Millions	
December 31	1999	1998
<b>ASSETS</b>		
Current assets	\$ 1,006	\$ 646
Property, plant and equipment, net	7,581	6,783
Other assets	3,432	2,694
	\$12,019	\$10,123
<b>LIABILITIES AND EQUITY</b>		
Current liabilities	\$ 971	\$ 804
Long-term debt and other noncurrent liabilities	7,885	6,341
Equity	3,163	2,978
	\$12,019	\$10,123

19: SUMMARIZED FINANCIAL INFORMATION OF SIGNIFICANT  
RELATED ENERGY SUPPLIER

Under the PPA with the MCV Partnership discussed in Note 4, Consumers' 1999 obligation to purchase electric capacity from the MCV Partnership provided 15.5 percent of Consumers' owned and contracted electric generating capacity. Summarized financial information of the MCV Partnership follows:

## STATEMENTS OF INCOME (UNAUDITED)

	In Millions		
Years Ended December 31	1999	1998	1997
Operating revenue (a)	\$ 617	\$ 627	\$ 652
Operating expenses	401	405	435
Operating income	216	222	217
Other expense, net	136	142	154
Net income before cumulative effect of accounting change	80	80	63
Cumulative effect of change in method of accounting for property tax	-	-	15
Net income	\$ 80	\$ 80	\$ 78

## BALANCE SHEETS (UNAUDITED)

	In Millions			
December 31	1999	1998	1999	1998
<b>ASSETS</b>			<b>LIABILITIES AND EQUITY</b>	
Current assets (b)	\$ 397	\$ 341	Current liabilities	\$ 275
Plant, net	1,732	1,773	Noncurrent liabilities (c)	1,586
Other assets	170	173	Partners' equity (d)	438
	\$2,299	\$2,287		\$2,287

(a) Revenue from Consumers totaled \$586 million, \$584 million and \$609 million for 1999, 1998, and 1997, respectively.

(b) Receivables from Consumers totaled \$49, each year, at December 31, 1999 and 1998.

(c) FMLP is the sole beneficiary of an owner trust that is the lessor in a long-term direct finance lease with the lessee, MCV Partnership. CMS Holdings holds a 46.4 percent ownership interest in FMLP. At December 31, 1999 and 1998, lease obligations of \$1.36 billion and \$1.41 billion, respectively, were owed to the owner trust. CMS Holdings' share of the interest and principal portion for the 1999 lease payments was \$55 million and \$23 million, respectively, and for the 1998 lease payments was \$59 million and \$49 million, respectively. The lease payments service \$854 million and \$907 million in non-recourse debt outstanding as of December 31, 1999 and 1998, respectively, of the owner-trust. FMLP's debt is secured by the MCV Partnership's lease obligations, assets, and operating revenues. For 1999 and 1998, the owner-trust made debt payments (including interest) of \$167 million and \$233 million, respectively. FMLP's earnings for 1999, 1998, and 1997 were \$24 million, \$23 million, and \$20 million, respectively.

(d) CMS Midland's recorded investment in the MCV Partnership includes capitalized interest, which is being amortized to expense over the life of its investment in the MCV Partnership. Covenants contained in financing agreements prohibit the MCV Partnership from paying distributions until certain financial test requirements are met. Consumers does not anticipate receiving a cash distribution in the near future.

To CMS Energy Corporation:

We have audited the accompanying consolidated balance sheets and consolidated statements of preferred stock of CMS ENERGY CORPORATION (a Michigan corporation) and subsidiaries as of December 31, 1999 and 1998, and the related consolidated statements of income, common stockholder's equity and cash flows for each of the three years in the period ended December 31, 1999. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of CMS Energy Corporation and subsidiaries as of December 31, 1999 and 1998, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1999 in conformity with generally accepted accounting principles.

As explained in Note 2 to the financial statements, effective January 1, 1998, Consumers Energy Company, a wholly owned subsidiary of CMS Energy Corporation, changed its method of accounting for property taxes.

/s/ Arthur Andersen LLP

Detroit, Michigan,  
February 4, 2000.

CMS-69

Quarters Ended	March 31	1999 (Unaudited)		Dec. 31
		June 30	Sept. 30	
Operating revenue (a)	\$1,538	\$1,331	\$1,466	\$1,768
Pretax operating income	\$245	\$232	\$271	\$164
Consolidated net income	\$98	\$75	\$83	\$21
Basic earnings (loss) per average common share (b):				
CMS Energy Class G	\$0.82	\$0.68	\$0.79	(\$0.08)(c)
	\$1.19	\$0.10	(\$0.38)	\$3.31 (c)
Diluted earnings (loss) per average common share (b):				
CMS Energy Class G	\$0.80	\$0.67	\$0.78	(\$0.08)(c)
	\$1.19	\$0.10	(\$0.38)	\$3.31 (c)
Dividends declared per common share:				
CMS Energy Class G	\$0.33	\$0.33	\$0.365	\$0.365
	\$0.325	\$0.325	\$0.34	N/A
Common stock prices (d)				
CMS Energy:				
High	\$48-7/16	\$47-1/16	\$41-15/16	\$38-1/16
Low	\$39-9/16	\$39-1/4	\$33-5/8	\$30-5/16
Class G:				
High	\$26	\$25-3/8	\$26-7/8	\$24-15/16 (e)
Low	\$20-1/8	\$20-1/2	\$22-3/8	\$22-1/4 (e)

In Millions, Except Per Share Amounts

Quarters Ended	March 31	1998 (Unaudited)		Dec. 31
		June 30	Sept. 30	
Operating revenue (a)	\$1,374	\$1,132	\$1,286	\$1,349
Pretax operating income	\$197	\$188	\$222	\$168
Consolidated net income	\$88	\$65	\$81	\$51
Basic earnings (loss) per average common share (b):				
CMS Energy Class G	\$0.79	\$0.63	\$0.81	\$0.44
	\$1.09	\$0.12	(\$0.16)	\$0.52
Diluted earnings (loss) per average common share (b):				
CMS Energy Class G	\$0.77	\$0.62	\$0.80	\$0.44
	\$1.09	\$0.12	(\$0.16)	\$0.52
Dividends declared per common share:				
CMS Energy Class G	\$0.30	\$0.30	\$0.33	\$0.33
	\$0.31	\$0.31	\$0.325	\$0.325
Common stock prices (d)				
CMS Energy:				
High	\$47-5/16	\$47-3/16	\$44-3/4	\$50-1/8
Low	\$41-7/8	\$40-11/16	\$38-3/4	\$43-3/16
Class G:				
High	\$26-5/8	\$26-7/8	\$25-1/4	\$26-1/2
Low	\$22-1/4	\$23-1/4	\$21-3/8	\$23-1/8

(a) Amounts in the second and third quarter of 1999 were restated for comparative purposes.

(b) The sum of the quarters may not equal the annual earnings per share due to changes in shares outstanding.

(c) Includes allocation of the premium on redemption of Class G Common Stock of \$(.26) per CMS Energy basic share, \$ (.25) per CMS Energy diluted share and \$3.31 per Class G basic and diluted share.

(d) Based on New York Stock Exchange - Composite transactions.

(e) Through October 25, 1999.



1999 FINANCIAL STATEMENTS

CE-1

## SELECTED FINANCIAL INFORMATION

## CONSUMERS ENERGY COMPANY

		1999	1998	1997	1996	1995
Operating revenue (in millions)	(\$)	3,874	3,709	3,769	3,770	3,511
Net income (in millions) (Note 1)	(\$)	340	349	321	296	255
Net income available to common stockholder (in millions)	(\$)	313	312	284	260	227
Cash from operations (in millions)	(\$)	781	625	761	672	642
Capital expenditures, excluding capital lease additions and DSM (in millions)	(\$)	444	369	360	410	414
Total assets (in millions)	(\$)	7,170	7,163	6,949	7,025	6,954
Long-term debt, excluding current maturities (in millions)	(\$)	2,006	2,007	1,369	1,900	1,922
Non-current portion of capital leases (in millions)	(\$)	85	100	74	100	104
Total preferred stock (in millions)	(\$)	44	238	238	356	356
Total preferred securities (in millions)	(\$)	395	220	220	100	-
Number of preferred shareholders at year-end		2,534	5,649	6,178	9,540	10,084
Book value per common share at year-end	(\$)	23.87	21.94	20.38	19.96	19.00
Return on average common equity	(%)	16.2	17.5	16.8	15.9	15.0
Return on average assets	(%)	6.4	6.6	6.2	5.7	5.3
Number of full-time equivalent employees at year-end						
Consumers		8,736	8,456	8,640	8,938	9,262
Michigan Gas Storage		63	65	66	67	70
ELECTRIC STATISTICS						
Sales (billions of kWh)		41.0	40.0	37.9	37.1	35.5
Customers (in thousands)		1,665	1,640	1,617	1,594	1,570
Average sales rate per kWh	(cent)	6.54	6.50	6.57	6.55	6.36
GAS STATISTICS						
Sales and transportation deliveries (bcf)		389	360	420	448	404
Customers (in thousands) (a)		1,584	1,558	1,533	1,504	1,476
Average sales rate per mcf	(\$)	4.52	4.56	4.44	4.45	4.42

(a) Excludes off-system transportation customers.

CONSUMERS ENERGY COMPANY  
MANAGEMENT'S DISCUSSION AND ANALYSIS

Consumers is a combination electric and gas utility company serving the lower peninsula of Michigan and is a subsidiary of CMS Energy, a holding company. Consumers' customer base includes a mix of residential, commercial and diversified industrial customers, the largest segment of which is the automotive industry.

This Annual Report and other written and oral statements made by Consumers from time to time contain forward-looking statements as defined by the Private Securities Litigation Reform Act of 1995. The words "anticipates," "believes," "estimates," "expects," "intends," and "plans," and variations of such words and similar expressions, are intended to identify forward-looking statements that involve risk and uncertainty. These forward-looking statements are subject to various factors which could cause Consumers' actual results to differ materially from those anticipated in such statements. Consumers disclaims any obligation to update or revise forward-looking statements, whether from new information, future events or otherwise. Consumers details certain risk factors, uncertainties and assumptions in this Management's Discussion and Analysis and particularly in the section entitled "Forward Looking Statements Cautionary Factors" in Consumers' Form 8-K filed on February 1, 2000, and periodically in various public filings it makes with the SEC. This discussion of potential risks and uncertainties is by no means complete, but is designed to highlight important factors that may impact Consumers' outlook. This Annual Report also describes material contingencies in Consumers' Notes to Consolidated Financial Statements and readers are encouraged to read such Notes.

RESULTS OF OPERATIONS

CONSUMERS CONSOLIDATED EARNINGS

	In Millions					
Years Ended December 31	1999	1998	Change	1998	1997	Change
Net income available to common stockholder	\$313	\$312	\$1	\$312	\$284	\$28

The 1999 net income available to the common stockholder is an increase of \$1 million over the 1998 level. This increase includes the net impact of higher electric and gas deliveries and reduced power costs. Changes in regulation have allowed Consumers to temporarily benefit when power costs are lower than those used to establish rates. Somewhat masking these improvements was a change in accounting for property taxes (as described in Note 1) that provided a non-recurring benefit in 1998 of \$66 million (\$43 million after-tax) and the recognition of a \$37 million loss (\$24 million after-tax) for the underrecovery of power costs under the PPA. In addition, 1999 net income reflects \$9 million of gains for the sale of property. The 1998 net income available to the common stockholder is a \$28 million increase over the 1997 level. This increase reflects higher electric deliveries, improved earnings from the MCV Partnership, and an adjustment of prior years' income taxes associated with investment tax credits. Although other operating and maintenance expenses were higher than 1997, a continued focus on cost control benefited net income by nearly offsetting the amount spent on significant restoration work on the electric distribution system, which suffered damages caused by several storms. Additional items that had an impact upon earnings were the recognition of the property tax benefit reduced by the underrecovery of power costs under the PPA discussed above, and decreased gas deliveries due to the extreme mild temperatures during the 1998 heating season. For further information, see the Electric and Gas Utility Results of Operations sections and Note 2, Uncertainties.

## ELECTRIC UTILITY RESULTS OF OPERATIONS

## ELECTRIC PRETAX OPERATING INCOME:

In Millions						
Years Ended December 31	1999	1998	Change	1998	1997	Change
	\$494	\$475	\$19	\$475	\$432	\$43

Electric pretax operating income increased \$19 million in 1999 from the comparable period in 1998. The earnings increase reflects higher electric deliveries and effective management of power costs. Changes in regulation, effective in 1998, allow Consumers the opportunity to temporarily benefit from reduced power supply costs. In the past such cost reductions had no impact on net income because power cost savings were passed on to Consumers' electric customers. This earnings increase was partially offset by higher depreciation costs for new property and equipment and lower non-commodity revenues. Electric pretax operating income for 1998 increased \$43 million from the comparable period in 1997. The increase reflects higher electric deliveries, cost control, and the changes in regulation mentioned above. Partially offsetting these increases were higher general taxes and depreciation for new property and equipment. The following table quantifies these impacts on pretax operating income:

In Millions		
Change Compared to Prior Year	1999 vs 1998	1998 vs 1997
Electric deliveries	\$37	\$ 40
Power supply costs and related revenue	27	14
Net energy option costs	(19)	6
Non-commodity revenue	(13)	(4)
Operations and maintenance	(3)	(3)
General taxes and depreciation	(10)	(10)
<b>Total change</b>	<b>\$19</b>	<b>\$43</b>

**ELECTRIC DELIVERIES:** Electric deliveries were 41 billion kWh for 1999, an increase of 1 billion kWh or 2.5 percent compared with 1998. Total electric deliveries increased in all customer classes. Total electric deliveries in 1998 were 40 billion kWh, an increase of 2.2 billion kWh or 6 percent compared with 1997. The increase was primarily attributable to increased sales to other utilities and a 3 percent increase in deliveries to ultimate customers.

**POWER SUPPLY COSTS:**

In Millions						
Years Ended December 31	1999	1998	Change	1998	1997	Change
	\$1,193	\$1,175	\$18	\$1,175	\$1,139	\$36

Power supply costs increased for 1999 to meet increased electric delivery requirements. Both the 1999 and 1998 power supply cost increases reflect higher internal generation to meet the increased demand for electricity. In addition, the cost increase in 1998 over the prior year reflects increased power purchases from outside sources to meet sales demand. In 1999 and 1998 respectively, Consumers purchased \$19 million and \$5 million of energy options for physical delivery of electricity to ensure a reliable source of power during the summer months. As a result of periodic excess daily capacity, some options were sold for \$6 million and \$11 million.

million during June, July, and August of 1999 and 1998, respectively. All of the remaining options were exercised or expired. The costs relating to the expired options, offset by income received from the sale of options, were reflected as purchased power costs.

#### GAS UTILITY RESULTS OF OPERATIONS

#### GAS PRETAX OPERATING INCOME:

In Millions						
Years Ended December 31	1999	1998	Change	1998	1997	Change
	\$132	\$126	\$6	\$126	\$153	\$(27)

Gas pretax operating income increased by \$6 million in 1999 from the comparable period in 1998. The earnings increase is primarily the result of increased gas deliveries due to colder temperatures during the first and fourth quarters of 1999 and increased revenues from gas wholesale and retail services activity. Partially offsetting this earnings increase were a regulatory disallowance, higher operation and maintenance costs, and increased depreciation and general taxes due to new property and equipment. Gas pretax operating income decreased by \$27 million in 1998 from the comparable period in 1997. The earnings decrease is primarily the result of reduced gas deliveries due to significantly milder temperatures during the first and fourth quarters of 1998 and increased depreciation and general taxes associated with additional plant investments to serve new customers. The impact of the mild temperatures on sales was partially tempered by the suspension of Consumers GCR clause in 1998. Changes in regulation related to the gas industry restructuring initiatives provided Consumers the opportunity to temporarily benefit from low gas prices. In the past these cost reductions would have had no impact on pretax operating income because any gas cost savings were passed on to Consumers' gas customers; see Note 2, Uncertainties, "Gas Rate Matters - Gas Restructuring", for more detailed information on this matter. The following table quantifies these impacts on Pretax Operating Income.

In Millions		
Change Compared to Prior Year	1999 vs 1998	1998 vs 1997
Gas deliveries	\$32	\$ (42)
Gas commodity and related revenue	(5)	19
Gas wholesale and retail services	5	1
Operation and maintenance	(14)	(1)
General taxes and depreciation	(12)	(4)
<b>Total change</b>	<b>\$ 6</b>	<b>\$ (27)</b>

**GAS DELIVERIES:** Gas system deliveries in 1999, including miscellaneous transportation, totaled 389 bcf, an increase of 29 bcf or 8 percent compared with 1998. The increased deliveries reflect colder temperatures during the first quarter of 1999. System deliveries in 1998, including miscellaneous transportation, totaled 360 bcf, a decrease of 60 bcf or 14 percent compared with 1997. The decreased deliveries reflect milder winter temperatures in the first and fourth quarters of 1998.

## COST OF GAS SOLD:

Years Ended December 31	In Millions					
	1999	1998	Change	1998	1997	Change
	\$637	\$564	\$73	\$564	\$694	\$(130)

The cost of gas sold increase for 1999 was the result of increased sales due to colder temperatures during 1999 and higher gas prices. The cost of gas decrease for 1998 was the result of decreased sales from milder temperatures during 1998 and decreased gas prices.

## CAPITAL RESOURCES AND LIQUIDITY

## CASH POSITION, INVESTING AND FINANCING

**OPERATING ACTIVITIES:** Consumers derives cash from operating activities from the sale and transportation of natural gas and from the generation, transmission, distribution and sale of electricity. Cash from operations totaled \$781 million and \$625 million for 1999 and 1998, respectively. The \$156 million increase resulted primarily from a \$48 million increase in the sale of accounts receivable and a \$39 million decrease in gas and coal inventories. The remaining change is the result of a \$21 million increase in depreciation and from the timing of cash payments related to normal operations. For additional information, see Note 12, Supplemental Cash Flow Information. Other items included in 1998 income but which had no effect on cash flow were a one-time change in accounting for property taxes resulting in a \$66 million (\$43 million after-tax) gain and the recognition of a \$37 million loss (\$24 million after-tax) for the underrecovery of power costs under the PPA. Consumers primarily uses cash derived from operating activities to maintain and expand electric and gas systems, to retire portions of long-term debt and to pay dividends.

**INVESTING ACTIVITIES:** Cash used for investing activities totaled \$509 million and \$374 million for 1999 and 1998, respectively. The change of \$135 million is primarily the result of a \$75 million increase in capital expenditures, a \$15 million increase in electric restructuring implementation plan costs, a \$10 million increase in the cost of plant retired and the absence of \$27 million of proceeds from the 1998 sale of two non-utility partnerships.

**FINANCING ACTIVITIES:** Cash used in financing activities totaled \$279 and \$233 million for 1999 and 1998, respectively. The change of \$46 million is primarily the result of a \$133 million net decrease in proceeds from the refinancing and issuance of Consumers' debt and a \$21 million increase in the payment of common stock dividends offset by \$100 million contribution from Consumers' common stockholder and \$9 million decrease in the payment of preferred stock dividends.

**OTHER INVESTING AND FINANCING MATTERS:** Consumers has credit facilities, lines of credit and a trade receivable sale program in place as anticipated sources of funds to fulfill its currently expected capital expenditures. For detailed information about these source of funds, see Note 1, "Nuclear Fuel Cost" and Note 3, Short-Term Financings and Capitalization.

## OUTLOOK

## CAPITAL EXPENDITURES OUTLOOK

Consumers estimates the following capital expenditures, including new lease commitments, by company and by business segments over the next three years. These estimates are prepared for planning purposes and are subject to revision.

	In Millions		
Years Ended December 31	2000	2001	2002
Construction	\$510	\$609	\$547
Nuclear fuel lease	3	19	28
Capital leases other than nuclear fuel	26	22	25
	\$539	\$650	\$600
Electric utility operations (a)(b)	\$426	\$520	\$473
Gas utility operations (a)	113	130	127
	\$539	\$650	\$600

(a) These amounts include an attributed portion of Consumers' anticipated capital expenditures for plant and equipment common to both the electric and gas utility businesses.

(b) These amounts do not include preliminary estimates for capital expenditures possibly required to comply with recently revised national air quality standards under the Clean Air Act. For further information see Note 2, Uncertainties.

## ELECTRIC BUSINESS OUTLOOK

**GROWTH:** Consumers expects average annual growth of two and one half percent per year in electric system deliveries for the years 2000 to 2004. This growth rate does not take into account the possible impact of restructuring or changed regulation on the industry. Abnormal weather, changing economic conditions, or the developing competitive market for electricity may affect actual electric sales by Consumers in future periods.

**COMPETITION AND REGULATORY RESTRUCTURING:** Generally, electric restructuring is the regulatory and legislative attempt to introduce competition to the electric industry by allowing customers to choose their electric generation supplier, while the transmission and distribution services remain regulated. As a result, the electric generation suppliers ultimately compete in a less regulated environment. Competition affects, and will continue to affect, Consumers' retail electric business. To remain competitive, Consumers has multi-year electric supply contracts with some of its largest industrial customers to provide power to some of their facilities. The MPSC approved these contracts as part of its phased introduction to competition. Beginning in 2000 through 2005, some customers, depending on future business and regulatory circumstances, can terminate or restructure their contracts. The termination or restructuring of these contracts could affect approximately 600 MW of customer power supply requirements. The ultimate financial impact of changes related to these power supply contracts is not known at this time.

As a result of a transition of the wholesale and retail electric businesses in Michigan to competition, Detroit Edison, in December 1996, gave Consumers the required four-year notice of its intent to terminate the current agreements under which the companies jointly operate the MEPCC. At the same time, Detroit Edison filed

with the FERC seeking early termination of the agreements. The FERC has not acted on Detroit Edison's application. Detroit Edison and Consumers are currently in negotiations to terminate or restructure the MEPCC operations. Consumers is unable to predict the outcome of these negotiations, but does not anticipate any adverse impacts caused by termination or restructuring of the MEPCC.

In December 1999, a large coalition of utilities, businesses, and commercial and industrial energy users agreed upon proposed electric restructuring legislation for Michigan. This legislation: 1) provides for customer choice of power suppliers for all customers by January 2002; 2) ensures full recovery of Stranded Costs by utilities calculated by taking into account the difference between the market value and the net book value of the generation assets; and 3) provides for deregulation of electric power suppliers who control less than 30 percent of the sum of Michigan's transmission import and generating capacity by December 31, 2002. It also provides for a three-year rate freeze through 2002 for all utility customers who keep their utility as their electric supplier. To be able to sell electric generation services on a deregulated basis, Consumers would be required to transfer control of sufficient generation resources to meet the 30 percent test. The legislation precludes Consumers' generating resources from being deregulated prior to December 31, 2002. The proposed legislation was introduced into the Michigan Legislature in January 2000, and is expected to be considered in hearings during the first quarter of 2000. Consumers supports this specific legislation.

Uncertainty exists with respect to the enactment of federal legislation restructuring the electric power industry. A variety of bills introduced in Congress in recent years seek to change existing federal regulation of the industry. These federal bills could potentially affect or supercede state regulation; however, none have been enacted. Consumers cannot predict the outcome of electric restructuring on its financial position, liquidity, or results of operations.

**RATE MATTERS:** There are several pending rate issues that could affect Consumers' electric business. These matters include MPSC rate proceedings and electric restructuring orders and a complaint by ABATE alleging excess revenues.

For further information and material changes relating to the rate matters and restructuring of the electric utility industry, see Note 1, Corporate Structure and Summary of Significant Accounting Policies, and Note 2, Uncertainties, "Electric Rate Matters - Electric Proceedings" and "Electric Rate Matters - Electric Restructuring," incorporated by reference herein.

**UNCERTAINTIES:** Several trends or uncertainties may affect Consumers' financial results and condition as a result of Consumers' electric business. These trends or uncertainties have, or Consumers reasonably expects could have, a material impact on net sales, revenues, or income from continuing electric operations. Such trends and uncertainties include: 1) capital expenditures for compliance with the Clean Air Act; 2) environmental liabilities arising from compliance with various federal, state and local environmental laws and regulations, including potential liability or expenses relating to the Michigan Natural Resources and Environmental Protection Act and Superfund; 3) cost recovery relating to the MCV Partnership; 4) an ABATE rate complaint; 5) electric industry restructuring; 6) implementation of a frozen PSCR and initiatives undertaken to reduce exposure to energy price increases; and 7) nuclear decommissioning issues and ongoing issues relating to the storage of spent fuel and the operating life of Palisades. For detailed information about these trends or uncertainties, see Note 2, Uncertainties, incorporated by reference herein.

## GAS BUSINESS OUTLOOK

**GROWTH:** Consumers currently anticipate gas deliveries, including gas customer choice deliveries (excluding transportation to the MCV Facility and off-system deliveries), to grow at an average annual rate of between one and two percent over the next five years based primarily on a steadily growing customer base. Actual gas deliveries in future periods may be affected by abnormal weather, alternative energy prices, changes in competitive conditions, and the level of natural gas consumption. Consumers' gas business also offers a variety of energy-related services to electric and gas customers focused upon appliance maintenance, home safety, commodity choice and assistance to customers purchasing heating, ventilation and air conditioning equipment.

**REGULATORY RESTRUCTURING:** In December 1999, several bills related to gas industry restructuring were introduced into the Michigan Legislature. Combined, these bills constitute the "gas choice program." Consumers is participating in the legislative process as part of a gas utility coalition that also includes Michigan Consolidated Gas Company and Southeastern Michigan Gas Company. These bills provide for 1) a phased-in approach to gas choice requiring 40 percent of the customers to be allowed choice by April 2002, 60 percent by April 2003 and all customers by April 2004; 2) a market-based, unregulated pricing mechanism for gas commodity for customers who exercise choice; and 3) a new "safe haven" pricing mechanism for customers who do not exercise choice under which NYMEX pricing would be used to establish a statutory cap on gas commodity prices that could be charged by gas utilities instead of traditional cost of service regulation. The proposed bills also provide for a gas distribution service rate freeze until December 31, 2005, a code of conduct governing business relationships with affiliated gas suppliers and the MPSC licensing of all gas suppliers doing business in Michigan and imposes financial penalties for noncompliance. They also provide customer protection by preventing "slamming", the switching of a customer's gas supplier without consent, and "cramming", the inclusion of optional products and services without the customer's authorization. The bills establishing the gas choice program will become the subject of extensive legislative hearings during which there will undoubtedly be various amendments offered by many parties, including the gas utility coalition. Consumers cannot predict the outcome of this legislative process.

**UNCERTAINTIES:** Consumers' financial results and position may be affected by a number of trends or uncertainties that have, or Consumers reasonably expects could have, a material impact on net sales or revenues or income from continuing gas operations. Such trends and uncertainties include: 1) potential environmental costs at a number of sites, including sites formerly housing manufactured gas plant facilities; 2) a statewide experimental gas industry restructuring program; 3) permanent gas industry restructuring; and 4) implementation of a suspended GCR and initiatives undertaken to protect against gas price increases. For detailed information about these uncertainties see Note 2, Uncertainties, incorporated by reference herein.

## OTHER MATTERS

## NEW ACCOUNTING STANDARDS

In 1999, the FASB issued SFAS 137, Accounting for Derivative Instruments and Hedging Activities Deferral of the Effective Date of FASB Statement No. 133. SFAS 137 defers the effective date of SFAS 133, Accounting for Derivative Instruments and Hedging Activities to January 1, 2001. Consumers will adopt the standard on January 1, 2001 and is currently analyzing the effects of adoption on its financial statements.

## YEAR 2000 COMPUTER MODIFICATIONS

In 1999, Consumers completed a detailed assessment and inventory of all technology related to business processes, with an emphasis on mission-critical systems. Consumers identified, remediated and tested those systems that were not year 2000 ready to ensure that those systems would operate as desired on and after January 1, 2000.

As a result of its year 2000 efforts, Consumers successfully transitioned to the new year without experiencing year 2000-related system failures, power outages or disruptions in services provided to its customers.

Consumers expensed the cost of software modifications as incurred, and capitalized the cost of new software and equipment, which is being amortized over its useful life. Since 1995, the total cost of the Year 2000 Program modifications was \$22 million. Consumers funded year 2000 compliance work primarily from operations. This cost did not have a material effect on Consumers' financial position, liquidity, or results of operations. The commitment of Consumers resources to the year 2000 issue has not deferred any information technology projects whereby the deferral of those projects could cause a material adverse effect on Consumers' financial position, liquidity, or results of operations.

While Consumers does not expect any significant year 2000 issues to develop after year-end 1999, Consumers will continue to monitor its systems throughout the year 2000 to ensure that any year 2000 issues that may arise are addressed promptly.

## DERIVATIVES AND HEDGES

MARKET RISK INFORMATION: Consumers' exposure to market risk sensitive instruments and positions include, but are not limited to, changes in interest rates, debt prices and equity prices in which Consumers holds less than a 20 percent interest. In accordance with the SEC's disclosure requirements, Consumers performed a 10 percent sensitivity analysis on its derivative and non-derivative financial instruments. The analysis measures the change in the net present values based on a hypothetical 10 percent adverse change in the market rates to determine the potential loss in fair values, cash flows and earnings. Losses in excess of the amounts determined could occur if market rates or prices exceed the 10 percent change used for the analysis. Management does not believe that a sensitivity analysis alone provides an accurate or reliable method for monitoring and controlling risk. Therefore, Consumers relies on the experience and judgment of senior management to revise strategies and adjust positions, as they deem necessary.

For purposes of the analysis below, Consumers has not quantified short-term exposures to hypothetically adverse changes in the price or nominal amounts associated with inventories or trade receivables and payables. Furthermore, Consumers enters into all derivative financial instruments for purposes other than trading. In the case of hedges, management believes that any losses incurred on derivative instruments used as a hedge would be offset by the opposite movement of the underlying hedged item.

EQUITY SECURITY PRICE RISK: Consumers has equity investments in companies in which it holds less than a 20 percent interest in the entity. A hypothetical 10 percent adverse change in market price would result in a \$12 million change in its investment and equity since this equity instrument is currently marked-to-market through equity. Consumers believes that such an adverse change would not have a material effect on its consolidated financial position, results of operation or cash flows. For further information, regarding Consumers equity investments, see Note 5, Financial Instruments.

DEBT PRICE AND INTEREST RATE RISK: Management uses a combination of fixed-rate and variable-rate debt to reduce interest rate exposure. Interest rate swaps and rate locks may be used to adjust exposure when deemed appropriate, based upon market conditions. These strategies attempt to provide and maintain the lowest cost of capital.

As of December 31, 1999, Consumers had outstanding \$108 million of variable-rate debt net of any interest rate swaps. To minimize adverse interest-rate changes, Consumers entered into fixed interest-rate swaps for a notional amount of \$845 million. Assuming a hypothetical 10 percent adverse change in market interest rates, Consumers' exposure to earnings is limited to \$1 million. As of December 31, 1999, Consumers has outstanding fixed-rate debt including fixed-rate swaps of \$2.907 billion with a fair value of \$2.765 billion. Assuming a hypothetical 10 percent adverse change in market rates, Consumers would have an exposure of \$135 million to its fair value. Consumers believes that any adverse change in debt price and interest rates would not have a material effect on its consolidated financial position, results of operation or cash flows.

CE-11

In Millions

Years Ended December 31		1999	1998	1997
<hr/>				
OPERATING REVENUE	Electric	\$ 2,667	\$ 2,606	\$2,515
	Gas	1,156	1,051	1,204
	Other	51	52	50
		<hr/>	<hr/>	<hr/>
		3,874	3,709	3,769
<hr/>				
OPERATING EXPENSES	Operation			
	Fuel for electric generation	336	317	297
	Purchased power - related parties	560	573	599
	Purchased and interchange power	297	285	243
	Cost of gas sold	637	564	694
	Other	570	544	542
		<hr/>	<hr/>	<hr/>
		2,400	2,283	2,375
	Maintenance	174	173	170
	Depreciation, depletion and amortization	424	403	391
	General taxes	201	201	200
		<hr/>	<hr/>	<hr/>
		3,199	3,060	3,136
<hr/>				
PRETAX OPERATING INCOME	Electric	494	475	432
	Gas	132	126	153
	Other	49	48	48
		<hr/>	<hr/>	<hr/>
		675	649	633
<hr/>				
OTHER INCOME (DEDUCTIONS)	Loss on MCV power purchases	-	(37)	-
	Dividends and interest from affiliates	11	14	24
	Accretion income (Note 1)	4	6	8
	Accretion expense (Note 1)	(14)	(16)	(17)
	Other, net	17	-	(2)
		<hr/>	<hr/>	<hr/>
		18	(33)	13
<hr/>				
INTEREST CHARGES	Interest on long-term debt	140	138	138
	Other interest	41	38	36
	Capitalized interest	-	(1)	(1)
		<hr/>	<hr/>	<hr/>
		181	175	173
<hr/>				
NET INCOME BEFORE INCOME TAXES		512	441	473
INCOME TAXES		172	135	152
		<hr/>	<hr/>	<hr/>
NET INCOME BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE		340	306	321
CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING FOR PROPERTY TAXES, NET OF \$23 TAX (NOTE 1)		-	43	-
		<hr/>	<hr/>	<hr/>
NET INCOME		340	349	321
PREFERRED STOCK DIVIDENDS		6	19	25
PREFERRED SECURITIES DISTRIBUTIONS		21	18	12
		<hr/>	<hr/>	<hr/>
NET INCOME AVAILABLE TO COMMON STOCKHOLDER		\$ 313	\$ 312	\$ 284

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

## CONSUMERS ENERGY COMPANY

In Millions

Years Ended December 31		1999	1998	1997
<hr/>				
CASH FLOWS FROM OPERATING ACTIVITIES	Net income	\$ 340	\$ 349	\$ 321
	Adjustments to reconcile net income to net cash provided by operating activities			
	Depreciation, depletion and amortization (includes nuclear decommissioning of \$50, \$51 and \$50, respectively)	424	403	391
	Loss on MCV power purchases	-	37	-
	Capital lease and other amortization	35	36	44
	Accretion expense	14	16	17
	Deferred income taxes and investment tax credit	2	21	13
	Accretion income - abandoned Midland project	(4)	(6)	(8)
	Undistributed earnings of related parties	(50)	(50)	(47)
	MCV power purchases	(62)	(64)	(62)
	Cumulative effect of accounting change	-	(66)	-
	Changes in other assets and liabilities	82	(51)	92
	Net cash provided by operating activities	781	625	761
<hr/>				
CASH FLOWS FROM INVESTING ACTIVITIES	Capital expenditures (excludes assets placed under capital lease)	(444)	(369)	(360)
	Cost to retire property, net	(93)	(83)	(46)
	Investments in nuclear decommissioning trust funds	(50)	(51)	(50)
	Investment in Electric Restructuring Implementation Plan	(32)	(17)	(3)
	Associated company preferred stock redemption	50	50	50
	Proceeds from nuclear decommissioning trust funds	43	53	17
	Proceeds from the sale of two non-utility partnerships	-	27	-
	Proceeds from FMLP	10	12	-
	Other	7	4	(3)
	Net cash used in investing activities	(509)	(374)	(395)
<hr/>				
CASH FLOWS FROM FINANCING ACTIVITIES	Payment of common stock dividends	(262)	(241)	(218)
	Retirement of preferred stock	(200)	-	(120)
	Retirement of bonds and other long-term debt	(87)	(854)	(50)
	Payment of capital lease obligations	(33)	(35)	(44)
	Preferred securities distributions	(21)	(18)	(12)
	Payment of preferred stock dividends	(10)	(19)	(29)
	Increase (decrease) in notes payable, net	-	(162)	44
	Proceeds from preferred securities	169	-	116
	Contribution from (return of equity to) stockholder	150	50	(50)
	Proceeds from senior notes & bank loans	15	1,046	-
	Net cash used in financing activities	(279)	(233)	(363)
<hr/>				
NET INCREASE (DECREASE) IN CASH AND TEMPORARY CASH INVESTMENT		(7)	18	3
	Cash and temporary cash investments - Beginning of year	25	7	4
	End of year	\$ 18	\$ 25	\$ 7
<hr/>				
OTHER CASH FLOW ACTIVITIES AND NON-CASH INVESTING AND FINANCING ACTIVITIES WERE:				
CASH TRANSACTIONS				
	Interest paid (net of amounts capitalized)	\$ 168	\$ 161	\$ 166
	Income taxes paid (net of refunds)	187	153	116
NON-CASH TRANSACTIONS				
	Nuclear fuel placed under capital lease	\$ 6	\$ 46	\$ 4
	Other assets placed under capital leases	14	14	7
<hr/>				

ALL HIGHLY LIQUID INVESTMENTS WITH AN ORIGINAL MATURITY OF THREE MONTHS OR LESS ARE CONSIDERED CASH EQUIVALENTS.

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS.

ASSETS		In Millions	
December 31		1999	1998
-----			
PLANT (AT ORIGINAL COST)	Electric	\$6,981	\$6,720
	Gas	2,461	2,360
	Other	25	25
		-----	-----
		9,467	9,105
	Less accumulated depreciation, depletion and amortization	5,643	4,862
		-----	-----
	Construction work-in-progress	3,824	4,243
		199	165
		-----	-----
		4,023	4,408
-----			
INVESTMENTS	Stock of affiliates	139	241
	First Midland Limited Partnership	240	240
	Midland Cogeneration Venture Limited Partnership	247	209
		-----	-----
		626	690
-----			
CURRENT ASSETS	Cash and temporary cash investments at cost, which approximates market	18	25
	Accounts receivable and accrued revenue, less allowances of \$4 in 1999 and \$5 in 1998	98	114
	Accounts receivable - related parties	67	63
	Inventories at average cost		
	Gas in underground storage	216	219
	Materials and supplies	62	67
	Generating plant fuel stock	46	43
	Postretirement benefits	25	25
	Deferred income taxes	8	-
	Prepaid property taxes and other	159	162
		-----	-----
		699	718
-----			
NON-CURRENT ASSETS	Regulatory Assets		
	Unamortized nuclear costs	519	-
	Postretirement benefits	341	372
	Abandoned Midland project	48	71
	Other	125	133
	Nuclear decommissioning trust funds	602	557
	Other	187	214
		-----	-----
		1,822	1,347
-----			
TOTAL ASSETS		\$7,170	\$7,163
=====			

## CONSUMERS ENERGY COMPANY

STOCKHOLDERS' INVESTMENT AND LIABILITIES		In Millions	
December 31		1999	1998
-----			
CAPITALIZATION (NOTE 3)	Common stockholder's equity		
	Common stock	\$ 841	\$ 841
	Paid-in capital	645	502
	Revaluation capital	37	68
	Retained earnings since December 31, 1992	485	434
		-----	-----
	Preferred stock	2,008	1,845
	Company-obligated mandatorily redeemable preferred securities of:	44	238
	Consumers Power Company Financing I (a)	100	100
	Consumers Energy Company Financing II (a)	120	120
	Consumers Energy Company Financing III (a)	175	-
	Long-term debt	2,006	2,007
	Non-current portion of capital leases	85	100
		-----	-----
		4,538	4,410
-----			
CURRENT LIABILITIES	Current portion of long-term debt and capital leases	90	152
	Notes payable	214	215
	Accounts payable	224	190
	Accrued taxes	232	238
	Accounts payable - related parties	82	79
	Power purchases - MCV Partnership	47	47
	Accrued interest	37	36
	Deferred income taxes	-	9
	Accrued refunds	11	11
	Other	139	138
		-----	-----
		1,076	1,115
-----			
NON-CURRENT LIABILITIES	Deferred income taxes	700	666
	Postretirement benefits	420	456
	Deferred investment tax credit	125	134
	Power purchases - MCV Partnership	73	121
	Regulatory liabilities for income taxes, net	64	87
	Other	174	174
		-----	-----
		1,556	1,638
-----			
Commitments and Contingencies (Notes 1, 2, 8 and 11)			
TOTAL STOCKHOLDERS' INVESTMENT AND LIABILITIES		\$7,170	\$7,163
		=====	=====

(a) The primary asset of Consumers Power Company Financing I is \$103 million principal amount of 8.36% subordinated deferrable interest notes due 2015 from Consumers. The primary asset of Consumers Energy Company Financing II is \$124 million principal amount of 8.20% subordinated deferrable interest notes due 2027 from Consumers. The primary asset of Consumers Energy Company Financing III is \$180 million principal amount of 9.25% subordinated deferrable interest notes due 2029 from Consumers. For further discussion, see Note 3.

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE BALANCE SHEETS.

			In Millions	
December 31			1999	1998
<hr/>				
FIRST MORTGAGE BONDS	SERIES (%)	DUE		
	8-7/8	1999	\$ -	\$ 64
	6-3/8	2003	300	300
	7-3/8	2023	263	264
<hr/>				
SENIOR NOTES	6-3/8	2008	563	628
	6-7/8	2018	250	250
	6-1/5	2008	225	225
	6-1/2	2008	250	250
	6-1/2	2018	200	200
	6-1/2	2028	149	150
<hr/>				
LONG-TERM BANK DEBT			1,637	1,703
POLLUTION CONTROL REVENUE BONDS			190	175
NUCLEAR FUEL DISPOSAL (A)			131	131
OTHER			123	117
			-	22
<hr/>				
PRINCIPAL AMOUNT OUTSTANDING			2,081	2,148
CURRENT AMOUNTS			(55)	(119)
NET UNAMORTIZED DISCOUNT			(20)	(22)
<hr/>				
TOTAL LONG-TERM DEBT			\$2,006	\$2,007
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LONG-TERM DEBT MATURITIES	In Millions			
	First Mortgage Bonds	Long-Term Bank Debt	Other	Total
2000	\$ -	\$ 50	\$ 5	\$ 55
2001	-	-	-	-
2002	-	56	-	56
2003	300	84	-	384
2004	-	-	-	-
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(a) Due date uncertain (see Note 1)

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS.

## CONSOLIDATED STATEMENTS OF PREFERRED STOCK

## CONSUMERS ENERGY COMPANY

December 31	Series	Optional Redemption Price	Number of Shares		In Millions		
			1999	1998	1999	1998	
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PREFERRED STOCK							
	Cumulative, \$100 par value, authorized 7,500,000 shares, with no mandatory redemption	\$4.16 4.50	\$103.25 110.00	68,451 373,148	68,451 373,148	\$ 7 37	\$ 7 37
CLASS A PREFERRED STOCK							
	Cumulative, no par value, authorized 16,000,000 shares, with no mandatory redemption	2.08	25.00 (a)	-	8,000,000	-	194
						-----	
TOTAL PREFERRED STOCK						\$44	\$238
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(a) Redeemed April 1, 1999.

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS.

## CONSOLIDATED STATEMENTS OF COMMON STOCKHOLDER'S EQUITY CONSUMERS ENERGY COMPANY

		In Millions		
Years Ended December 31		1999	1998	1997
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COMMON STOCK	At beginning and end of period (a)	\$ 841	\$ 841	\$ 841
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OTHER PAID-IN CAPITAL	At beginning of period	502	452	504
	Capital stock reacquired	(7)	-	(2)
	Stockholder's contribution	150	100	-
	Return of stockholder's contribution	-	(50)	(50)
	At end of period	645	502	452
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REVALUATION CAPITAL	At beginning of period	68	58	37
	Change in unrealized investment - gain (loss)(b)	(31)	10	21
	At end of period	37	68	58
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RETAINED EARNINGS	At beginning of period	434	363	297
	Net income (b)	340	349	321
	Cash dividends declared - Common Stock	(262)	(241)	(218)
	Cash dividends declared - Preferred Stock	(6)	(19)	(25)
	Preferred securities distributions	(21)	(18)	(12)
	At end of period	485	434	363
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TOTAL COMMON STOCKHOLDER'S EQUITY		\$2,008	\$1,845	\$1,714
=====				

(a) Number of shares of common stock outstanding was 84,108,789 for all periods presented.

(b) Disclosure of Comprehensive Income:

Revaluation capital				
Unrealized investment - gain (loss), net of tax of \$(17), \$6 and \$11, respectively	\$ (31)	\$ 10	\$ 21	
Net income	340	349	321	
	-----			
Total Comprehensive Income	\$ 309	\$ 359	\$ 342	
	=====			

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS.

CONSUMERS ENERGY COMPANY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1: CORPORATE STRUCTURE AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**CORPORATE STRUCTURE:** Consumers is a combination electric and gas utility company serving the lower peninsula of Michigan and is a subsidiary of CMS Energy, a holding company. Consumers' customer base includes a mix of residential, commercial and diversified industrial customers, the largest segment of which is the automotive industry.

**BASIS OF PRESENTATION:** The consolidated financial statements include Consumers and its wholly owned subsidiaries. The financial statements are prepared in conformity with generally accepted accounting principles and include the use of management's estimates. Consumers uses the equity method of accounting for investments in its companies and partnerships where it has more than a 20 percent but less than a majority ownership interest and includes these results in operating income.

**ACCRETION INCOME AND EXPENSE:** In 1991, the MPSC allowed Consumers to recover a portion of its abandoned Midland investment over a 10-year period, but did not allow Consumers to earn a return on that amount. Consumers reduced the recoverable investment to the present value of the future recoveries. During the recovery period, Consumers adjusts the unrecovered asset to its present value. It reflects this adjustment as accretion income. Conversely, Consumers recorded a loss in 1992 for the present value of its estimated future underrecoveries of power costs resulting from purchases from the MCV Partnership (see Note 2). It now recognizes accretion expense annually to reflect the time value of money on the recorded loss.

**GAS INVENTORY:** Consumers uses the weighted average cost method for valuing working gas inventory. It records cushion gas, which is gas stored to maintain reservoir pressure for recovery of working gas, in the appropriate gas utility plant account. Consumers stores gas inventory in its underground storage facilities.

**MAINTENANCE, DEPRECIATION AND DEPLETION:** Consumers charges property repairs and minor property replacements to maintenance expense. Depreciable property retired or sold, plus cost of removal (net of salvage credits), is charged to accumulated depreciation. Consumers bases depreciation provisions for utility property on straight-line and units-of-production rates approved by the MPSC. The composite depreciation rate for electric utility property was 3.0 percent for 1999, 3.5 percent for 1998 and 3.6 percent for 1997. The composite rate for gas utility property was 4.4 percent for 1999, 4.2 percent for 1998 and 4.1 percent for 1997. The composite rate for other property was 8.6 percent for 1999, 7.4 percent for 1998 and 8.2 percent for 1997.

**NUCLEAR FUEL COST:** Consumers amortizes nuclear fuel cost to fuel expense based on the quantity of heat produced for electric generation. Interest on leased nuclear fuel is expensed as incurred. Under current federal law, as confirmed by court decision, the DOE was to begin accepting deliveries of spent nuclear fuel for disposal by January 31, 1998. For fuel used after April 6, 1983, Consumers charges disposal costs to nuclear fuel expense, recovers them through electric rates, and then remits them to the DOE quarterly. Consumers elected to defer payment for disposal of spent nuclear fuel burned before April 7, 1983. At December 31, 1999, Consumers had a recorded liability to the DOE of \$123 million, including interest, which is payable upon the first delivery of spent nuclear fuel to the DOE. Consumers recovered through electric rates the amount of this liability, excluding a portion of interest. In January 1997, in response to the DOE's declaration that it would not begin to accept spent nuclear fuel deliveries in 1998, Consumers and other utilities filed suit in federal court. The court issued a decision in late 1997 affirming the DOE's duty to take delivery of spent fuel, but was not specific as to the relief available for failure of the DOE to comply. Further litigation brought by Consumers and others in 1998 that was intended to produce specific relief for the DOE's failure to comply

has not been successful to date, although such litigation efforts continue. In January 1999, federal legislation was reintroduced in the House of Representatives to clarify the timing of the DOE's obligation to accept spent nuclear fuel and to direct the DOE to establish an integrated spent fuel management system that includes designing and constructing an interim storage facility in Nevada. Similar legislation was reintroduced in the Senate. Consumers cannot predict the outcome of this process.

**NUCLEAR PLANT DECOMMISSIONING:** Consumers collected \$50 million in 1999 from its electric customers for decommissioning of its two nuclear plants. Amounts collected from electric retail customers and deposited in trusts (including trust earnings) are credited to accumulated depreciation. On March 22, 1999, Consumers received a decommissioning order from the MPSC that approved estimated decommissioning costs for Big Rock and Palisades of \$315 million and \$566 million (calculated in 1999 dollars), respectively. Consumers' site-specific decommissioning cost estimates for Big Rock and Palisades assume that each plant site will eventually be restored to conform to the adjacent landscape, and all contaminated equipment will be disassembled and disposed of in a licensed burial facility. The MPSC order also set the annual decommissioning surcharges for Big Rock and Palisades at \$32 million and \$14 million a year, respectively, and required Consumers to file revised decommissioning surcharges for Palisades that incorporate a gradual reduction in the decommissioning trust's equity investments following the plant's retirement. On December 16, 1999, the MPSC approved a revised decommissioning surcharge for Palisades in the amount of \$6 million a year, effective January 1, 2000.

Big Rock closed permanently in 1997 because management determined that it would be uneconomical to operate in an increasingly competitive environment. The plant was originally scheduled to close on May 31, 2000, at the end of the plant's operating license. The MPSC allowed Consumers to continue collecting decommissioning surcharges through December 31, 2000. Plant decommissioning began in 1997 and it may take five to ten years to return the site to its original condition. For 1999, Consumers incurred costs of \$51 million that were charged to the accumulated depreciation reserve for decommissioning and withdrew \$43 million from the Big Rock nuclear decommissioning trust fund. In total, Consumers has incurred costs of \$126 million that have been charged to the accumulated depreciation reserve for decommissioning and withdrew \$112 million from the Big Rock nuclear decommissioning trust fund. These activities had no material impact on net income. At December 31, 1999, Consumers is the beneficiary of the investment in nuclear decommissioning trust funds of \$181 million for Big Rock.

After retirement of Palisades, Consumers plans to maintain the facility in protective storage if radioactive waste disposal facilities are not available. Consumers will incur most of the Palisades decommissioning costs after the plant's NRC operating license expires. When the Palisades' NRC license expires in 2007, the trust funds are currently estimated to have accumulated \$667 million, assuming currently approved MPSC surcharge levels. Consumers estimates that at the time Palisades is fully decommissioned in the year 2046, the trust funds will have provided \$1.9 billion, including trust earnings, over this decommissioning period. At December 31, 1999, Consumers is the beneficiary of the investment in nuclear decommissioning trust funds of \$421 million for Palisades.

**RECLASSIFICATIONS:** Consumers has reclassified certain prior year amounts for comparative purposes. These reclassifications did not affect consolidated net income for the years presented.

**RELATED-PARTY TRANSACTIONS:** Consumers' investment in Enterprises' preferred stock was \$100 million at December 31, 1999 and \$150 million at December 31, 1998. Beginning in 1997, Enterprises commenced a five-year redemption program of \$50 million per year. In addition, Consumers has an investment in 2.9 million shares of CMS Energy Common Stock with a fair value totaling \$90 million at December 31, 1999 (see Note 5). From these two investments, Consumers received dividends from affiliates' common and preferred stock totaling \$11 million, \$14 million, and \$17 million in 1999, 1998 and 1997, respectively.

Consumers purchases a portion of its gas from CMS Oil and Gas. The purchases for the years ended 1999, 1998 and 1997 were \$19 million, \$24 million and \$25 million, respectively. In 1999, 1998 and 1997, Consumers paid \$52 million, \$51 million and \$51 million, respectively, for electric generating capacity and the energy generated by that capacity from affiliates of Enterprises. Consumers pays a portion of its gas transportation costs to Panhandle and its subsidiary Trunkline. Transportation fees paid for the nine months ended December 31, 1999 following the March 29, 1999 acquisition were \$33 million. Consumers and its subsidiaries sold, stored and transported natural gas and provided other services to the MCV Partnership totaling \$23 million, \$13 million and \$13 million in 1999, 1998 and 1997, respectively. For additional discussion of related-party transactions with the MCV Partnership and the FMLP, see Notes 2 and 11. Other related-party transactions are immaterial.

UTILITY REGULATION: Consumers accounts for the effects of regulation based on the regulated utility accounting standard SFAS 71, Accounting for the Effects of Certain Types of Regulation. As a result, the actions of regulators affect when Consumers recognizes revenues, expenses, assets and liabilities.

In March 1999, Consumers received MPSC electric restructuring orders which, among other things, identified the terms and timing for implementing electric restructuring in Michigan. Consistent with these orders, Consumers discontinued application of SFAS 71 for the energy supply portion of its business in the first quarter of 1999 because Consumers expected to implement retail open access for its electric customers in September 1999. Discontinuation of SFAS 71 for the energy supply portion of Consumers' business resulted in Consumers reducing the carrying value of its Palisades plant-related assets by approximately \$535 million and establishing a regulatory asset for a corresponding amount. The regulatory asset is collectible as part of the Transition Costs which are recoverable through the regulated transmission and distribution portion of Consumers' business as approved by an MPSC order in 1998. This order also allowed Consumers to recover any energy supply-related regulatory assets, plus a return on any unamortized balance of those assets, from its transmission and distribution customers. According to current accounting standards, Consumers can continue to carry its energy supply-related regulatory assets if legislation or an MPSC rate order allows the collection of cash flows to recover these regulatory assets from its regulated transmission and distribution customers. At December 31, 1999, Consumers had a net investment in energy supply facilities of \$949 million included in electric plant and property.

SFAS 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of imposes stricter criteria for retention of regulatory-created assets by requiring that such assets be probable of future recovery at each balance sheet date. Management believes these assets will be recovered.

The following regulatory assets (liabilities), which include both current and non-current amounts, are reflected in the Consolidated Balance Sheets. These costs are being recovered through rates over periods of up to 13 years.

In Millions

December 31	1999	1998
Postretirement benefits (Note 7)	\$366	\$ 397
Income taxes (Note 4)	193	148
Abandoned Midland project	48	71
Manufactured gas plant sites (Note 2)	65	48
DSM - deferred costs	13	32
Uranium enrichment facility	18	20
Other	33	38
<b>Total regulatory assets</b>	<b>\$736</b>	<b>\$ 754</b>
Income taxes (Note 4)	\$(257)	\$(235)
DSM - deferred revenue	(17)	(24)
<b>Total regulatory liabilities</b>	<b>\$(274)</b>	<b>\$(259)</b>

RISK MANAGEMENT ACTIVITIES AND DERIVATIVES TRANSACTIONS: Consumers and its subsidiaries use derivative instruments, including swaps and options, to manage exposure to fluctuations in interest rates and commodity prices, respectively. To qualify for hedge accounting, derivatives must meet the following criteria: 1) the item to be hedged exposes the enterprise to price and interest rate risk; and 2) the derivative reduces that exposure and is designated as a hedge.

Derivative instruments contain credit risk if the counterparties, including financial institutions and energy marketers, fail to perform under the agreements. Consumers minimizes such risk by performing financial credit reviews using, among other things, publicly available credit ratings of such counterparties. The risk of nonperformance by the counterparties is considered remote.

Consumers enters into interest rate swap agreements to exchange variable-rate interest payment obligations for fixed-rate obligations without exchanging the underlying notional amounts. These agreements convert variable-rate debt to fixed-rate debt in order to reduce the impact of interest rate fluctuations. The notional amounts parallel the underlying debt levels and are used to measure interest to be paid or received and do not represent the exposure to credit loss.

Consumers enters into electric option contracts to ensure a reliable source of capacity to meet its customers' electric requirements and to limit its risk associated with electricity price increases. It is management's intent to take physical delivery of the commodity. Consumers continuously evaluates its daily capacity needs and sells the option contracts, if marketable, when it has excess daily capacity. Consumers' maximum exposure associated with these options is limited to the price paid.

OTHER: For significant accounting policies regarding income taxes, see Note 4; for executive incentive compensation, see Note 6; and for pensions and other postretirement benefits, see Note 7.

IMPLEMENTATION OF NEW ACCOUNTING STANDARDS: In 1998, the American Institute of Certified Public Accountants issued Statement of Position 98-1, Accounting for the Costs of Computer Software Developed or Obtained for Internal Use, and Statement of Position 98-5, Reporting on the Costs of Start-Up Activities. Also in 1998, the Emerging Issues Task Force published Issue 98-10, Accounting for Energy Trading and Risk Management Activities. Each of these statements was effective for 1999. Application of these standards has not had a material affect on Consumers' financial position, liquidity or results of operations.

CHANGE IN METHOD OF ACCOUNTING FOR PROPERTY TAXES: During the first quarter of 1998, Consumers implemented a change in the method of accounting for property taxes so that such taxes are recognized during the fiscal period of the taxing authority for which the taxes are levied. This change better matches property tax expense with the services provided by the taxing authorities, and is considered the most acceptable basis of recording property taxes. Prior to 1998, Consumers recorded property taxes monthly during the year following the assessment date (December 31). The cumulative effect of this one-time change in accounting increased other income in 1998 by \$66 million, and earnings, net of tax, by \$43 million. The pro forma effect on prior years' consolidated net income of retroactively recording property taxes as if the new method of accounting had been in effect for all periods presented is not material.

## 2: UNCERTAINTIES

### ELECTRIC CONTINGENCIES

ELECTRIC ENVIRONMENTAL MATTERS: The Clean Air Act limits emissions of sulfur dioxide and nitrogen oxides and requires emissions and air quality monitoring. Consumers currently operates within these limits and meets current emission requirements. The Clean Air Act requires the EPA to review periodically the effectiveness of the national air quality standards in preventing adverse health effects. In 1997, the EPA revised these standards to impose further limitations on nitrogen oxide and small particulate-related emissions. In May 1999, a United States Court of Appeals ruled that the grant of authority to the EPA, to revise the standards as the EPA did, would amount to an unconstitutional delegation of legislative power. As a result, the EPA will not implement the standards under the 1997 rule. On October 28, 1999, the United States Court of Appeals denied a request by the EPA for a rehearing. On January 27, 2000, the Department of Justice filed a petition for the United States Supreme Court to review the case. Because of the United States Court of Appeals decisions, the EPA has proposed to reinstate the pre-1997 standards.

In September 1998, based in part upon the 1997 standards, the EPA Administrator issued final regulations requiring the state of Michigan to limit further nitrogen oxide emissions. Consumers anticipates a reduction in nitrogen oxide emissions by 2003 to only 32 percent of levels allowed for the year 2000. The state of Michigan had one year to submit an implementation plan. The state of Michigan filed a lawsuit objecting to the extent of the required emission reductions and requesting an extension of the submission date. In May 1999, the United States Court of Appeals granted an indefinite stay of the submission date for the state of Michigan's implementation plan. In early 2000, the United States Court of Appeals upheld the EPA's final regulations. The state of Michigan is expected to appeal this ruling. Until the appeal is decided, it is unlikely that the state of Michigan will establish Consumers' nitrogen oxide emissions reduction target. In December 1999, the EPA Administrator signed a revised final rule under Section 126 of the Clean Air Act. The rule requires some electric utility generators, including some of Consumers' electric generating facilities, to achieve the same emission rate as that required by the currently challenged September 1998 EPA final rule. Under the revised Section 126 rule, the emission rate will become effective on May 1, 2003 and apply during the ozone season in 2003 and during each subsequent year. Various parties' petitions challenging the EPA's rule have been filed. Until these targets are lawfully established, the estimated cost of compliance discussed below is subject to revision.

The preliminary estimates of capital expenditures to reduce nitrogen oxide-related emissions to the level proposed by the state of Michigan for Consumers' fossil-fueled generating units range from \$150 million to \$290 million, calculated in 1999 dollars. If Consumers had to meet the EPA's 1997 proposed requirements, the estimated cost to Consumers would be between \$290 million and \$500 million, calculated in 1999 dollars. In both these cases the lower estimate represents the capital expenditure level that would satisfactorily meet the proposed emissions limits but would result in higher operating expense. The higher estimate in the range includes expenditures that result in lower operating costs while complying

with the proposed emissions limit. Consumers anticipates that it will incur these capital expenditures between 2000 and 2004, or between 2000 and 2003 if the EPA ultimately imposes its limits.

Consumers may need an equivalent amount of capital expenditures to comply with the new small particulate standards sometime after 2004 if those standards become effective.

Consumers' coal-fueled electric generating units burn low-sulfur coal and are currently operating at or near the sulfur dioxide emission limits that will be effective in the year 2000. During the past few years, to comply with the Clean Air Act, Consumers incurred capital expenditures totaling \$67 million to install equipment at certain generating units. Consumers estimates an additional \$5 million of capital expenditures for ongoing and proposed modifications at the remaining coal-fueled units to meet year 2000 requirements. Management believes that these expenditures will not materially affect Consumers' annual operating costs.

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

Consumers is a potentially responsible party at several contaminated sites administered under Superfund. Superfund liability is joint and several; along with Consumers, many other creditworthy, potentially responsible parties with substantial assets cooperate with respect to the individual sites. Based upon past negotiations, Consumers estimates that its share of the total liability for the known Superfund sites will be between \$2 million and \$9 million. At December 31, 1999, Consumers has accrued the minimum amount of the range for its estimated Superfund liability.

While decommissioning Big Rock, Consumers found that some areas of the plant have coatings that contain both metals and PCBs. Consumers believes it now has viable disposal options for these materials. It estimates the additional cost associated with PCB waste at \$1.5 million. The cost of removal and disposal will constitute part of the cost to decommission the plant and will be paid from the decommissioning fund.

ANTITRUST: In October 1997, two independent power producers sued Consumers in a federal court. The suit alleged antitrust violations relating to contracts which Consumers entered into with some of its customers, and interference with contract claims relating to proposed power facilities. On March 31, 1999, the court issued an opinion and order granting Consumers' motion for summary judgment, resulting in the dismissal of the case. The plaintiffs have appealed this decision. Consumers cannot predict the outcome of this appeal.

#### ELECTRIC RATE MATTERS

ELECTRIC PROCEEDINGS: In 1996, the MPSC issued a final order that authorized Consumers to recover costs associated with the purchase of the additional 325 MW of MCV Facility capacity (see "Power Purchases from the MCV Partnership" in this Note). In addition, the order allowed Consumers to recover its nuclear plant investment by increasing prospective annual nuclear plant depreciation expense by \$18 million, with a corresponding decrease in fossil-fueled generating plant depreciation expense. The order also established an experimental direct-access program. Customers having a maximum demand for electric power of 2 MW or greater are eligible to purchase generation services directly from any eligible third-party power supplier. Consumers will transmit that power for a fee. Delivery of electric power through this direct-access program is limited to 134 MW. In accordance with the MPSC order, Consumers held a lottery to select the customers that would participate in the direct-access program. Subsequently, direct-access for a portion of this 134 MW began in late 1997. The program was substantially filled by the end of March 1999. The Attorney General, ABATE, the MCV Partnership and other parties filed appeals with the Court of Appeals challenging the MPSC's 1996 order. In August 1999, the Court of Appeals affirmed the MPSC's 1996 order in all respects.

In October 1999, the Attorney General filed an application for leave to appeal this decision to the Michigan Supreme Court.

In November 1997, ABATE filed a complaint with the MPSC. The complaint alleged that Consumers' electric earnings are more than its authorized rate of return and sought an immediate reduction in Consumers' electric rates. In testimony filed in this case, ABATE claimed that Consumers received approximately \$189 million in excess revenues for 1998. In its testimony, the MPSC staff stated that 1998 financial results show excess revenues of \$118 million compared to the previously authorized electric return on equity. The MPSC staff offered several alternatives for the MPSC to consider. These alternatives involve several different refunds or reductions that the MPSC could consider separately or in combination, but if made, would not result in a permanent future reduction in electric rates in the amount being sought by ABATE. Consumers filed testimony showing that after ratemaking adjustments and normalizations, there is a revenue deficiency of approximately \$3 million. ABATE and other interveners bear the burden of convincing the MPSC to reduce electric rates, which will otherwise remain unchanged. Consumers believes that ABATE has not met its burden of proving that a reduction in rates is required. Consumers also believes that ABATE's request for refunds from 1995 to present is inappropriate and unlawful; no such retroactive rate adjustment has ever been granted by the MPSC. In December 1999, an announcement was made that an agreement concerning legislation in Michigan on electric deregulation had been reached by Consumers, ABATE, and numerous other industrial and commercial business interests. In anticipation of the legislation being introduced, ABATE and Consumers jointly filed a request with the MPSC to suspend ABATE's electric rate complaint to allow for consideration of the proposed legislation. The MPSC granted a temporary suspension for 120 days (expiring in April 2000), subject to its authority to withdraw the suspension at any time. As part of the suspension, Consumers agreed that, if the case is resumed and a rate reduction is ultimately ordered by the MPSC, it would implement the rate reduction retroactively for a period equal to the length of the actual suspension. In January 2000, the legislation was introduced into the Michigan Legislature. Consumers is unable to predict the outcome of this matter.

In January 1998, the Court of Appeals affirmed an MPSC conclusion that the MPSC has statutory authority to authorize an experimental electric retail wheeling program. In June 1999, the Michigan Supreme Court reversed the Court of Appeals and held that the MPSC does not have the statutory authority to order a utility to provide a mandatory retail wheeling service. For more information on the experimental retail wheeling program see "Electric Restructuring" below.

**ELECTRIC RESTRUCTURING:** As part of ongoing proceedings relating to the restructuring of the electric utility industry in Michigan, the MPSC issued numerous orders since June 1997 proposing that Consumers transmit and distribute energy for competing power suppliers to retail customers (also known as "retail open access"). The restructuring orders provide for: 1) recovery of estimated Stranded Costs of \$1.755 billion through a charge to all customers purchasing their power from other sources until the end of the transition period in 2007, subject to an adjustment through a true-up mechanism; 2) commencement of the phase-in of retail open access beginning September 1999; 3) suspension of the PSCR clause as discussed below; and 4) the right of all customers to choose their power suppliers on January 1, 2002. The recovery of costs of implementing a retail open access program, preliminarily estimated at an additional \$200 million, will be reviewed for prudence by the MPSC and recovered via a charge approved by the MPSC. Nuclear decommissioning costs will also continue to be collected through a separate surcharge to all customers.

Consumers submitted its plan for implementing retail open access to the MPSC in 1998. The primary issues addressed in the plan are: 1) the implementation schedule; 2) the retail open access service options available to customers and suppliers; 3) the process and requirements for customers and others to obtain retail open access service; and 4) the roles and responsibilities for Consumers, customers and suppliers. In March 1999, Consumers received MPSC electric restructuring orders, which generally supported Consumers' implementation plan. Consumers began implementing electric retail customer open access in September 1999,

and will extend open access to 750 MW of Consumers' retail market by 2001. On January 1, 2002, all of Consumers' electric customers will have the right to choose generation suppliers.

Numerous appeals are pending at the Court of Appeals relating to the MPSC's restructuring orders. Because of the June 1999 Michigan Supreme Court decision described above in "Electric Proceedings", Consumers believes that the MPSC lacks statutory authority to mandate industry restructuring. The MPSC ultimately issued an order in August 1999 finding that it has jurisdiction to approve rates, terms, and conditions for electricity retail wheeling (also known as electric customer choice) if a utility voluntarily chooses to offer that service. ABATE and the Attorney General have each appealed the August 1999 order to the Court of Appeals. It is uncertain how the issues raised by the MPSC's August 1999 order will be resolved by the regulatory process, the appellate courts or by legislation addressing electric restructuring issues.

During periods when electric demand is high, the cost of purchasing energy on the spot market can be substantial. Consumers is planning to maintain sufficient generation and to purchase electricity from others to create a power reserve (also called a reserve margin) that provides Consumers with approximately 15 percent additional power above its anticipated power demands. This allows Consumers to provide reliable service to its electric service customers and to protect itself against unscheduled plant outages and unanticipated demand. Before 1998, the PSCR process provided for the recovery of any prudent and necessary power supply costs through customer rates, thus minimizing the risk to shareholders for fluctuations in such costs. In 1998, as a result of an MPSC order associated with electric restructuring efforts, the PSCR process was suspended for 4 years. Under the suspension, customers' rates previously subject to adjustment under the PSCR process, will not be adjusted to reflect the actual costs of fuel, interchange power and purchased power, through 2001. To reduce the risk of high energy prices during peak demand periods, Consumers has employed a strategy of purchasing electric option contracts for the physical delivery of electricity during the months of June through September in order to achieve its reserve margin target. Consumers expects to use a similar strategy in the future. In 1999, Consumers' purchase of electric option contracts cost approximately \$19 million.

In June 1999, Consumers and four other electric utility companies sought approval from the FERC to form the Alliance RTO. The proposed structure provided for the creation of a transmission entity that would control, operate and own transmission facilities of one or more of the member companies, and would control and operate, but not necessarily own, the transmission facilities of other companies. The proposal was structured to give the member companies the flexibility to maintain or divest ownership of their transmission facilities while ensuring independent operation of the regional transmission system. In December 1999, the FERC conditionally approved formation of Alliance, but asked the applicants to make a number of changes in the proposal and to provide additional information. Among other things, the FERC expressed concern about the proposed governance of Alliance, its rates and its geographic configuration. On the same day as the Alliance order, the FERC issued Order No. 2000, which describes the characteristics the FERC would find acceptable in an RTO. In Order No. 2000, the FERC declined to mandate that utilities join RTOs, but did order utilities to make filings in October 2000 and January 2001 declaring their intentions with respect to RTO membership. Consumers and the Alliance companies have sought a rehearing on the Alliance order. Consumers is uncertain about the outcome of the Alliance matter before the FERC and its continued participation in Alliance.

## OTHER ELECTRIC UNCERTAINTIES

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

Summarized Statements of Income for CMS Midland and CMS Holdings (unaudited)

	In Millions		
Year Ended December 31	1999	1998	1997
Pretax operating income	\$49	\$49	\$46
Income taxes and other	15	15	14
Net income	\$34	\$34	\$32

Power Purchases from the MCV Partnership- Consumers' annual obligation to purchase capacity from the MCV Partnership is 1,240 MW through the termination of the PPA in 2025. The PPA provides that Consumers is to pay, based on the MCV Facility's availability, a levelized average capacity charge of 3.77 cents per kwh, a fixed energy charge, and a variable energy charge based primarily on Consumers' average cost of coal consumed for all kwh delivered. Since January 1, 1993, the MPSC has permitted Consumers to recover capacity charges averaging 3.62 cents per kwh for 915 MW, plus a substantial portion of the fixed and variable energy charges. Since January 1, 1996, the MPSC has also permitted Consumers to recover capacity charges for the remaining 325 MW of contract capacity with an initial average charge of 2.86 cents per kwh increasing periodically to an eventual 3.62 cents per kwh by 2004 and thereafter. Because the MPSC has already approved recovery of these capacity costs, Consumers will recover these increases through an adjustment to the currently frozen PSCR factor that will be effective through 2001. Consumers expects to recover the remaining increases through the Transition Cost true-up process and through further adjustments to the PSCR factor. After September 2007, under the terms of the PPA, Consumers will only be required to pay the MCV Partnership capacity and energy charges that the MPSC has authorized for recovery from electric customers.

In March 1999, Consumers signed a long-term power sales agreement to resell to PECO its capacity and energy purchases under the PPA until September 2007. After a three-year transition period during which 100 to 150 MW will be sold to PECO, beginning in 2002 Consumers will sell all 1,240 MW of PPA capacity and associated energy to PECO. In March 1999, Consumers also filed an application with the MPSC for accounting and ratemaking approvals related to the PECO agreement. If used as an offset to electric customers' Transition Cost responsibility, Consumers estimates that there could be a reduction of as much as \$58 million (on a net present value basis) of Transition Cost related to the MCV PPA. In an order issued in April 1999, the MPSC conditionally approved the requests for accounting and rate-making treatment to the extent that customer rates are not increased from the current level absent the agreement and as modified by the order. In response to Consumers' and other parties' requests for clarification and rehearing, in an August 1999 opinion, the MPSC partially granted the relief Consumers requested on rehearing and attached certain additional conditions to its approval. Those conditions relate to Consumers continued decision to carry out the electricity customer choice program (which Consumers has affirmed as discussed above) and a determination to revise its capacity solicitation process (which Consumers has filed but is awaiting an MPSC decision). The August opinion is a companion order to a power supply cost reconciliation order issued on the

same date in another case. This order affects the level of frozen power supply costs recoverable in rates during future years when the transaction with PECO would be taking place. Consumers filed a motion for clarification of the order relating to the PECO agreement, which is still pending. Due to the pending electric industry restructuring legislation in Michigan and the overall uncertainty that exists concerning restructuring, Consumers and PECO have entered into an interim arrangement for the sale of 125 MW of PPA capacity associated energy to PECO during 2000. Prices in the interim arrangement are identical to the March 1999 power sales agreement.

Consumers recognized a loss in 1992 for the present value of the estimated future underrecoveries of power costs under the PPA based on MPSC recovery orders. At December 31, 1999 and December 31, 1998, the remaining after-tax present value of the estimated future PPA liability associated with the 1992 loss totaled \$78 million and \$110 million, respectively. At December 31, 1999, the undiscounted after-tax amount associated with this liability totaled \$142 million. These after-tax cash underrecoveries are based on the assumption that the MCV Facility would be available to generate electricity 91.5 percent of the time over its expected life. Historically the MCV Facility has operated above the 91.5 percent level. Accordingly, in 1998, Consumers increased its PPA liability by \$37 million. Because the MCV Facility operated above the 91.5 percent level in 1998 and in 1999, Consumers has an accumulated unrecovered after-tax shortfall of \$30 million as of December 31, 1999. Consumers believes that this shortfall will be resolved in the context of the electric restructuring effort. If the MCV Facility generates electricity at the 91.5 percent level during the next five years, Consumers' after-tax cash underrecoveries associated with the PPA would be as follows.

	In Millions				
	2000	2001	2002	2003	2004
Estimated cash underrecoveries, net of tax	\$21	\$20	\$19	\$18	\$17

If the MCV Facility operates at availability levels above management's 91.5 percent estimate made in 1992 for the remainder of the PPA and expected shortfalls are not resolved in the context of the electric restructuring effort, Consumers will need to recognize additional losses for future underrecoveries. In March 1999, Consumers and the MCV Partnership reached an agreement effective January 1, 1999 that capped availability payments to the MCV Partnership at 98.5 percent. For further discussion on the impact of the frozen PSCR, see "Electric Restructuring" in this Note. Management is evaluating the adequacy of the contract loss liability considering actual MCV Facility operations and any other relevant circumstances.

In February 1998, the MCV Partnership filed a claim of appeal from the January 1998 and February 1998 MPSC orders in the electric utility industry restructuring. At the same time, the MCV Partnership filed suit in the United States District Court seeking a declaration that the MPSC's failure to provide Consumers and the MCV Partnership a certain source of recovery of capacity payments after 2007 deprived the MCV Partnership of its rights under the Public Utilities Regulatory Policies Act of 1978. In July 1999, the United States District Court issued an order granting the MCV Partnership's motion for summary judgment. The order permanently prohibits enforcement of the restructuring orders in any manner which denies any utility the ability to recover amounts paid to qualifying facilities such as the MCV Facility or which precludes the MCV Partnership from recovering the avoided cost rate. The MPSC has appealed the United States District Court order. Consumers cannot predict the outcome of this litigation.

**NUCLEAR MATTERS:** In January 1997, the NRC issued its Systematic Assessment of Licensee Performance report for Palisades. The report rated all areas as good. The NRC suspended this assessment process for all licensees in 1998. Until the NRC completes its review of processes for assessing performance at nuclear power plants, the NRC uses the Plant Performance Review to provide an assessment of licensee performance. Palisades received its annual performance review dated March 26, 1999 in which the NRC stated that the overall performance at Palisades was acceptable.

Palisades' temporary on-site storage pool for spent nuclear fuel is at capacity. Consequently, Consumers is using NRC-approved steel and concrete vaults, commonly known as "dry casks", for temporary on-site storage. As of December 31, 1999, Consumers had loaded 18 dry storage casks with spent nuclear fuel at Palisades. In June 1997, the NRC approved Consumers' process for unloading spent fuel from a cask previously discovered to have minor weld flaws. Consumers intends to transfer the spent fuel to a new transportable cask when one is available.

Consumers maintains insurance against property damage, debris removal, personal injury liability and other risks that are present at its nuclear generating facilities. Consumers also maintains coverage for replacement power costs during prolonged accidental outages at Palisades. Insurance would not cover such costs during the first 12 weeks of any outage, but would cover most of such costs during the next 52 weeks of the outage, followed by reduced coverage to 80 percent for 110 additional weeks. If certain covered losses occur at its own or other nuclear plants similarly insured, Consumers could be required to pay maximum assessments of \$15.5 million in any one year to NEIL; \$88 million per occurrence under the nuclear liability secondary financial protection program, limited to \$10 million per occurrence in any year; and \$6 million if nuclear workers claim bodily injury from radiation exposure. Consumers considers the possibility of these assessments to be remote.

The NRC requires Consumers to make certain calculations and report on the continuing ability of the Palisades reactor vessel to withstand postulated pressurized thermal shock events during its remaining license life, considering the embrittlement of reactor materials. In December 1996, Consumers received an interim Safety Evaluation Report from the NRC indicating that the reactor vessel can be safely operated through 2003 before reaching the NRC's screening criteria for reactor embrittlement. Consumers believes that with fuel management designed to minimize embrittlement, it can operate Palisades to the end of its license life in the year 2007 without annealing the reactor vessel. Nevertheless, Consumers will continue to monitor the matter.

**CAPITAL EXPENDITURES:** Consumers estimates electric capital expenditures, including new lease commitments, of \$426 million for 2000, \$520 million for 2001, and \$473 million for 2002. For further information, see the Capital Expenditures Outlook section in the MD&A.

**COMMITMENTS FOR COAL SUPPLIES:** Consumers has entered into coal supply contracts with various suppliers for its coal-fired generating stations. Under the terms of these agreements, Consumers is obligated to take physical delivery of the coal and make payment based upon the contract terms. Consumers' current contracts have expiration dates that range from 2001 to 2004. Consumers enters into long-term contracts for approximately 50 to 75 percent of its annual coal requirements. In 1999, coal purchases totaled \$262.5 million of which \$197.2 million (75 percent of the tonnage requirement) was under long-term contract. Consumers supplements its long-term contracts with spot-market purchases.

#### **GAS CONTINGENCIES**

**GAS ENVIRONMENTAL MATTERS:** Under the Michigan Natural Resources and Environmental Protection Act, Consumers expects that it will ultimately incur investigation and remedial action costs at a number of sites. These include 23 sites that formerly housed manufactured gas plant facilities, even those in which it has a partial or no current ownership interest. Consumers has completed initial investigations at the 23 sites. On sites where Consumers has received site-wide study plan approvals, it will continue to implement these plans. It will also work toward closure of environmental issues at sites as studies are completed. Consumers has estimated its costs related to further investigation and remedial action for all 23 sites using the Gas Research Institute-Manufactured Gas Plant Probabilistic Cost Model. Using this model, Consumers estimates the costs to be between \$66 million and \$118 million. These estimates are based on undiscounted 1999 costs. As of December 31, 1999, Consumers has an accrued liability of \$62 million and a regulatory asset of \$65 million. Any significant change in assumptions, such as remediation techniques, nature and extent of contamination,

and legal and regulatory requirements, could affect the estimate of remedial action costs for the sites. Consumers defers and amortizes, over a period of ten years, environmental clean-up costs above the amount currently being recovered in rates. Rate recognition of amortization expense cannot begin until after a prudence review in a future general gas rate case. Consumers is allowed current recovery of \$1 million annually. Consumers has initiated lawsuits against certain insurance companies regarding coverage for some or all of the costs that it may incur for these sites.

#### GAS RATE MATTERS

**GAS RESTRUCTURING:** In December 1997, the MPSC approved Consumers' application to implement an experimental gas transportation program. The program will extend over a three-year period, ending March 31, 2001, eventually allowing 300,000 residential, commercial and industrial retail gas sales customers to choose an alternative gas commodity supplier in direct competition with Consumers. The program is voluntary and participating natural gas customers are selected on a first-come, first-served basis, up to a limit of 100,000 per year. As of December 31, 1999, more than 176,000 customers chose alternative gas suppliers, representing approximately 42.2 bcf of gas load. Customers choosing to remain as sales customers of Consumers will not see a rate change in their natural gas rates. This three-year program: 1) freezes gas distribution rates through March 31, 2001, establishing a gas commodity cost at a fixed rate of \$2.84 per mcf; 2) establishes an earnings sharing mechanism with customers if Consumers' earnings exceed certain pre-determined levels; and 3) establishes a gas transportation code of conduct that addresses the relationship between Consumers and marketers, including its affiliated marketers. In December 1999, the Court of Appeals affirmed in its entirety the December 1997 MPSC Order. Petitions for rehearing filed by several parties were subsequently denied by the Court of Appeals.

Consumers contracts to purchase gas to limit its risk associated with gas price increases. Management's intent is to take physical delivery of the commodity and failure could result in a significant penalty for nonperformance. At December 31, 1999, Consumers had an exposure to gas price increases if the ultimate cost of gas was to exceed \$2.84 per mcf for the following volumes: 50 percent of its 2000 requirements; and 50 percent of its first quarter 2001 requirements. Additional contract coverage is currently under review. The gas purchase contracts currently in place were consummated at an average price of less than \$2.84 per mcf. Consumers uses gas purchase contracts to protect against gas price increases in a three-year experimental gas program where Consumers is recovering from its customers \$2.84 per mcf for gas.

#### OTHER GAS UNCERTAINTIES

**CAPITAL EXPENDITURES:** Consumers estimates gas capital expenditures, including new lease commitments, of \$113 million for 2000, \$130 million for 2001, and \$127 million for 2002. For further information, see the Capital Expenditures Outlook section in the MD&A.

**COMMITMENTS FOR GAS SUPPLIES:** Consumers contracts to purchase gas and transportation from various suppliers for its natural gas business. These contracts have expiration dates that range from 2000 to 2004. Consumers' 1999 gas requirements totaled 200 bcf at a cost of \$542 million, 80 percent of which was under long-term contracts for one year or more. As of the end of 1999, Consumers had 50 percent of its 2000 gas requirements under such long-term contracts, and will supplement them with additional long-term and short-term contracts and spot-market purchases.

#### OTHER UNCERTAINTIES

In addition to the matters disclosed in this note, Consumers and certain of its subsidiaries are parties to certain lawsuits and administrative proceedings before various courts and governmental agencies arising from the

ordinary course of business. These lawsuits and proceedings may involve personal injury, property damage, contractual matters, environmental issues, federal and state taxes, rates, licensing and other matters.

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

### 3: SHORT-TERM FINANCINGS AND CAPITALIZATION

**AUTHORIZATION:** At February 1, 2000, Consumers had FERC authorization to issue or guarantee through June 2000, up to \$900 million of short-term securities outstanding at any one time. Consumers also had remaining FERC authorization to issue through June 2000, up to \$275 million and \$365 million of long-term securities with maturities up to 30 years for refinancing purposes and for general corporate purposes, respectively.

**SHORT-TERM FINANCINGS:** Consumers has an unsecured \$300 million credit facility and unsecured lines of credit aggregating \$135 million. These facilities are available to finance seasonal working capital requirements and to pay for capital expenditures between long-term financings. At December 31, 1999, a total of \$214 million was outstanding at a weighted average interest rate of 6.6 percent, compared with \$215 million outstanding at December 31, 1998, at a weighted average interest rate of 5.8 percent. In January 1999, Consumers renegotiated a variable-to-fixed interest rate swap totaling \$175 million. In September 1999, Consumers entered into two variable-to-fixed interest rate swaps totaling \$740 million; this amount was reduced by \$70 million to \$670 million by December 31, 1999 and terminated January 31, 2000.

Consumers also has in place a \$325 million trade receivables sale program. At December 31, 1999 and 1998, receivables sold under the program totaled \$325 million and \$306 million, respectively. Accounts receivable and accrued revenue in the Consolidated Balance Sheets have been reduced to reflect receivables sold.

**LONG-TERM FINANCINGS:** Consumers issued long-term bank debt of \$15 million in February 1999, maturing in February 2002, at an initial interest rate of 5.3 percent. For detailed information about long-term financing, see the Consolidated Statements of Long-Term Debt.

In May 1999, Michigan Gas Storage repaid its \$20 million outstanding term loan with Toronto Dominion Bank.

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

In November 1999, \$64 million of Consumers' First Mortgage Bonds matured and were retired.

**PREFERRED SECURITIES:** On April 1, 1999, Consumers redeemed all 8 million outstanding shares of its \$2.08 preferred stock at \$25.00 per share for a total of \$200 million.

In October 1999, 7 million shares of 9.25 percent Trust Preferred Securities were issued and sold through Consumers Energy Company Financing III, a wholly owned business trust consolidated with Consumers. Net proceeds from the sale totaled approximately \$169 million. Consumers formed the trust for the sole purpose of issuing the Trust Preferred Securities. Consumers' obligations with respect to the Trust Preferred Securities under the related tax-deductible notes, under the indenture through which Consumers issued the notes, under Consumers' guarantee of the Trust Preferred Securities, and under the declaration by the trust, taken together,

constitute a full and unconditional guarantee by Consumers of the trust's obligations under the Trust Preferred Securities.

OTHER: Consumers has a total of \$131 million of long-term pollution control revenue bonds outstanding, secured by first mortgage bonds and insurance policies. These bonds had a weighted average interest rate of 5.1 percent at December 31, 1999.

Under the provisions of its Articles of Incorporation, Consumers had \$359 million of unrestricted retained earnings available to pay common dividends at December 31, 1999. In January 2000, Consumers declared and paid a \$79 million common dividend.

#### 4: INCOME TAXES

Consumers and its subsidiaries file a consolidated federal income tax return with CMS Energy. Income taxes are generally allocated based on each company's separate taxable income. Consumers practices full deferred tax accounting for temporary differences as authorized by the MPSC.

Consumers used ITC to reduce current income taxes payable, and defers and amortizes ITC over the life of the related property. Any AMT paid generally becomes a tax credit that Consumers can carry forward indefinitely to reduce regular tax liabilities in future periods when regular taxes paid exceed the tax calculated for AMT. The significant components of income tax expense (benefit) consisted of:

	In Millions		
Years Ended December 31	1999	1998	1997
Current federal income taxes	\$170	\$138	\$139
Deferred income taxes, includes \$23 for 1998 change in accounting (Note 1)	11	36	23
Deferred ITC, net	(9)	(16)	(10)
	\$172	\$158	\$152

The principal components of Consumers' deferred tax assets (liabilities) recognized in the balance sheet are as follows:

	In Millions	
December 31	1999	1998
Property	\$ (587)	\$ (563)
Unconsolidated investments	(230)	(248)
Postretirement benefits (Note 7)	(128)	(139)
Abandoned Midland project	(17)	(25)
Employee benefit obligations, includes postretirement benefits of \$134 and \$139 (Note 7)	171	172
Power purchases (Note 2)	42	59
AMT carryforward	48	64
Other	9	5
	\$ (692)	\$ (675)
Gross deferred tax liabilities	\$ (1,388)	\$ (1,377)
Gross deferred tax assets	696	702
	\$ (692)	\$ (675)

The actual income tax expense differs from the amount computed by applying the statutory federal tax rate to income before income taxes as follows:

	In Millions		
Years Ended December 31	1999	1998	1997
Net income	\$ 340	\$ 349	\$ 321
Income tax expense, includes \$23 for 1998 change in accounting (Note 1)	172	158	152
Preferred securities distributions	(21)	(18)	(12)
Pretax income	491	489	461
Statutory federal income tax rate	x35%	x35%	x35%
Expected income tax expense	172	171	161
Increase (decrease) in taxes from			
Capitalized overheads previously flowed through	5	5	5
Differences in book and tax depreciation not previously deferred	19	14	14
ITC amortization/adjustments	(9)	(16)	(10)
Affiliated companies' dividends	(4)	(5)	(6)
Other, net	(11)	(11)	(12)
Actual income tax expense	\$ 172	\$ 158	\$ 152
Effective tax rate	35.0%	32.3%	32.9%

## 5: FINANCIAL INSTRUMENTS

The carrying amounts of cash, short-term investments and current liabilities approximate their fair values due to their short-term nature. The estimated fair values of long-term investments are based on quoted market prices or, in the absence of specific market prices, on quoted market prices of similar investments or other valuation techniques. The carrying amounts of all long-term investments, except as shown below, approximate fair value.

In Millions						
December 31	1999			1998		
Available-for-sale securities	Cost	Fair Value	Unrealized Gain	Cost	Fair Value	Unrealized Gain
Common stock of CMS Energy (a)	\$ 42	\$ 90	\$ 48	\$ 43	\$ 142	\$ 99
SERP	20	28	8	18	25	7
Nuclear decommissioning investments (b)	448	602	154	425	557	132

(a) As of February 17, 2000, the fair value of Consumers investment in CMS Energy common stock is \$53 million.

(b) Consumers classifies its unrealized gains and losses on nuclear decommissioning investments in accumulated depreciation.

The carrying amount of long-term debt was \$2.0 billion at December 31, 1999 and \$2.0 billion at December 31, 1998, and the fair values were \$1.9 billion and \$2.0 billion, respectively. For held-to-maturity securities and related-party financial instruments, see Note 1.

## 6: EXECUTIVE INCENTIVE COMPENSATION

Consumers participates in CMS Energy's Performance Incentive Stock Plan. Under the plan, restricted shares of Common Stock of CMS Energy, stock options and stock appreciation rights related to Common Stock may be granted to key employees based on their contributions to the successful management of CMS Energy and its subsidiaries. Awards under the plan may consist of any class of Common Stock of CMS Energy. Certain plan awards are subject to performance-based business criteria. The plan reserves for award not more than five percent, as amended January 1, 1999, of CMS Energy's Common Stock outstanding on January 1 each year, less (1) the number of shares of restricted Common Stock awarded and (2) Common Stock subject to options granted under the plan during the immediately preceding four calendar years. The number of shares of restricted Common Stock awarded under this plan cannot exceed 20% of the aggregate number of shares reserved for award. Any forfeiture of shares previously awarded will increase the number of shares available to be awarded under the plan. At December 31, 1999, awards of up to 2,466,524 shares of CMS Energy Common Stock may be issued.

Restricted shares of Common Stock are outstanding shares with full voting and dividend rights. These awards vest over five years at the rate of 25 percent per year after two years. The restricted shares are subject to achievement of specified levels of total shareholder return and are subject to forfeiture if employment terminates before vesting. If performance objectives are exceeded, the plan provides additional awards. Restricted shares vest fully if control of CMS Energy changes, as defined by the plan. At December 31, 1999,

208,557 of the 283,057 shares of restricted CMS Energy Common Stock outstanding are subject to performance objectives.

The plan grants stock options and stock appreciation rights relating to Common Stock with an exercise price equal to the closing market price on each grant date. Some options may be exercised upon grant; others vest over five years at the rate of 25 percent per year after one year. All options expire up to ten years and one month from date of grant. In 1999, all outstanding Class G Common Stock and options were converted to CMS Energy Common Stock and options at an exchange rate of .7041 per Class G Common Stock or option held. The original vesting or exercise period was retained for all converted shares or options. The status of the restricted stock and options granted to Consumers' key employees under the Performance Incentive Stock Plan follows.

CMS ENERGY COMMON STOCK	Restricted Stock	Options	
	Number of Shares	Number of Shares	Weighted Average Exercise Price
Outstanding at January 1, 1997	277,366	762,745	\$ 26.55
Granted	165,942	152,352	\$ 35.97
Exercised or Issued	(73,375)	(377,317)	\$ 27.21
Forfeited	(59,582)	-	
Outstanding at December 31, 1997	310,351	537,780	\$ 28.84
Granted	92,319	116,164	\$ 43.38
Exercised or Issued	(74,319)	(123,288)	\$ 28.05
Outstanding at December 31, 1998	328,351	530,656	\$ 32.21
Granted	71,025	250,020	\$ 38.56
Exercised or Issued	(80,489)	(68,609)	\$ 29.76
Forfeited	(41,890)	-	
Expired	-	(37,900)	\$ 39.21
Class G Common Stock Converted	6,060	19,503	\$ 32.64
Outstanding at December 31, 1999	283,057	693,670	\$ 34.37

CLASS G COMMON STOCK	Restricted Stock	Options	
	Number of Shares	Number of Shares	Weighted Average Exercise Price
Outstanding at January 1, 1997	16,347	21,000	\$ 17.88
Granted	8,784	12,000	\$ 20.24
Exercised or Issued	(1,385)	(5,000)	\$ 17.88
Forfeited	(3,955)	-	
Outstanding at December 31, 1997	19,791	28,000	\$ 18.89
Granted	14,720	45,900	\$ 24.50
Exercised or Issued	(4,021)	-	
Outstanding at December 31, 1998	30,490	73,900	\$ 22.37
Granted	3,427	-	

Exercised or Issued	(7,360)	(19,000)	\$18.45
Forfeited	(17,949)	-	
Expired	-	(27,200)	\$24.50
Converted to CMS Energy Common Stock	(8,608)	(27,700)	\$22.98
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Outstanding at December 31, 1999 - - -

The following table summarizes information about CMS Energy Common Stock options outstanding at December 31, 1999:

Range of Exercise Prices	Number of Shares Outstanding	Weighted Average Remaining Life	Weighted Average Exercise Price
-----			
CMS Energy Common Stock:			
\$17.13 - \$27.61	157,076	4.00 years	\$23.09
\$30.63 - \$38.00	232,410	6.84 years	\$33.81
\$39.06 - \$43.38	304,184	9.26 years	\$40.60
-----			
\$17.13 - \$43.38	693,670	7.26 years	\$34.37
=====			

The weighted average fair value of options granted for CMS Energy Common Stock was \$6.08 in 1999, \$6.43 in 1998, and \$6.38 in 1997. The weighted average fair value of options granted for Class G Common Stock was \$3.03 in 1998 and \$1.87 in 1997. Fair value is estimated using the Black-Scholes model, a mathematical formula used to value options traded on securities exchanges, with the following assumptions:

Years Ended December 31	1999	1998	1997
-----			
CMS ENERGY COMMON STOCK OPTIONS			
Risk-free interest rate	5.66%	5.45%	6.06%
Expected stock price volatility	16.96%	15.93%	17.43%
Expected dividend rate	\$ .365	\$ .33	\$ .30
Expected option life	4.7 years	4 years	5 years
CLASS G COMMON STOCK OPTIONS			
Risk-free interest rate		5.44%	6.06%
Expected stock price volatility		20.02%	18.05%
Expected dividend rate		\$ .325	\$ .31
Expected option life		5 years	5 years
=====			

Consumers applies Accounting Principles Board Opinion 25 and related interpretations in accounting for the Performance Incentive Stock Plan. Since stock options are granted at market price, no compensation cost has been recognized for stock options granted under the plan. If compensation cost for stock options had been determined in accordance with SFAS 123, Accounting for Stock-Based Compensation, Consumers' net income would have decreased by less than \$1 million for 1999, 1998 and 1997. The compensation cost charged against income for restricted stock was \$3 million in 1999, \$4 million in 1998, and \$2 million in 1997.

## 7: RETIREMENT BENEFITS

Consumers provides retirement benefits under a number of different plans, including certain health care and life insurance benefits under OPEB, benefits to certain management employees under SERP, and benefits to substantially all its employees under a trustee, non-contributory, defined benefit Pension Plan, and a defined contribution 401(k) plan.

Amounts presented below for the Pension Plan include amounts for employees of CMS Energy and non-utility affiliates which were not distinguishable from the plan's total assets.

## Weighted-Average Assumptions

Years Ended December 31	Pension & SERP			OPEB	
	1999	1998	1997	1999	1998
Discount rate	7.75%	7.00%	7.50%	7.75%	7.00%
Expected long-term rate of return on plan assets	9.25%	9.25%	9.25%	7.00%	7.00%
Rate of compensation increase:					
Pension - to age 45	5.25%	5.25%	5.25%		
- age 45 to assumed retirement	3.75%	3.75%	3.75%		
SERP	5.50%	5.50%	5.50%		

Retiree health care costs at December 31, 1999 are based on the assumption that costs would increase 7.0 percent in 2000, then decrease gradually to 5.5 percent in 2006 and thereafter.

CMS Energy's Net Pension Plan, Consumers' SERP and OPEB benefit costs consist of:

Years Ended December 31	Pension & SERP			OPEB	
	1999	1998	1997	1999	1998
Service cost	\$ 32	\$ 26	\$ 25	\$12	\$10
Interest expense	69	61	60	44	42
Expected return on plan assets	(84)	(73)	(70)	(24)	(17)
Amortization of unrecognized transition (asset)	(5)	(5)	(5)	-	-
Ad Hoc Retiree Increase	3	-	-	-	-
Amortization of prior service cost	4	4	4	(1)	(1)
Net periodic pension and postretirement benefit cost	\$ 19	\$13	\$14	\$31	\$34

The health care cost trend rate assumption significantly affects the amounts reported. A one percentage point change in the assumed health care cost trend assumption would have the following effects:

	One Percentage Point Increase		One Percentage Point Decrease	
Effect on total service and interest cost component		\$ 10		\$ (8)
Effect on postretirement benefit obligation		\$ 98		\$(82)

The funded status of the CMS Energy Pension Plan, Consumers' SERP and OPEB is reconciled with the liability recorded at December 31 as follows:

	In Millions					
	Pension Plan		SERP		OPEB	
	1999	1998	1999	1998	1999	1998
Benefit obligation January 1	\$ 874	\$ 792	\$ 21	\$ 18	\$ 643	\$ 570
Service cost	31	25	1	1	12	10
Interest cost	68	60	1	1	44	42
Plan amendments	4	-	-	-	-	-
Business combinations	70	-	-	-	-	-
Actuarial loss (gain)	3	76	(3)	2	17	49
Benefits paid	(79)	(79)	(1)	(1)	(31)	(28)
Benefit obligation December 31	971	874	19	21	685	643
Plan assets at fair value at January 1	970	882	-	-	321	219
Actual return on plan assets	120	167	-	-	49	54
Company contribution	-	-	-	-	48	48
Business combinations	83	-	-	-	-	-
Actual benefits paid	(79)	(79)	-	-	-	-
Plan assets at fair value at December 31	1,094(a)	970(a)	-	-	418	321
Benefit obligation less than (in excess of) plan assets	123	96	(19)	(21)	(267)	(322)
Unrecognized net (gain) loss from experience different than assumed	(212)	(176)	2	4	(79)	(71)
Unrecognized prior service cost	28	31	1	1	(1)	(1)
Unrecognized net transition (asset) obligation	(11)	(16)	-	-	-	-
Recorded liability	\$ (72)	\$ (65)	\$ (16)	\$ (16)	\$ (347)	\$ (394)

(a) Primarily stocks and bonds, including \$108 million in 1999 and \$168 million in 1998 of CMS Energy Common Stock.

SERP benefits are paid from a trust established in 1988. SERP is not a qualified plan under the Internal Revenue Code, and as such, earnings of the trust are taxable and trust assets are included in consolidated assets. At December 31, 1999 and 1998, trust assets were \$28 million and \$25 million, respectively, and were classified as other non-current assets. The accumulated benefit obligation for SERP was \$13 million in 1999 and \$14 million in 1998.

Contributions to the 401(k) plan are invested in CMS Energy Common Stock. Amounts charged to expense for this plan were \$16 million in 1999, \$15 million in 1998, and \$18 million in 1997.

Beginning January 1, 1986, the amortization period for the Pension Plan's unrecognized net transition asset is 16 years and 11 years for the SERP's unrecognized net transition obligation. Prior service costs are amortized on a straight-line basis over the average remaining service period of active employees.

Consumers adopted the required accounting for postretirement benefits effective in 1992 and recorded a liability of \$466 million for the accumulated transition obligation and a corresponding regulatory asset for

anticipated recovery in utility rates (see Note 1, Utility Regulation). The MPSC authorized recovery of the electric utility portion of these costs in 1994 over 18 years and the gas utility portion in 1996 over 16 years. At December 31, 1999, Consumers had a recorded FERC regulatory asset and liability of \$5 million. The FERC has authorized recovery of these costs.

#### 8: LEASES

Consumers leases various assets, including vehicles, rail cars, aircraft, construction equipment, computer equipment, nuclear fuel and buildings. In November 1999, Consumers was granted an extension to the nuclear fuel capital leasing arrangement. The lease expires in November 2001, yet provides for additional one-year extensions upon mutual agreement by the parties. Upon termination of the lease, the lessor would be entitled to a cash payment equal to its remaining investment, which was \$58 million as of December 31, 1999. Consumers generally is responsible for payment of taxes, maintenance, operating costs, and insurance.

Minimum rental commitments under Consumers' non-cancelable leases at December 31, 1999, were:

	In Millions	
	Capital Leases	Operating Leases
2000	\$ 45	\$ 14
2001	56	13
2002	17	11
2003	14	11
2004	11	8
2005 and thereafter	10	53
Total minimum lease payments	153	\$110
Less imputed interest	33	---
Present value of net minimum lease payments	120	---
Less current portion	35	---
Non-current portion	\$ 85	---

Consumers recovers lease charges from customers and accordingly charges payments for its capital and operating leases to operating expense. Operating lease charges, including charges to clearing and other accounts for the years ended December 31, 1999, 1998 and 1997, were \$14 million, \$11 million and \$3 million, respectively.

Capital lease expenses for the years ended December 31, 1999, 1998 and 1997 were \$41 million, \$41 million and \$49 million, respectively. Included in these amounts, for the years ended 1999, 1998 and 1997, are nuclear fuel lease expenses of \$23 million, \$23 million and \$31 million, respectively.

## 9: JOINTLY OWNED UTILITY FACILITIES

Consumers is responsible for providing its share of financing for the jointly owned utility facilities. Consumers includes in operating expenses the direct expenses of the joint plants. The following table indicates the extent of Consumers' investment in jointly owned utility facilities:

In Millions				
December 31	1999	Net Investment 1998	1999	1998
Campbell Unit 3 - 93.3 percent	\$284	\$299	\$295	\$279
Ludington - 51 percent	104	106	100	94
Transmission lines - various	32	33	16	15

## 10: REPORTABLE SEGMENTS

Consumers has two reportable segments: electric and gas. The electric segment consists of regulated activities associated with the generation, transmission and distribution of electricity. The gas segment consists of regulated activities associated with the transportation, storage and distribution of natural gas. Consumers' reportable segments are domestic strategic business units organized and managed by the nature of the product and service each provides. The accounting policies of the segments are the same as those described in the summary of significant accounting policies. Consumers' management evaluates performance based on pretax operating income. The Consolidated Statements of Income show operating revenue and pretax operating income by reportable segment. These amounts include earnings from investments accounted for by the equity method of \$50 million, \$50 million and \$49 million for 1999, 1998 and 1997, respectively. Consumers had investments accounted for by the equity method of \$487 million, \$449 million and \$420 million for 1999, 1998 and 1997, respectively. In 1998, Consumers implemented a change in the method of accounting for property taxes. The cumulative effect of this one-time change in accounting increased electric and gas earnings, net of tax, by \$31 million and \$12 million, respectively. Intersegment sales and transfers are accounted for at current market prices and are eliminated in consolidated pretax operating income by segment. Other segment information follows:

In Millions

Years Ended December 31	1999	1998	1997
-----			
Depreciation, depletion and amortization			
Electric	\$ 315	\$ 304	\$ 296
Gas	107	97	93
Other	2	2	2
-----			
Total Consolidated	\$ 424	\$ 403	\$ 391
=====			
Interest Charges			
Electric	\$133	\$129	\$123
Gas	48	44	41
Other	19	19	19
-----			
Subtotal	200	192	183
Eliminations	(19)	(17)	(10)
-----			
Total Consolidated	\$181	\$175	\$173
=====			
Income Taxes			
Electric	\$126	\$110	\$103
Gas	41	35	45
Other (a)	5	23	4
-----			
Total Consolidated	\$172	\$158	\$152
=====			
Total assets			
Electric (b)	\$4,675	\$4,640	\$4,472
Gas (b)	1,731	1,726	1,644
Other	764	797	833
-----			
Total Consolidated	\$7,170	\$7,163	\$6,949
=====			
Capital expenditures (c)			
Electric	\$ 385	\$ 331	\$ 255
Gas	120	114	116
-----			
Total	\$ 505	\$ 445	\$ 371
=====			

(a) 1998 amount includes the tax effect of the change in accounting method for property taxes.

(b) Amounts include an attributed portion of Consumers' other common assets to both the electric and gas utility businesses.

(c) Includes electric restructuring implementation plan, capital leases for nuclear fuel and other assets and electric DSM costs. Amounts also include an attributed portion of Consumers' capital expenditures for plant and equipment common to both the electric and gas utility businesses.

11: SUMMARIZED FINANCIAL INFORMATION OF SIGNIFICANT RELATED ENERGY SUPPLIER

Under the PPA with the MCV Partnership discussed in Note 2, Consumers' 1999 obligation to purchase electric capacity from the MCV Partnership provided 15.5 percent of Consumers' owned and contracted electric generating capacity. Summarized financial information of the MCV Partnership follows:

STATEMENTS OF INCOME (UNAUDITED)

In Millions			
Years Ended December 31	1999	1998	1997
Operating revenue (a)	\$ 617	\$ 627	\$ 652
Operating expenses	401	405	435
Operating income	216	222	217
Other expense, net	136	142	154
Net income before cumulative effect of accounting change	80	80	63
Cumulative effect of change in method of accounting for property tax	-	-	15
Net income	\$ 80	\$ 80	\$ 78

BALANCE SHEETS (UNAUDITED)

In Millions				
December 31	1999	1998	1999	1998
<b>ASSETS</b>			<b>LIABILITIES AND EQUITY</b>	
Current assets (b)	\$ 397	\$ 341	Current liabilities	\$ 275
Plant, net	1,732	1,773	Noncurrent liabilities (c)	1,586
Other assets	170	173	Partners' equity (d)	438
	\$2,299	\$2,287		\$2,299
				\$2,287

(a) Revenue from Consumers totaled \$586 million, \$584 million and \$609 million for 1999, 1998, and 1997, respectively.

(b) Receivables from Consumers totaled \$49, each year, at December 31, 1999 and 1998.

(c) FMLP is the sole beneficiary of an owner trust that is the lessor in a long-term direct finance lease with the lessee, MCV Partnership. CMS Holdings holds a 46.4 percent ownership interest in FMLP. At December 31, 1999 and 1998, lease obligations of \$1.36 billion and \$1.41 billion, respectively, were owed to the owner trust. CMS Holdings' share of the interest and principal portion for the 1999 lease payments was \$55 million and \$23 million, respectively, and for the 1998 lease payments was \$59 million and \$49 million, respectively. The lease payments service \$854 million and \$907 million in non-recourse debt outstanding as of December 31, 1999 and 1998, respectively, of the owner-trust. FMLP's debt is secured by the MCV Partnership's lease obligations, assets, and operating revenues. For 1999 and 1998, the owner-trust made debt payments (including interest) of \$167 million and \$233 million, respectively. FMLP's earnings for 1999, 1998, and 1997 were \$24 million, \$23 million, and \$20 million, respectively.

(d) CMS Midland's recorded investment in the MCV Partnership includes capitalized interest, which is being amortized to expense over the life of its investment in the MCV Partnership. Covenants contained in financing agreements prohibit the MCV Partnership from paying distributions until certain financial test requirements are met. Consumers does not anticipate receiving a cash distribution in the near future.

12: SUPPLEMENTAL CASH FLOW INFORMATION

Changes in other assets and liabilities as shown on the Consolidated Statements of Cash Flows are described below:

	In Millions		
Years Ended December 31	1999	1998	1997
Accounts payable	\$ 36	\$ 19	\$(30)
Non-current deferred amounts, net	32	2	38
Accrued revenue	22	(12)	20
Sale of receivables, net	19	(29)	17
Inventories	5	(34)	(10)
Accrued refunds	-	(1)	4
Other current assets and liabilities, net	(3)	(3)	22
Accounts receivable	(29)	7	31
	\$ 82	\$ (51)	\$ 92
	\$ 82	\$ (51)	\$ 92

## Report of Independent Public Accountants

To Consumers Energy Company:

We have audited the accompanying consolidated balance sheets and consolidated statements of long-term debt and preferred stock of CONSUMERS ENERGY COMPANY (a Michigan corporation and wholly owned subsidiary of CMS Energy Corporation) and subsidiaries as of December 31, 1999 and 1998, and the related consolidated statements of income, common stockholder's equity and cash flows for each of the three years in the period ended December 31, 1999. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Consumers Energy Company and subsidiaries as of December 31, 1999 and 1998, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1999 in conformity with generally accepted accounting principles.

As explained in Note 1 to the financial statements, effective January 1, 1998, Consumers Energy Company changed its method of accounting for property taxes.

/s/ Arthur Andersen LLP

Detroit, Michigan,  
February 4, 2000.

CE-44

## QUARTERLY FINANCIAL INFORMATION

## CONSUMERS ENERGY COMPANY

In Millions

Quarters Ended	1999 (Unaudited)				1998 (Unaudited)			
	March 31	June 30	Sept. 30	Dec. 31	March 31	June 30	Sept. 30	Dec. 31
Operating revenue	\$1,156	\$850	\$878	\$990	\$1,052	\$832	\$860	\$965
Pretax operating income	\$227	\$149	\$175	\$124	\$183	\$141	\$171	\$154
Net income before cumulative effect of change in accounting principle	\$119	\$73	\$93	\$55	\$69	\$69	\$86	\$82
Cumulative effect of change in accounting for property taxes, net of \$23 tax	-	-	-	-	\$43	-	-	-
Net income	\$119	\$73	\$93	\$55	\$112	\$69	\$86	\$82
Preferred stock dividends	\$5	-	-	\$1	\$5	\$5	\$5	\$4
Preferred securities distributions	\$5	\$5	\$5	\$6	\$5	\$4	\$4	\$5
Net income available to common stockholder	\$109	\$68	\$88	\$48	\$102	\$60	\$77	\$73

CE-45

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CE-46

[PANHANDLE EASTERN PIPE LINE COMPANIES LOGO]

1999 FINANCIAL STATEMENTS

PE-1

PANHANDLE EASTERN PIPE LINE COMPANY  
MANAGEMENT'S DISCUSSION AND ANALYSIS

Panhandle is primarily engaged in the interstate transportation and storage of natural gas. Panhandle owns a LNG regasification plant and related tanker port unloading facilities and LNG and gas storage facilities. The rates and conditions of service of interstate natural gas transmission, storage and LNG operations of Panhandle are subject to the rules and regulations of the FERC.

This report contains forward-looking statements, as defined by the Private Securities Litigation Reform Act of 1995. While forward-looking statements are based on assumptions and such assumptions are believed to be reasonable and are made in good faith, Panhandle cautions that assumed results almost always vary from actual results and differences between assumed and actual results can be material. The type of assumptions that could materially affect the actual results are discussed in the Outlook section in this MD&A. More specific risk factors are contained in various public filings made by Panhandle with the SEC. This Annual Report also describes material contingencies in the Notes to Consolidated Financial Statements and the readers are encouraged to read such Notes.

On March 29, 1999, Panhandle Eastern Pipe Line Company and its principal subsidiaries, Trunkline and Pan Gas Storage, as well as Panhandle Eastern Pipe Line Company's affiliates, Trunkline LNG and Panhandle Storage, were acquired from subsidiaries of Duke Energy by CMS Panhandle Holding, which was an indirect wholly owned subsidiary of CMS Energy. Immediately following the acquisition, Trunkline LNG and Panhandle Storage became direct wholly owned subsidiaries of Panhandle Eastern Pipe Line Company.

Prior to the acquisition, Panhandle's interests in Northern Border Pipeline Company, Panhandle Field Services Company, Panhandle Gathering Company, and certain other assets, including the Houston corporate headquarters building, were transferred to other subsidiaries of Duke Energy; certain intercompany accounts and notes between Panhandle and Duke Energy subsidiaries were eliminated; with respect to certain other liabilities, including tax, environmental and legal matters, CMS Energy was indemnified for any resulting losses. In addition, Duke Energy agreed to continue its environmental clean-up program at certain properties and to defend and indemnify Panhandle against certain future environmental litigation and claims with respect to certain agreed-upon sites or matters.

CMS Panhandle Holding privately placed \$800 million of senior unsecured notes and received a \$1.1 billion initial capital contribution from CMS Energy to fund the acquisition of Panhandle. On June 15, 1999, CMS Panhandle Holding was merged into Panhandle. Panhandle then became a wholly owned subsidiary of CMS Gas Transmission and Storage Company, a subsidiary of CMS Energy. At that time, the CMS Panhandle Holding notes became direct obligations of Panhandle. In September 1999, Panhandle completed an exchange offer which replaced the \$800 million of notes originally issued by CMS Panhandle Holding with substantially identical SEC-registered notes issued by Panhandle.

The acquisition by CMS Panhandle Holding was accounted for using the purchase method of accounting in accordance with generally accepted accounting principles, with Panhandle allocating the purchase price paid by CMS Panhandle Holding to Panhandle's net assets as of the acquisition date based on a preliminary appraisal completed in December 1999. Accordingly, the post-acquisition financial statements reflect a new basis of accounting, and pre-acquisition period and post-acquisition period financial results (separated by a heavy black line) are presented but are not comparable (See Note 1).

The following information is provided to facilitate increased understanding of the 1999 and 1998 consolidated financial statements and accompanying notes of Panhandle but should be read in conjunction with these financial statements. Because all of the outstanding common stock of Panhandle is owned by CMS Gas Transmission and Storage Company, a subsidiary of CMS Energy, the following discussion uses the reduced disclosure format permitted by Form 10K for issuers that are wholly owned subsidiaries of reporting companies.

## RESULTS OF OPERATIONS

## NET INCOME:

	In Millions		
December 31	1999	1998	Change
Twelve Months Ended	\$74	\$91	\$ (17)

For the year ending December 31, 1999, net income was \$74 million, down \$17 million from the corresponding period in 1998. Total natural gas transportation volumes for the twelve months ending December 31, 1999 were almost unchanged from 1998.

Revenues for the twelve months ended December 31, 1999 decreased \$25 million from the corresponding period in 1998; \$15 million was as a result of the transfer of Panhandle Field Services to Duke Energy in March 1999; \$14 million from declining reservation rates; and \$5 million due to Pan Border's 1998 revenues from Northern Border Pipe Line Company partnership; partially offset by \$13 million of Trunkline LNG terminal revenues in 1999.

Operating expenses for the twelve months ended December 31, 1999 decreased \$17 million from the corresponding period in 1998 due primarily to lower administrative costs and the transfer of Panhandle Field Services to Duke Energy.

Other income for the twelve months ended December 31, 1999 decreased \$18 million from the corresponding period in 1998 primarily due to a gain recorded in 1998 on the sale of the general partnership interests in Northern Border of \$14 million.

Interest on long-term debt for the twelve months ended December 31, 1999 increased \$39 million from the corresponding period in 1998 primarily due to interest on the new debt assumed by Panhandle (See Notes 1 and 9). Other interest decreased \$38 million for the twelve months ended December 31, 1999 from the corresponding period in 1998 primarily due to interest for a partial year on the intercompany note with PanEnergy; the note was eliminated with the sale of Panhandle to CMS Panhandle Holding (See Note 1 and Note 4).

## OPERATING INCOME:

In Millions

	Twelve Months Ended December 31 1999 vs. 1998
Change Compared to Prior Year	
Commodity revenue	\$ (1)
Reservation and other revenues	(24)
Operations and maintenance	22
Depreciation and amortization	(2)
General taxes	(3)
Total Change	\$ (8)

## OUTLOOK

CMS Energy intends to use Panhandle as a platform for expansion in the United States. Panhandle plays an important role in the growth strategy by providing services for the development of existing gas wells, production and throughput of gas to the market. The market for transmission of natural gas to the Midwest is increasingly competitive, however, and may become more so in light of projects recently completed or in progress to increase Midwest transmission capacity for gas originating in Canada and the Rocky Mountain region. As a result, there continues to be pressure on prices charged by Panhandle and an increasing necessity to discount the prices charged from the legal maximum, which reduces revenues. New contracts in the current market conditions tend to be of shorter duration than the expiring contracts being replaced, which will also increase revenue volatility. In addition, Trunkline in 1996 filed with FERC and placed into effect a general rate increase, however a subsequent January 2000 FERC order could, if approved without modification upon rehearing, reduce Trunkline's tariff rates and future revenue levels by up to 3% of Panhandle's consolidated revenues. Panhandle continues to be selective in offering discounts to maximize revenues from existing capacity and to advance projects that provide expanded services to meet the specific needs of customers. In addition, Panhandle will continue to evaluate opportunities to acquire synergistic operations such as the Sea Robin pipeline system (See Note 14), and attempt to maximize the use and value of its existing assets, such as the proposed conversion of Trunkline's 26 inch pipeline to a liquid products pipeline (See Note 3).

## OTHER MATTERS

## ENVIRONMENTAL MATTERS

PCB (POLYCHLORINATED BIPHENYL) ASSESSMENT AND CLEAN-UP PROGRAMS: Panhandle has identified environmental contamination at certain sites on its systems and has undertaken clean-up programs at these sites. The contamination resulted from the past use of lubricants in compressed air systems containing PCBs and the prior use of wastewater collection facilities and other on-site disposal areas. Soil and sediment testing to date has detected no significant off-site contamination. Panhandle has communicated with the EPA and appropriate state regulatory agencies on these matters. Under the terms of the sale of Panhandle to CMS Energy (See Note 1), a subsidiary of Duke Energy is obligated to complete the Panhandle clean-up programs at certain agreed-upon sites and to defend and indemnify Panhandle against certain future environmental litigation and claims. These clean-up programs are expected to continue until 2001.

## YEAR 2000 COMPUTER MODIFICATIONS

In 1999, Panhandle completed a detailed assessment of all information technology and non-information technology hardware and software, with emphasis on mission critical systems. Panhandle inventoried its information and non-information technology hardware and software. Panhandle also identified, remediated and tested those systems that were not year 2000 ready to ensure they would operate as desired on and after January 1, 2000.

As a result of its year 2000 efforts, Panhandle successfully transitioned to the new year without experiencing year 2000 related system failures, power outages or disruptions in services provided to its customers. Panhandle expensed the cost of software modifications as incurred, and capitalized the cost of new software and equipment, which is being amortized over its useful life. Since 1995, the total cost of the Year 2000 Program modifications was approximately \$425,000. The commitment of Panhandle resources to the Year 2000 Program has not deferred any information technology projects that could have a material adverse effect on Panhandle's financial position, liquidity or results of operations.

While Panhandle does not expect any significant year 2000 issues to develop, Panhandle will continue to monitor its mission critical applications throughout the year 2000 to ensure that any year 2000 issues that may arise are addressed promptly through the use of contingency plans.

## MARKET RISK INFORMATION

INTEREST RATE RISK: Panhandle is exposed to risk resulting from changes in interest rates as a result of its issuance of variable-rate debt and fixed-rate debt. Panhandle manages its interest rate exposure by limiting its variable-rate and fixed-rate exposure to a certain percentage of total capitalization, as set by policy, and by monitoring the effects of market changes in interest rates (See Notes 8 and 9).

PANHANDLE EASTERN PIPE LINE COMPANY  
CONSOLIDATED STATEMENTS OF INCOME  
(IN MILLIONS)

	Mar. 29 - Dec. 31, 1999	Jan. 1 - Mar. 28, 1999	Years Ended December 31,	
			1998	1997
OPERATING REVENUE				
Transportation and storage of natural gas	\$ 318	\$ 123	\$ 468	\$ 501
Other	25	5	28	33
Total operating revenue	343	128	496	534
OPERATING EXPENSES				
Operation and maintenance	151	40	213	254
Depreciation and amortization	44	14	56	59
General taxes	22	7	26	26
Total operating expenses	217	61	295	339
PRETAX OPERATING INCOME	126	67	201	195
OTHER INCOME, NET	2	4	24	6
INTEREST CHARGES				
Interest on long-term debt	59	5	25	25
Other interest	1	13	52	48
Total interest charges	60	18	77	73
NET INCOME BEFORE INCOME TAXES	68	53	148	128
INCOME TAXES	27	20	57	48
CONSOLIDATED NET INCOME	\$ 41	\$ 33	\$ 91	\$ 80

PANHANDLE EASTERN PIPE LINE COMPANY  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(IN MILLIONS)

	Mar. 29 - Dec. 31, 1999	Jan. 1 - Mar. 28, 1999	Years Ended December 31, ----- 1998                      1997 -----	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Net income	\$ 41	\$ 33	\$ 91	\$ 80
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	44	14	61	61
Deferred income taxes	34	-	17	2
Rate settlement	-	-	-	(70)
Changes in current assets and liabilities	51	(29)	4	9
Other, net	9	3	1	24
	-----	-----	-----	-----
Net cash provided by operating activities	179	21	174	106
	-----	-----	-----	-----
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Acquisition of Panhandle	(1,900)	-	-	-
Capital and investment expenditures	(53)	(4)	(85)	(105)
Net increase in advances receivable - PanEnergy	-	(17)	(106)	(9)
Retirements and other	(1)	-	17	8
	-----	-----	-----	-----
Net cash used in investing activities	(1,954)	(21)	(174)	(106)
	-----	-----	-----	-----
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Contribution from parent	1,116	-	-	-
Proceeds from senior notes	785	-	-	-
Net increase in note receivable - CMS	(85)	-	-	-
Dividends paid	(41)	-	-	-
	-----	-----	-----	-----
Net cash provided by financing activities	1,775	-	-	-
	-----	-----	-----	-----
Net Increase (Decrease) in Cash and Temporary Cash Investments	-	-	-	-
	-----	-----	-----	-----
CASH AND TEMPORARY CASH INVESTMENTS, BEGINNING OF PERIOD	-	-	-	-
	-----	-----	-----	-----
CASH AND TEMPORARY CASH INVESTMENTS, END OF PERIOD	\$ -	\$ -	\$ -	\$ -
	=====	=====	=====	=====
<b>OTHER CASH FLOW ACTIVITIES WERE:</b>				
Interest paid (net of amounts capitalized)	\$ 31	\$ 12	\$ 78	\$ 81
Income taxes paid (net of refunds)	8	37	56	65

PANHANDLE EASTERN PIPE LINE COMPANY  
 CONSOLIDATED BALANCE SHEETS  
 (IN MILLIONS)

	December 31, 1999	December 31, 1998
	-----	-----
<b>ASSETS</b>		
<b>PROPERTY, PLANT AND EQUIPMENT</b>		
Cost	\$ 1,492	\$ 2,749
Less accumulated depreciation and amortization	37	1,798
	-----	-----
Sub-total	1,455	951
Construction work-in-progress	45	28
	-----	-----
Net property, plant and equipment	1,500	979
	-----	-----
<b>INVESTMENTS</b>		
Advances receivable - PanEnergy	-	738
Investment in affiliates	2	44
Other	-	6
	-----	-----
Total investments and other assets	2	788
	-----	-----
<b>CURRENT ASSETS</b>		
Receivables, less allowances of \$1 for 1999 and \$2 in 1998	112	94
Inventory and supplies	34	55
Deferred income taxes	11	2
Current portion of regulatory assets	-	6
Note receivable - CMS Capital	85	-
Other	30	23
	-----	-----
Total current assets	272	180
	-----	-----
<b>NON-CURRENT ASSETS</b>		
Goodwill, net	774	-
Debt issuance cost	11	11
Other	1	15
	-----	-----
Total non-current assets	786	26
	-----	-----
<b>TOTAL ASSETS</b>	<b>\$ 2,560</b>	<b>\$ 1,973</b>
	=====	=====

	December 31, 1999	December 31, 1998
	-----	-----
COMMON STOCKHOLDER'S EQUITY AND LIABILITIES		
CAPITALIZATION		
Common stockholder's equity		
Common stock, no par, 1,000 shares authorized, issued and outstanding	\$ 1	\$ 1
Paid-in capital	1,127	466
Retained earnings	-	91
	-----	-----
Total common stockholder's equity	1,128	558
Long-term debt	1,094	299
	-----	-----
Total capitalization	2,222	857
	-----	-----
CURRENT LIABILITIES		
Note payable - PanEnergy	-	675
Accounts payable	28	56
Accrued taxes	8	58
Accrued interest	29	8
Other	139	117
	-----	-----
Total current liabilities	204	914
	-----	-----
NON-CURRENT LIABILITIES		
Deferred income taxes	45	99
Other	89	103
	-----	-----
Total non-current liabilities	134	202
	-----	-----
TOTAL COMMON STOCKHOLDER'S EQUITY AND LIABILITIES	\$ 2,560	\$ 1,973
	=====	=====

PANHANDLE EASTERN PIPE LINE COMPANY  
CONSOLIDATED STATEMENTS OF COMMON STOCKHOLDER'S EQUITY  
(IN MILLIONS)

	Mar. 29 - Dec. 31, 1999	Jan. 1 - Mar. 28, 1999	Years Ended December 31, ----- 1998                      1997 -----	
COMMON STOCK				
At beginning and end of period	\$ 1	\$ 1	\$ 1	\$ 1
OTHER PAID-IN CAPITAL				
At beginning of period	466	466	466	466
Acquisition adjustment to eliminate original paid-in capital	(466)	-	-	-
Capital contribution of acquisition costs by parent	11	-	-	-
Cash capital contribution by parent	1,116	-	-	-
At end of period	1,127	466	466	466
RETAINED EARNINGS				
At beginning of period	101	92	34	29
Acquisition adjustment to eliminate original retained earnings	(101)	-	-	-
Net Income	41	33	91	80
Assumption of net liability by PanEnergy	-	57	-	-
Common stock dividends	(41)	(81)	(34)	(75)
At end of period	-	101	91	34
TOTAL COMMON STOCKHOLDER'S EQUITY	\$ 1,128	\$ 568	\$ 558	\$ 501
	=====	=====	=====	=====

PANHANDLE EASTERN PIPE LINE COMPANY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. CORPORATE STRUCTURE

Panhandle Eastern Pipe Line Company is a wholly owned subsidiary of CMS Gas Transmission and Storage Company, which is an indirect wholly owned subsidiary of CMS Energy. Panhandle Eastern Pipe Line Company was incorporated in Delaware in 1929. Panhandle is primarily engaged in interstate transportation and storage of natural gas, which are subject to the rules and regulations of the FERC.

On March 29, 1999, Panhandle Eastern Pipe Line Company and its principal consolidated subsidiaries, Trunkline and Pan Gas Storage, as well as its affiliates, Trunkline LNG and Panhandle Storage, were acquired from subsidiaries of Duke Energy by CMS Panhandle Holding for \$1.9 billion in cash and assumption of existing Panhandle debt of \$300 million. Immediately following the acquisition, CMS Panhandle Holding contributed the stock of Trunkline LNG and Panhandle Storage to Panhandle Eastern Pipe Line Company. As a result, Trunkline LNG and Panhandle Storage became wholly owned subsidiaries of Panhandle Eastern Pipe Line Company.

In conjunction with the acquisition, Panhandle's interests in Northern Border Pipeline Company, Panhandle Field Services Company, Panhandle Gathering Company, and certain other assets, including the Houston corporate headquarters building, were transferred to other subsidiaries of Duke Energy; all intercompany accounts and notes between Panhandle and Duke Energy subsidiaries were eliminated; and with respect to certain other liabilities, including tax, environmental and legal matters, CMS Energy was indemnified for any resulting losses. In addition, Duke Energy agreed to continue its environmental clean-up program at certain properties and to defend and indemnify Panhandle against certain future environmental litigation and claims with respect to certain agreed-upon sites or matters.

CMS Panhandle Holding privately placed \$800 million of senior unsecured notes and received a \$1.1 billion initial capital contribution from CMS Energy to fund the acquisition of Panhandle. On June 15, 1999, CMS Panhandle Holding was merged into Panhandle, at which point the CMS Panhandle Holding notes became direct obligations of Panhandle. In September 1999, Panhandle completed an exchange offer which replaced the \$800 million of notes originally issued by CMS Panhandle Holding with substantially identical SEC-registered notes.

The acquisition by CMS Panhandle Holding was accounted for using the purchase method of accounting in accordance with generally accepted accounting principles, with Panhandle allocating the purchase price paid by CMS Panhandle Holding to Panhandle's net assets as of the acquisition date based on a preliminary appraisal completed December 1999. Accordingly, the post-acquisition financial statements reflect a new basis of accounting, and pre-acquisition period and post-acquisition period financial results (separated by a heavy black line) are presented but are not comparable.

Assets acquired and liabilities assumed are recorded at their estimated fair values and are subject to adjustment when additional information concerning asset and liability valuations is finalized by the end of the first quarter of 2000. Panhandle has allocated the tentative excess purchase price over the estimated fair value of net assets acquired of approximately \$800 million to goodwill and is amortizing this amount on a straight-line basis over forty years. The amortization of the excess purchase price over 40 years reflects the nature of the industry in which Panhandle competes as well as the long-lived nature of Panhandle's assets. As a result of regulation, high replacement costs, and competition, entry into the natural gas transmission and storage business requires a significant investment. The excess purchase price over the prior carrying amount of Panhandle's net assets as of March 29, 1999 totaled \$1.3 billion, and was allocated as follows:

In Millions	
Property, plant and equipment	\$ 633
Accounts receivable	3
Inventory	(9)
Goodwill	788
Regulatory assets, net	(15)
Liabilities	(72)
Long-term debt	(6)
Other	(16)
Total	\$1,306

Pro forma results of operations for 1999 and 1998 as though Panhandle had been acquired and purchase accounting applied at the beginning of 1999 and 1998, respectively, are as follows:

		In Millions	
		Year Ended December 31, 1999 (Unaudited)	Year Ended December 31, 1998 (Unaudited)
Revenues	\$ 467	\$ 470	
Net income	67	60	
Total assets	2,560	2,477	

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND OTHER MATTERS

**CONSOLIDATIONS:** The consolidated financial statements include the accounts of all of Panhandle's majority-owned subsidiaries after the elimination of significant intercompany transactions and balances. Investments in other entities that are not controlled by Panhandle, but where it has significant influence over operations, are accounted for using the equity method.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Although these estimates are based on management's knowledge of current and expected future events, actual results could differ from those estimates.

CASH AND CASH EQUIVALENTS: All liquid investments with maturities at date of purchase of three months or less are considered cash equivalents.

INVENTORY: Inventory consists of gas held for operations and materials and supplies and is recorded at the lower of cost or market, using the weighted average cost method. Effective January 1, 1999, Trunkline changed to the weighted average cost method from the last-in first-out method for its gas held for operations with no material impact on the financial statements.

GAS IMBALANCES: Gas imbalances occur as a result of differences in volumes of gas received and delivered. Gas imbalance receivables and payables are valued at lower of cost or market.

PROPERTY, PLANT AND EQUIPMENT: On March 29, 1999, Panhandle's assets were acquired by CMS Panhandle Holding. The acquisition was accounted for using the purchase method of accounting in accordance with generally accepted accounting principles. Panhandle's property, plant and equipment was adjusted to estimated fair market value on March 29, 1999 and depreciated based on revised estimated remaining useful lives. Panhandle's accumulated depreciation and amortization provision balance at March 29, 1999 was eliminated pursuant to the purchase method of accounting (See Note 1).

Ongoing additions of property, plant and equipment are stated at original cost. Panhandle capitalizes all construction-related direct labor and material costs, as well as indirect construction costs. The cost of renewals and betterments that extend the useful life of property, plant and equipment is also capitalized. The cost of repairs and replacements of minor items is charged to expense as incurred. Depreciation is generally computed using the straight-line method. The composite weighted-average depreciation rates were 2.6%, 2.2% and 2.2% for 1999, 1998 and 1997, respectively.

When property, plant and equipment is retired, the original cost plus the cost of retirement, less salvage, is charged to accumulated depreciation and amortization. When entire regulated operating units are sold or non-regulated properties are retired or sold, the property and related accumulated depreciation and amortization accounts are reduced, and any gain or loss is recorded in income.

IMPAIRMENT OF LONG-LIVED ASSETS: The recoverability of long-lived assets and intangible assets are reviewed whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. Such evaluation is based on various analyses, including undiscounted cash flow projections.

UNAMORTIZED DEBT PREMIUM, DISCOUNT AND EXPENSE: Premiums, discounts and expenses incurred in connection with the issuance of presently outstanding long-term debt are amortized over the terms of the respective issues.

ENVIRONMENTAL EXPENDITURES: Environmental expenditures that relate to an existing condition caused by past operations that do not contribute to current or future revenue generation are expensed. Environmental expenditures relating to current or future revenues are expensed or capitalized as appropriate. Liabilities are recorded when environmental assessments and/or clean-ups are probable and the costs can be reasonably estimated. Under the terms of the sale of Panhandle to CMS Energy (See Note 1), a subsidiary of Duke Energy is obligated to complete the Panhandle clean-up programs at certain agreed-upon sites and to defend and indemnify Panhandle against certain future environmental litigation and claims. These clean-up programs are expected to continue until 2001.

REVENUES: Revenues on transportation and storage of natural gas are recognized as service is provided. When rate cases are pending final approval, a portion of the revenues is subject to possible refund. Reserves have been established where required for such cases.

During 1999 and 1997, sales to ProLiance Energy, L.L.C., a nonaffiliated gas marketer, and Consumers Energy, a subsidiary of CMS Energy, each accounted for at least 10% of consolidated revenues of Panhandle. During 1998, sales to ProLiance Energy, L.L.C. accounted for approximately 10% of consolidated revenues of Panhandle. No other customer accounted for 10% or more of consolidated revenues during 1999, 1998 or 1997.

INTEREST COST CAPITALIZED: SFAS 34, Capitalization of Interest Cost, requires capitalization of interest on certain qualifying assets that are undergoing activities to prepare them for their intended use. SFAS 34 limits the capitalization of interest for the period to the actual interest cost that is incurred and prohibits imputing interest costs on any equity funds. As a result of the discontinuance of SFAS 71, Panhandle is now subject to the provisions of SFAS 34.

INCOME TAXES: CMS Energy and its subsidiaries file a consolidated federal income tax return. Federal income taxes have been provided by Panhandle on the basis of its separate company income and deductions in accordance with established practices of the consolidated group. Deferred income taxes have been provided for temporary differences. Temporary differences occur when events and transactions recognized for financial reporting result in taxable or tax-deductible amounts in different periods.

GOODWILL AMORTIZATION: Goodwill represents the excess of the purchase price over the fair value of the net assets of acquired companies and is amortized using the straight-line method over forty years. Accumulated amortization of goodwill at December 31, 1999 was \$14 million.

RECLASSIFICATIONS: Certain amounts have been reclassified in the Consolidated Financial Statements to conform to the current presentation.

NEW ACCOUNTING STANDARD: In 1999, the FASB issued SFAS 137, Accounting for Derivative Instruments and Hedging Activities - Deferral of the Effective Date of FASB Statement No.133. SFAS 137 defers the effective date of SFAS 133, Accounting for Derivative Instruments and Hedging Activities, to January 1, 2001. Panhandle is currently studying SFAS 133 and plans to adopt SFAS 133 as of January 1, 2001, and has yet to quantify the effects of adoption on its financial statements.

CHANGE IN ACCOUNTING POLICY: As a result of Panhandle's new cost basis resulting from the merger with CMS Panhandle Holding, which includes costs not likely to be considered for regulatory recovery, in addition to the level of discounting being experienced by Panhandle, it no longer meets the criteria of SFAS 71 and has discontinued application of SFAS 71. Accordingly, upon acquisition by CMS Panhandle Holding, the remaining net regulatory assets of approximately \$15 million were eliminated in purchase accounting (See Note 1).

## 3. REGULATORY MATTERS

Effective August 1996, Trunkline placed into effect a general rate increase, subject to refund. On September 16, 1999, Trunkline filed a FERC settlement agreement to resolve certain issues in this proceeding. This settlement was approved on February 1, 2000 and will require refunds of approximately \$2 million expected to be made in April 2000, with supplemental refunds expected in July 2000. On January 12, 2000, FERC issued an order on the remainder of the rate proceeding which, if approved without modification, would result in a substantial reduction to Trunkline's tariff rates which would impact future revenues and require refunds. Trunkline has requested rehearing of certain matters in this order.

In conjunction with a FERC order issued in September 1997, certain natural gas producers were required to refund previously collected Kansas ad-valorem taxes to interstate natural gas pipelines. These pipelines were ordered to refund these amounts to their customers. All payments are to be made in compliance with prescribed FERC requirements. At December 31, 1999 and December 31, 1998, accounts receivable included \$54 million and \$50 million, respectively, due from natural gas producers, and other current liabilities included \$54 million and \$50 million, respectively, for related obligations.

In June 1998, Trunkline filed a petition with the FERC to abandon 720 miles of its 26-inch diameter pipeline that extends from Longville, Louisiana to Bourbon, Illinois. Trunkline requested permission to transfer the pipeline to an affiliate, which had entered into an option agreement with Aux Sable for potential conversion of the line to allow transportation of hydrocarbon vapors. Trunkline requested FERC to grant the abandonment authorization in time to separate the pipeline from existing facilities and allow Aux Sable to convert the pipeline to hydrocarbon vapor service by October 1, 2000, if the option was exercised. The option expired on July 1, 1999 and was not renewed by Aux Sable. On November 8, 1999, the FERC issued a letter order dismissing Trunkline's filing without prejudice to refiling the abandonment to reflect changed circumstances. Trunkline on March 9, 2000 refiled its abandonment application with FERC. This filing is in conjunction with a plan for a joint venture, to convert the line from natural gas transmission service to a refined products pipeline by the end of 2001. Panhandle will own a one third interest in the joint venture.

On May 19, 1999, Trunkline and Trunkline LNG submitted a compliance filing advising the FERC that the acquisition by CMS Energy of Trunkline LNG triggered certain provisions of a 1992 settlement. The settlement resolved issues related to minimum bill provisions of the Trunkline LNG Rate Schedule PLNG-1, as well as pending rate matters for Trunkline and refund matters for Trunkline LNG. Specifically, the settlement provisions require Trunkline LNG, and Trunkline in turn, to make refunds to customers, including Panhandle Eastern Pipe Line Company and Consumers, who were parties to the settlement, if the ownership of all or portion of the LNG terminal is transferred to an unaffiliated entity. The total refund due customers of approximately \$17 million will be paid within 30 days of final FERC approval of the compliance filing. In conjunction with the acquisition of Panhandle by CMS Energy, Duke Energy indemnified Panhandle for this refund obligation. In conjunction with the settlement, Panhandle Eastern Pipe Line Company and its customers entered into an agreement, whereby upon FERC approval of the compliance filing described above, Panhandle Eastern Pipe Line Company will file to flow through its portion of the settlement amounts to its customers. The May 19, 1999 compliance filing is pending FERC approval.

## 4. RELATED PARTY TRANSACTIONS

	In Millions			
	Mar.29 - Dec.31	Jan.1 - Mar.28	For the Years Ended December 31,	
	1999	1999	1998	1997
Transportation of natural gas	\$64	\$6	\$29	\$32
Other operating revenues	-	2	15	27
Operation and maintenance(a)	25	8	60	66
Interest income	2	-	-	-
Interest expense	-	13	55	49

(a) Includes allocated benefit plan costs.

Amounts for 1999 reflect only related party transactions with CMS Energy and its subsidiaries for the period after the sale of Panhandle to CMS Energy. Interest charges include \$55 million for the twelve months ended 1998 for interest associated with notes payable to a subsidiary of Duke Energy. Note receivable from CMS Capital included an \$85 million note at December 31, 1999, which bore interest at the 30-day commercial paper interest rate. Other income includes \$2 million for the period ended December 31, 1999 for interest on note receivable from CMS Capital.

A summary of certain balances due to or due from related parties included in the Consolidated Balance Sheets is as follows:

	In Millions	
	December 31,	
	1999	1998
Receivables	\$8	\$2
Accounts payable	16	46
Taxes accrued	-	35

In conjunction with the acquisition of Panhandle by a subsidiary of CMS Energy, all intercompany advance and note balances between Panhandle and subsidiaries of Duke Energy were eliminated. Transactions with prior affiliates before the acquisition are now reflected as receivables on the Consolidated Balance Sheet.

## 5. GAS IMBALANCES

The Consolidated Balance Sheets include in-kind balances as a result of differences in gas volumes received and delivered. At December 31, 1999 and 1998, other current assets included \$22 million and \$20 million, respectively, and other current liabilities included \$30 million and \$22 million, respectively, related to gas imbalances.

## 6. INCOME TAXES

The separate components of income tax expense consist of:

In Millions				
=====				
INCOME TAX EXPENSE				
	Mar.29 - Dec. 31	Jan.1 - Mar.28	For the Years Ended December 31,	
	1999	1999	1998	1997
-----				
Current income taxes				
Federal	\$ (7)	\$ 18	\$ 34	\$ 41
State	-	2	6	5
Total current income taxes	(7)	20	40	46
-----				
Deferred income taxes, net				
Federal	29	-	14	1
State	5	-	3	1
Total deferred income taxes, net	34	-	17	2
-----				
Total income tax expense	\$ 27	\$ 20	\$ 57	\$ 48
=====				

The actual income tax expense differs from the amount computed by applying the statutory federal tax rate to income before income taxes as follows:

In Millions				
=====				
INCOME TAX EXPENSE RECONCILIATION TO STATUTORY				
	Mar.29 - Dec. 31	Jan.1 - Mar. 28	For the Years Ended December 31,	
	1999	1999	1998	1997
-----				
Income tax, computed at the statutory rate	\$24	\$18	\$52	\$45
Adjustments resulting from:				
State income tax, net of federal income tax effect	3	2	5	3
-----				
Total income tax expense	\$27	\$20	\$57	\$48
=====				
Effective tax rate	39.6%	38.2%	38.5%	37.5%
-----				

The principal components of Panhandle's deferred tax assets (liabilities) recognized in the balance sheet are as follows:

In Millions		
=====		
NET DEFERRED INCOME TAX LIABILITY COMPONENTS		
-----		
December 31,		
	1999	1998
-----		
Deferred credits and other liabilities	\$ 30	\$ 85
Other	32	3
-----		
Total deferred income tax assets	62	88
-----		
Investments and other assets	(18)	(18)
Property, plant and equipment	(10)	(148)
Goodwill	(65)	-
Regulatory assets	-	(12)
-----		
Total deferred income tax liabilities	(93)	(178)
-----		
State deferred income tax, net of federal tax effect	(3)	(7)
-----		
Net deferred income tax liability	(34)	(97)
-----		
Portion classified as current asset	11	2
-----		
Noncurrent liability	\$(45)	\$ (99)
=====		

As described in Note 1, the stock of Panhandle was acquired from subsidiaries of Duke Energy by CMS Panhandle Holding for a total of \$2.2 billion in cash and acquired debt. The acquisition was treated as an asset acquisition for tax purposes, which eliminated Panhandle's deferred tax liability and gave rise to a new tax basis in Panhandle's assets equal to the purchase price.

#### 7. PROPERTY, PLANT AND EQUIPMENT

In Millions		
=====		
	1999	1998
-----		
Transmission	\$1,189	\$2,003
Gathering	18	265
Underground storage	245	320
General plant	40	161
Construction work-in-progress	45	28
-----		
Total property, plant and equipment	1,537	2,777
Less accumulated depreciation and amortization	37	1,798
-----		
Net property, plant and equipment	\$1,500	\$979
=====		

## 8. FINANCIAL INSTRUMENTS

Panhandle's financial instruments include approximately \$1.1 billion and \$299 million of long-term debt at December 31, 1999 and 1998, respectively, with an approximate fair value of \$1 billion and \$318 million as of December 31, 1999 and 1998, respectively. Estimated fair value amounts of long-term debt were obtained from independent parties. Judgment is required in interpreting market data to develop the estimates of fair value. Accordingly, the estimates determined as of December 31, 1999 and 1998 are not necessarily indicative of the amounts Panhandle could have realized in current market exchanges.

Guarantees made to related parties have no book value associated with them and there are no fair values readily determinable since quoted market prices are not available. The fair values of advances and note receivable -- related parties are not readily determinable since such amounts are carried as open accounts (See Note 4).

## 9. LONG-TERM DEBT

	Year Due	In Millions	
		December 31,	
		1999	1998
6.125% - 7.875% Notes	2004 - 2029	\$ 900	\$100
7.2% - 7.95% Debentures	2023 - 2024	200	200
Unamortized debt (discount) and premium, net		(6)	(1)
Total long-term debt		\$1,094	\$299

On March 29, 1999, CMS Panhandle Holding privately placed \$800 million of senior notes (See Note 1) including: \$300 million of 6.125 percent senior notes due 2004; \$200 million of 6.5 percent senior notes due 2009; and \$300 million of 7.0 percent senior notes due 2029. On June 15, 1999, CMS Panhandle Holding was merged into Panhandle and the obligations of CMS Panhandle Holding under the notes and the related indenture were assumed by Panhandle. In September 1999, Panhandle completed an exchange offer which replaced the \$800 million of notes originally issued by CMS Panhandle Holding with substantially identical SEC-registered notes.

In conjunction with the application of purchase accounting, Panhandle's existing notes totaling \$300 million were revalued resulting in a net premium recorded of approximately \$5 million.

The 7.2% - 7.95% debentures have call options whereby Panhandle has the option to repay the debt early. Based on the year in which Panhandle may first exercise the redemption options, all \$200 million could potentially be repaid in 2003.

At December 31, 1998, Note payable-PanEnergy consisted of a \$675 million note bearing interest at prime rate. The note was eliminated immediately prior to the acquisition by CMS Energy.

OTHER: Under its most restrictive borrowing arrangement at December 31, 1999, none of Panhandle's consolidated net income was restricted for payment of common dividends.

## 10. INVESTMENT IN AFFILIATES

Investments in affiliates, which are not controlled by Panhandle but where Panhandle has significant influence over operations, are accounted for by the equity method. These investments include undistributed earnings of \$.4 million and \$14 million in 1999 and 1998, respectively. Panhandle's proportionate share of net income from these affiliates for the years ended December 31, 1999, 1998 and 1997 was \$.2 million, \$6 million and \$5 million, respectively. These amounts are reflected in the Consolidated Statements of Income as Other Operating Revenues. Investment in affiliates includes the following:

LEE 8 STORAGE. Panhandle, through its subsidiary Panhandle Storage, owns a 40 percent interest in the Lee 8 partnership, which operates a 1.4 bcf natural gas storage facility in Michigan. This interest results from the contribution of the stock of Panhandle Storage to Panhandle Eastern Pipe Line Company by CMS Panhandle Holding on March 29, 1999.

NORTHERN BORDER PARTNERS, L.P. Northern Border Partners, L.P. is a master limited partnership that owns 70 percent of Northern Border Pipeline Company, a partnership operating a pipeline transporting natural gas from Canada to the Midwest area of the United States. At December 31, 1998, Panhandle held a 7.0 percent limited partnership interest in Northern Border Partners, L.P., and thus, an indirect 4.9 percent ownership interest in Northern Border Pipeline Company. In conjunction with the acquisition of Panhandle by CMS Energy, Panhandle transferred its interest in Northern Border to a subsidiary of Duke Energy in the first quarter of 1999.

WESTANA GATHERING COMPANY. Westana Gathering Company is a joint venture that provides gathering, processing and marketing services for natural gas producers in Oklahoma. In conjunction with the acquisition of Panhandle by CMS Energy, Panhandle's interest in Westana Gathering Company was transferred to a subsidiary of Duke Energy in the first quarter of 1999.

## 11. COMMITMENTS AND CONTINGENCIES

CAPITAL EXPENDITURES: Panhandle estimates capital expenditures and investments, including allowance for funds used during construction, to be approximately \$130 million in 2000 and \$60 million in each of the two following years. The year 2000 estimate includes the Sea Robin acquisition (see Note 14). These estimates are prepared for planning purposes and are subject to revision. Capital expenditures for 1999 were satisfied by cash from operations.

LITIGATION: Under the terms of the sale of Panhandle to CMS Energy discussed in Note 1 to the Consolidated Financial Statements, subsidiaries of Duke Energy indemnified CMS Energy from losses resulting from certain legal and tax liabilities of Panhandle, including the matter specifically discussed below:

In May 1997, Anadarko filed suits against Panhandle and other PanEnergy affiliates, as defendants, both in the United States District Court for the Southern District of Texas and State District Court of Harris County, Texas. Pursuing only the federal court claim, Anadarko claims that it was effectively indemnified by the defendants against any responsibility for refunds of Kansas ad valorem taxes which are due from purchasers of gas from Anadarko, retroactive to 1983. In October 1998 and January 1999, the FERC issued orders on ad valorem tax issues, finding that first sellers of gas were primarily liable for refunds. The FERC also noted that claims for indemnity or reimbursement among the parties would be better addressed by the United States District Court for the Southern District of Texas. Panhandle believes the resolution of this matter will not have a material adverse effect on consolidated results of operations or financial position.

Panhandle is also involved in other legal, tax and regulatory proceedings before various courts, regulatory commissions and governmental agencies regarding matters arising in the ordinary course of business, some of which involve substantial amounts. Where appropriate, Panhandle has made accruals in accordance with SFAS 5, Accounting for Contingencies, in order to provide for such matters. Management believes the final disposition of these proceedings will not have a material adverse effect on consolidated results of operations or financial position.

**ENVIRONMENTAL MATTERS:** Panhandle is subject to federal, state and local regulations regarding air and water quality, hazardous and solid waste disposal and other environmental matters. Panhandle has identified environmental contamination at certain sites on its systems and has undertaken clean-up programs at these sites. The contamination resulted from the past use of lubricants in compressed air systems containing PCBs and the prior use of wastewater collection facilities and other on-site disposal areas. Under the terms of the sale of Panhandle to CMS Energy, a subsidiary of Duke Energy is obligated to complete the Panhandle clean-up programs at certain agreed-upon sites and to indemnify against certain future environmental litigation and claims. The Illinois EPA included Panhandle and Trunkline, together with other non-affiliated parties, in a cleanup of former waste oil disposal sites in Illinois. Prior to a partial cleanup by the United States EPA, a preliminary study estimated the cleanup costs at one of the sites to be between \$5 million and \$15 million. The State of Illinois contends that Panhandle Eastern Pipe Line Company's and Trunkline's share for the costs of assessment and remediation of the sites, based on the volume of waste sent to the facilities, is 17.32 percent. Management believes that the costs of cleanup, if any, will not have a material adverse impact on Panhandle's financial position, liquidity, or results of operations.

**OTHER COMMITMENTS AND CONTINGENCIES:** In 1993, the U.S. Department of the Interior announced its intention to seek additional royalties from gas producers as a result of payments received by such producers in connection with past take-or-pay settlements, and buyouts and buydowns of gas sales contracts with natural gas pipelines. Panhandle's pipelines, with respect to certain producer contract settlements, may be contractually required to reimburse or, in some instances, to indemnify producers against such royalty claims. The potential liability of the producers to the government and of the pipelines to the producers involves complex issues of law and fact which are likely to take substantial time to resolve. If required to reimburse or indemnify the producers, Panhandle's pipelines will file with FERC to recover a portion of these costs from pipeline customers. Management believes these commitments and contingencies will not have a material adverse effect on consolidated results of operations or financial position.

Under the terms of a settlement related to a transportation agreement between Panhandle and Northern Border Pipeline Company, Panhandle guarantees payment to Northern Border Pipeline Company under a transportation agreement held by a third party. The transportation agreement requires estimated total payments of \$33 million for the remainder of 2000 through 2001. Management believes the probability that Panhandle will be required to perform under this guarantee is remote.

LEASES: Panhandle utilizes assets under operating leases in several areas of operation. Consolidated rental expense amounted to \$14 million (\$11 million related to the CMS Energy ownership period and \$3 million during the Duke Energy ownership period), \$15 million and \$20 million in 1999, 1998 and 1997, respectively. Future minimum rental payments under Panhandle's various operating leases for the years 2000 through 2004 are \$14 million, \$13 million, \$10 million, \$4 million and \$4 million, respectively and \$11 million for 2005 and thereafter.

## 12. EXECUTIVE INCENTIVE COMPENSATION

Panhandle participates in CMS Energy's Performance Incentive Stock Plan. Under the plan, restricted shares of Common Stock of CMS Energy, as well as stock options and stock appreciation rights related to Common Stock may be granted to key employees based on their contributions to the successful management of CMS Energy and its subsidiaries. Awards under the plan may consist of any class of Common Stock. Certain plan awards are subject to performance-based business criteria. The plan reserves for awards not more than five percent, as amended January 1, 1999, of Common Stock outstanding on January 1 each year, less (i) the number of shares of restricted Common Stock awarded and (ii) Common Stock subject to options granted under the plan during the immediately preceding four calendar years. The number of shares of restricted Common Stock awarded under this plan can not exceed 20% of the aggregate number of shares reserved for award. Any forfeiture of shares previously awarded will increase the number of shares available to be awarded under the plan. At December 31, 1999, awards of up to 2,466,524 shares of CMS Energy Common Stock may be issued.

Restricted shares of Common Stock are outstanding shares with full voting and dividend rights. These awards vest over five years at the rate of 25 percent per year after two years. The restricted shares are subject to achievement of specific levels of total shareholder return and are subject to forfeiture if employment terminates before vesting. If performance objectives are exceeded, the plan provides additional awards. Restricted shares vest fully if control of CMS Energy changes, as defined by the plan. At December 31, 1999, all of the 12,000 shares of restricted CMS Energy Common Stock outstanding are subject to performance objectives.

The plan grants stock options and stock appreciation rights relating to Common Stock with an exercise price equal to the closing market price on each grant date. Some options may be exercised upon grant; others vest over five years at the rate of 25 percent per year after one year. All options expire up to ten years and one month from date of grant. The status of the restricted stock and options granted to Panhandle's key employees under the Performance Incentive Stock Plan follows:

CMS ENERGY COMMON STOCK	Restricted Stock	Options	
	Number of Shares	Number of Shares	Weighted Average Exercise Price
Outstanding at December 31, 1998	-	-	NA
Granted	12,000	299,912	\$41.07
Exercised or Issued	-	-	NA
Outstanding at December 31, 1999	12,000	299,912	\$41.07

The following table summarizes Panhandle information about CMS Energy Common Stock options outstanding at December 31, 1999:

Range of Exercise Prices	Number of Shares Outstanding	Weighted Average Remaining Life	Weighted Average Exercise Price
CMS Energy Common Stock			
\$39.0625 - \$41.750	299,912	9.46 years	\$41.07

The weighted average fair value of options granted to Panhandle employees for CMS Energy Common Stock was \$5.93 in 1999. Fair value is estimated using the Black-Scholes model, a mathematical formula used to value options traded on securities exchanges, with the following assumptions:

	Year Ended December 31, 1999
Risk-free interest rate	5.65%
Expected stock price volatility	16.81%
Expected dividend rate	\$.365
Expected option life	4.5 years

Panhandle applies Accounting Principles Board Opinion 25 and related interpretations in accounting for the Performance Incentive Stock Plan. Since stock options are granted at market price, no compensation cost has been recognized for stock options granted under the plan. If compensation cost for stock options had been determined in accordance with SFAS 123, Accounting for Stock-Based Compensation, Panhandle's net income would have decreased by approximately \$1.2 million for 1999. The compensation cost charged against income for restricted stock was \$.1 million in 1999.

## 13. BENEFIT PLANS

Under the terms of the acquisition of Panhandle by CMS Energy, benefit obligations related to active employees and certain plan assets were transferred to CMS Energy. Benefit obligations related to existing retired employees and remaining plan assets were retained by a subsidiary of Duke Energy.

Following the acquisition of Panhandle by CMS Energy described in Note 1, Panhandle now participates in CMS Energy's non-contributory defined benefit retirement plan covering most employees with a minimum of one year vesting service. Panhandle, through CMS Energy, provides retirement benefits under a number of different plans, including certain health care and life insurance benefits under OPEB, benefits to certain management employees under SERP, and benefits to substantially all its employees under a trusted, non-contributory, defined benefit pension plan of CMS Energy (Pension Plan) and a defined contribution 401(K) plan.

CMS Energy's policy is to fund amounts, as necessary, on an actuarial basis to provide assets sufficient to meet benefits to be paid to plan participants. With respect to the CMS Pension Plan, the fair value of the plan assets was \$1,094 million at December 31, 1999 as compared to the benefit obligation of \$971 million. With respect to the prior Duke Energy plan, the fair value of the plan assets of \$819 million at December 31, 1998, exceeded the projected benefit obligations of \$338 million, as of December 31, 1998.

Panhandle's net periodic pension benefit cost, as allocated by CMS Energy, was \$2 million in 1999. For 1998 and 1997, Panhandle's net periodic pension benefit cost, as allocated by a subsidiary of Duke Energy, was \$14 million and \$13 million, respectively.

Amounts presented below for the Pension Plan include amounts for employees of CMS Energy and nonutility affiliates which were not distinguishable from the plan's total assets.

## Weighted-Average Assumptions:

Years Ended December 31	Pension & SERP			OPEB		
	1999(a)	1998	1997	1999(a)	1998	1997
Discount rate	7.75%	6.75%	7.25%	7.75%	6.75%	7.25%
Expected long-term rate of return on plan assets	9.25%	9.25%	9.25%	7.00%	9.25%	9.25%
Rate of compensation increase		4.67%	4.75%			
Pension - to age 45	5.25%	NA	NA			
- age 45 to assumed retirement	3.75%	NA	NA			
SERP	5.50%	NA	NA			

(a) 1999 reflects CMS Energy's Pension and Other Postretirement benefits accounting.

The Pension Plan's net unrecognized transition obligation, resulting from the implementation of accrual accounting, is amortized over 16 years and 11 years for the SERP's on a straight-line basis over the average remaining service period of active employees.

Panhandle accrues health care and life insurance benefit costs over the active service period of employees to the date of full eligibility for the benefits.

With respect to the CMS OPEB Plan, the fair value of the plan assets was \$431 million at December 31, 1999 as compared to the benefit obligation of \$736 million. With respect to the prior Duke Energy plan, the fair value of the plan assets of \$150 million at December 31, 1998, versus projected benefit obligations of \$225 million, as of December 31, 1998.

It is Panhandle's and CMS Energy's general policy to fund accrued postretirement health care costs. CMS Energy's retiree life insurance plan is fully funded based on actuarially determined requirements.

Panhandle's net periodic postretirement benefit cost, as allocated by CMS Energy, was \$4 million in 1999. For each year in 1998 and 1997, Panhandle's net periodic postretirement benefit cost, as allocated by a subsidiary of Duke Energy, was \$7 million.

For measurement purposes, a 7.0 percent weighted average rate of increase in the per capita cost of covered health care benefits was assumed for 1999. The rate is based on assumptions that it will decrease gradually to 5.5 percent in 2006 and thereafter. Assumed health care cost trend rates have a significant effect on the amounts reported for Panhandle's health care plans.

In Millions		
=====		
SENSITIVITY TO CHANGES IN ASSUMED HEALTH CARE COST TREND RATES		
	1-Percentage- Point Increase	1-Percentage- Point Decrease
-----		
Effect on total service and interest cost components	\$ 1	\$ (1)
Effect on postretirement benefit obligation	\$ 8	\$ (7)
=====		

#### 14. SUBSEQUENT EVENT (UNAUDITED)

In January 2000, Panhandle announced that Trunkline has entered into a definitive agreement to acquire the Sea Robin Pipeline system, a 1 bcf per day capacity offshore Gulf of Mexico pipeline, from Southern Natural Gas Company, a subsidiary of Sonat, Inc., for a total price including certain transaction costs of approximately \$74 million. This transaction is expected to close in March 2000.

## 15. QUARTERLY FINANCIAL DATA (UNAUDITED)

(In millions)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
1999					
Operating revenue	\$133(a)	\$104(a)	\$107	\$127	\$471
Pretax Operating Income	69(a)	44(a)	41	39	193
Net income	34	14	14	12	74
=====					
1998					
Operating revenue	\$139	\$116	\$111	\$130	\$496
Pretax Operating Income	70	44	36	51	201
Net income	35	17	11	28(b)	91

- (a) First and second quarters of 1999 were restated to include certain miscellaneous income, including rental income and gain or loss on sale of assets, as other revenue.
- (b) Includes a gain on sale of certain general partnership interests of \$14 million.

## REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Panhandle Eastern Pipe Line Company:

We have audited the accompanying consolidated balance sheet of Panhandle Eastern Pipe Line Company (a Delaware corporation) and subsidiaries as of December 31, 1999, and the related consolidated statements of income, cash flows and common stockholder's equity for the period from January 1, 1999 through March 28, 1999 and for the period from March 29, 1999 through December 31, 1999. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Panhandle Eastern Pipe Line Company and subsidiaries as of December 31, 1999, and the results of their operations and their cash flows for the period from January 1, 1999 through March 28, 1999 and for the period from March 29, 1999 through December 31, 1999 in conformity with accounting principles generally accepted in the United States.

/s/ Arthur Andersen LLP

Houston, Texas  
February 25, 2000

PE-27

Panhandle Eastern Pipe Line Company:

We have audited the accompanying consolidated balance sheets of Panhandle Eastern Pipe Line Company and subsidiaries (the "Company") as of December 31, 1998 and 1997, and the related consolidated statements of income, common stockholder's equity and cash flows for each of the two years in the period ended December 31, 1998. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 1998 and 1997, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 1998 in conformity with generally accepted accounting principles.

/s/ DELOITTE & TOUCHE LLP

Charlotte, North Carolina  
February 12, 1999

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS  
ON ACCOUNTING AND FINANCIAL DISCLOSURE.

## CMS ENERGY

None for CMS Energy.

## CONSUMERS

None for Consumers.

## PANHANDLE

Effective upon the closing of the acquisition of Panhandle by CMS Energy, Panhandle's Board of Directors dismissed Deloitte & Touche LLP as Panhandle's certifying accountant and retained Arthur Andersen LLP for 1999. Arthur Andersen LLP is serving as certifying accountant for CMS Energy and its principal subsidiaries in 1999. Deloitte & Touche LLP's report on the Panhandle financial statements for 1997 and 1998 did not contain an adverse opinion or a disclaimer of opinion, nor was it qualified or modified as to uncertainty, audit scope, or accounting principles. During 1997, 1998 and the interim period from January 1, 1999 through March 29, 1999 (effective upon the closing of the acquisition), there were no disagreements or "reportable events" as described in Items 304(a)(1)(iv) and (v) of Regulation S-K between Panhandle and Deloitte & Touche LLP.

PART III  
(ITEMS 10., 11., 12. AND 13.)

## CMS ENERGY

CMS Energy's definitive proxy statement, except for the organization and compensation committee report contained therein, is incorporated by reference herein. See also ITEM 1. BUSINESS for information pursuant to ITEM 10.

## CONSUMERS

Consumers' definitive information statement, except for the organization and compensation committee report contained therein, is incorporated by reference herein. See also ITEM 1. BUSINESS for information pursuant to ITEM 10.

PART IV  
ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES  
AND REPORTS ON FORM 8-K.

- (a)(1) Financial Statements and Reports of Independent Public Accountants for CMS Energy, Consumers, and Panhandle are listed in ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA and are incorporated by reference herein.
- (a)(2) Financial Statement Schedules and Reports of Independent Public Accountants for CMS Energy, Consumers and Panhandle are listed after the Exhibits in the Index to Financial Statement Schedules, and are incorporated by reference herein.
- (a)(3) Exhibits for CMS Energy, Consumers, and Panhandle are listed after Item (c) below and are incorporated by reference herein.
- (b) Reports on Form 8-K for CMS Energy, Consumers and Panhandle
- CMS ENERGY
- Current Reports filed October 18, 1999, October 26, 1999, December 6, 1999 and February 1, 2000 covering matters reported pursuant to ITEM 5. OTHER EVENTS.
- CONSUMERS
- Current Reports filed October 18, 1999, October 26, 1999, December 6, 1999 and February 1, 2000 covering matters reported pursuant to ITEM 5. OTHER EVENTS.
- PANHANDLE
- Current Report filed March 16, 2000 covering matters reported pursuant to ITEM 5. OTHER EVENTS.
- (c) Exhibits, including those incorporated by reference (see also Exhibit volume).

## CMS ENERGY, CONSUMERS AND PANHANDLE EXHIBITS

Exhibits	Previously Filed		Description
	With File Number	As Exhibit Number	
(3)(a)	1-9513	(3)(a)	- Restated Articles of Incorporation of CMS Energy. (3rd qtr. 1999 Form 10-Q)
(3)(b)			- By-Laws of CMS Energy.
(3)(c)	1-5611	(3)(c)	- Certificate of Amendment to the Articles of Incorporation dated March 10, 1997 and Restated Articles of Incorporation dated March 25, 1994 of Consumers. (1996 Form 10-K)
(3)(d)			- By-Laws of Consumers.
(3)(e)	1-2921	3.01	- Restated Certificate of Incorporation of Panhandle. (1993 Form 10-K)
(3)(f)			- By-Laws of Panhandle.
(4)(a)	2-65973	(b)(1)-4	- Indenture dated as of September 1, 1945, between Consumers and Chemical Bank (successor to Manufacturers Hanover Trust Company), as Trustee, including therein indentures supplemental thereto through the Forty-third Supplemental Indenture dated as of May 1, 1979.
	33-31866	(4)(d)	- Indentures Supplemental thereto:
	33-41126	(4)(c)	- 67th dated as of 11/15/89
	1-5611	(4)	- 68th dated as of 06/15/93
	1-5611	(4)(a)	- 69th dated as of 09/15/93 (Form 8-K dated Sep. 21, 1993)
	1-5611	(4)(a)	- 70th dated as of 02/01/98 (1997 Form 10-K)
	1-5611	(4)(a)	- 71st dated as of 03/06/98 (1997 Form 10-K)
	1-5611	(4)(b)	- 72nd dated as of 05/01/98 (1st Qtr. 1998 Form 10-Q)
	333-58943	(4)(d)	- 73rd dated as of 06/15/98
	1-5611	(4)(b)	- 74th dated as of 10/29/98 (3rd Qtr. 1998 Form 10-Q)
(4)(b)			- 75th dated as of 10/1/99
(4)(c)			- 76th dated as of 10/4/99
(4)(d)			- 77th dated as of 10/1/99
(4)(e)	1-5611	(4)(b)	- Indenture dated as of January 1, 1996 between Consumers and The Bank of New York, as Trustee. (1995 Form 10-K)
			- Indentures Supplemental thereto:
	1-5611	(4)(b)	- 1st dated as of 01/18/96 (1995 Form 10-K)
	1-5611	(4)(a)	- 2nd dated as of 09/04/97 (3rd qtr 1997 Form 10-Q)
	1-9513	(4)(a)	- 3rd 11/04/99 (3rd qtr 1999 Form 10-Q)
(4)(f)	1-5611	(4)(c)	- Indenture dated as of February 1, 1998 between Consumers and The Chase Manhattan Bank, as Trustee. (1997 Form 10-K)
	1-5611	(4)(a)	- 1st dated as of 05/01/98 (1st Qtr. 1998 Form 10-Q)
	333-58943	(4)(b)	- 2nd dated as of 06/15/98

	1-5611	(4)(a)	-	3rd 10/29/98 (3rd Qtr. 1998 Form 10-Q)
(4)(g)	33-47629	(4)(a)	-	Indenture dated as of September 15, 1992 between CMS Energy and NBD Bank, as Trustee. (Form S-3 filed May 1, 1992)
			-	Indentures Supplemental thereto:
	1-9513	(4)	-	1st dated as of 10/01/92 (Form 8-K dated October 1, 1992)
	1-9513	(4)(a)	-	2nd dated as of 10/01/92 (Form 8-K dated October 1, 1992)
	1-9513	(4)	-	3rd dated as of 05/06/97 (1st qtr 1997 Form 10-Q)
	333-37241	(4)(a)	-	4th dated as of 09/26/97 (Form S-3 filed October 6, 1997)
	1-9513	(4)(b)	-	5th dated as of 11/04/97 (3rd qtr 1997 Form 10-Q)
	1-9513	(4)(d)	-	6th dated as of 01/13/98 (1997 Form 10-K)
	1-9513	(4)(d)(i)	-	7th dated as of 01/25/99 (1998 Form 10-K)
	1-9513	(4)(d)(ii)	-	8th dated as of 02/03/99 (1998 Form 10-K)
(4)(h)	1-9513	(4)(a)	-	9th dated as of 06/22/99 (2nd qtr 1999 Form 10-Q)
	1-9513	(4)(b)	-	Indenture between CMS Energy and The Chase Manhattan Bank, as Trustee, dated as of January 15, 1994. (Form 8-K dated March 29, 1994)
			-	Indentures Supplemental thereto:
	1-9513	(4b)	-	1st dated as of 01/20/94 (Form 8-K dated March 29, 1994)
	1-9513	(4)	-	2nd dated as of 03/19/96 (1st qtr 1996 Form 10-Q)
	1-9513	(4)(a)(iv)	-	3rd dated as of 03/17/97 (Form 8-K dated May 1, 1997)
	333-36115	(4)(d)	-	4th dated as of 09/17/97 (Form S-3 filed September 22, 1997)
	333-63229	(4)(c)	-	5th dated as of 08/26/98 (Form S-4 filed September 10, 1998)
(4)(i)	1-9513	(4a)	-	Indenture dated as of June 1, 1997, between CMS Energy and The Bank of New York, as trustee. (Form 8-K filed July 1, 1997)
			-	Indentures Supplemental thereto:
	1-9513	(4)(b)	-	1st dated as of 06/20/97 (Form 8-K filed July 1, 1997)
	1-9513	(4)(b)	-	2nd dated as of 06/01/99 (2nd qtr 1999 Form 10-Q)
			-	Pursuant to Item 601(b)(4)(iii) of Regulation S-K, in lieu of filing a copy of such agreement, CMS Energy agrees to furnish a copy of such agreement to the Commission upon request.
(4)(j)	1-5611	(4)(a)	-	Indenture dated as of March 29, 1999, among CMS Panhandle Holding Company, Panhandle Eastern Pipe Line Company and NBD Bank, as Trustee. (1st Qtr. 1999 10-Q)
(4)(k)	1-9513	(4)(b)	-	1st Supplemental Indenture dated as of March 29, 1999, among CMS Panhandle Holding Company, Panhandle Eastern Pipe Line Company and NBD Bank, as Trustee, including a form of Guarantee by Panhandle Eastern Pipe Line Company of the obligations of CMS Panhandle Holding Company. (1st qtr 1999 Form 10-Q)
(4)(l)	33-58552	4	-	Indenture, dated as of February 1, 1993, between Panhandle and Morgan Guaranty Trust Company of New York. (Form S-3 filed February 19, 1993)
(10)(a)	1-9513	(4)	-	Credit Agreement dated as of July 2, 1997, among CMS Energy, the Administrative Agent, Collateral Agent, Documentation Agent, Syndication Agent, Co-Agents and Lead Manager, all as

			defined therein, and the Exhibits and Schedules thereto. (2nd qtr 1997 Form 10-Q)
	333-63229	(4)(f)	- 1st Amendment dated 01/30/98. (Form S-4 filed September 10, 1998)
	1-9513	(10)(b)(i)	- 2nd Amendment dated 11/05/98. (1998 Form 10-K)
(10)(b)	1-9513	(10)(a)	- 3rd Amendment dated 06/22/99. (2nd qtr 1999 Form 10-Q)
			- Form of Employment Agreement entered into by CMS Energy's and Consumers' executive officers.
(10)(c)	1-5611	(10)(g)	- Consumers' Executive Stock Option and Stock Appreciation Rights Plan effective December 1, 1989. (1990 Form 10-K)
(10)(d)			- CMS Energy's Performance Incentive Stock Plan effective February 3, 1988, as amended December 3, 1999.
(10)(e)	1-9513	(10)(m)	- CMS Deferred Salary Savings Plan effective January 1, 1994. (1993 Form 10-K)
(10)(f)	1-5611	(10)(n)	- CMS Energy and Consumers Annual Executive Incentive Compensation Plan effective January 1, 1986, as amended January 1995. (1995 Form 10-K)
(10)(g)	1-5611	(10)(o)	- Consumers' Supplemental Executive Retirement Plan effective November 1, 1990. (1993 Form 10-K)
(10)(h)			- Supplemental Executive Retirement Plan for Employees of CMS Energy / Consumers Energy Company effective January 1, 1982, as amended December 3, 1999
(10)(i)	33-37977	4.1	- Senior Trust Indenture, Leasehold Mortgage and Security Agreement dated as of June 1, 1990 between The Connecticut National Bank and United States Trust Company of New York. (MCV Partnership) Indenture Supplemental thereto:
	33-37977	4.2	- Supplement No. 1 dated as of June 1, 1990. (MCV Partnership)
(10)(j)	1-9513	(28)(b)	- Collateral Trust Indenture dated as of June 1, 1990 among Midland Funding Corporation I, MCV Partnership and United States Trust Company of New York, Trustee. (3rd qtr 1990 Form 10-Q) Indenture Supplemental thereto:
	33-37977	4.4	- Supplement No. 1 dated as of June 1, 1990. (MCV Partnership)
(10)(k)	1-9513	(10)(v)	- Amended and Restated Investor Partner Tax Indemnification Agreement dated as of June 1, 1990 among Investor Partners, CMS Midland as Indemnitor and CMS Energy as Guarantor. (1990 Form 10-K)
(10)(l)	1-9513	(19)(d)**	- Environmental Agreement dated as of June 1, 1990 made by CMS Energy to The Connecticut National Bank and Others. (1990 Form 10-K)
(10)(m)	1-9513	(10)(z)**	- Indemnity Agreement dated as of June 1, 1990 made by CMS Energy to Midland Cogeneration Venture Limited Partnership. (1990 Form 10-K)

(10)(n)	1-9513	(10)(aa)**	-	Environmental Agreement dated as of June 1, 1990 made by CMS Energy to United States Trust Company of New York, Meridian Trust Company, each Subordinated Collateral Trust Trustee and Holders from time to time of Senior Bonds and Subordinated Bonds and Participants from time to time in Senior Bonds and Subordinated Bonds. (1990 Form 10-K)
(10)(o)	33-37977	10.4	-	Amended and Restated Participation Agreement dated as of June 1, 1990 among MCV Partnership, Owner Participant, The Connecticut National Bank, United States Trust Company, Meridian Trust Company, Midland Funding Corporation I, Midland Funding Corporation II, MEC Development Corporation and Institutional Senior Bond Purchasers. (MCV Partnership)
(10)(p)	1-5611 33-3797	(10)(w) 10.4	-	Amendment No. 1 dated as of July 1, 1991. (1991 Form 10-K) Power Purchase Agreement dated as of July 17, 1986 between MCV Partnership and Consumers. (MCV Partnership)
	33-37977	10.5	-	Amendments thereto: Amendment No. 1 dated September 10, 1987. (MCV Partnership)
	33-37977	10.6	-	Amendment No. 2 dated March 18, 1988. (MCV Partnership)
	33-37977	10.7	-	Amendment No. 3 dated August 28, 1989. (MCV Partnership)
	33-37977	10.8	-	Amendment No. 4A dated May 25, 1989. (MCV Partnership)
(10)(q)	1-5611	(10)(y)	-	Unwind Agreement dated as of December 10, 1991 by and among CMS Energy, Midland Group, Ltd., Consumers, CMS Midland, Inc., MEC Development Corp. and CMS Midland Holdings Company. (1991 Form 10-K)
(10)(r)	1-5611	(10)(z)	-	Stipulated AGE Release Amount Payment Agreement dated as of June 1, 1990, among CMS Energy, Consumers and The Dow Chemical Company. (1991 Form 10-K)
(10)(s)	1-5611	(10)(aa)**	-	Parent Guaranty dated as of June 14, 1990 from CMS Energy to MCV, each of the Owner Trustees, the Indenture Trustees, the Owner Participants and the Initial Purchasers of Senior Bonds in the MCV Sale Leaseback transaction, and MEC Development. (1991 Form 10-K)
(10)(t)	1-8157	10.41	-	Contract for Firm Transportation of Natural Gas between Consumers Power Company and Trunkline Gas Company, dated November 1, 1989, and Amendment, dated November 1, 1989. (1989 Form 10-K of PanEnergy Corp.)
(10)(u)	1-8157	10.41	-	Contract for Firm Transportation of Natural Gas between Consumers Power Company and Trunkline Gas Company, dated November 1, 1989. (1991 Form 10-K of PanEnergy Corp.)
(10)(v)	1-2921	10.03	-	Contract for Firm Transportation of Natural Gas between Consumers Power Company and Trunkline Gas Company, dated September 1, 1993. (1993 Form 10-K)

- (12) - Statements regarding computation of CMS Energy's Ratio of Earnings to Fixed Charges.
- (16)(b) 1-0291 (16)(b) - Letter of Deloitte & Touche LLP (Form 8-K/A dated July 19, 1999)
- (21)(a) - Subsidiaries of CMS Energy.
- (21)(b) - Subsidiaries of Consumers.
- (23)(a) - Consent of Arthur Andersen LLP for CMS Energy.
- (23)(b) - Consent of Arthur Andersen LLP for Consumers.
- (24)(a) - Power of Attorney for CMS Energy.
- (24)(b) - Power of Attorney for Consumers.
- (27)(a) - Financial Data Schedule UT for CMS Energy .
- (27)(b) - Financial Data Schedule UT for Consumers.
- (27)(c) - Financial Data Schedule UT for Panhandle.

\*\* Obligations of only CMS Holdings and CMS Midland, second tier subsidiaries of Consumers, and of CMS Energy but not of Consumers.

Exhibits listed above which have heretofore been filed with the Securities and Exchange Commission pursuant to various acts administered by the Commission, and which were designated as noted above, are hereby incorporated herein by reference and made a part hereof with the same effect as if filed herewith.

## INDEX TO FINANCIAL STATEMENT SCHEDULES

	Page
Schedule II	
Valuation and Qualifying Accounts and Reserves 1999, 1998 and 1997:	
CMS Energy Corporation.....	CO-9
Consumers Power Company.....	CO-9
Report of Independent Public Accountants	
CMS Energy Corporation.....	CO-10
Consumers Power Company.....	CO-10

Schedules other than those listed above are omitted because they are either not required, not applicable or the required information is shown in the financial statements or notes thereto.

Columns omitted from schedules filed have been omitted because the information is not applicable.

CMS ENERGY CORPORATION  
 Schedule II - Valuation and Qualifying Accounts and Reserves  
 Years Ended December 31, 1999, 1998 and 1997  
 (In Millions)

Description	Balance at Beginning of Period	Charged to Expense	Charged to other Accounts	Deductions	Balance at End of Period
-----					
Accumulated provision for uncollectible accounts:					
1999	\$13	\$15	\$(3)	\$13(a)	\$12
1998	\$7	\$12	\$5	\$11(a)	\$13
1997	\$10	\$8	\$1	\$12(a)	\$7
=====					

(a) Accounts receivable written off including net uncollectible amounts of \$12 in 1999, \$10 in 1998 and \$11 in 1997 charged directly to operating expense and credited to accounts receivable.

CONSUMERS ENERGY COMPANY  
 Schedule II - Valuation and Qualifying Accounts and Reserves  
 Years Ended December 31, 1999, 1998 and 1997  
 (In Millions)

Description	Balance at Beginning of Period	Charged to Expense	Charged to other Accounts	Deductions	Balance at End of Period
-----					
Accumulated provision for uncollectible accounts:					
1999	\$5	\$7	-	\$8(a)	\$4
1998	\$6	\$10	-	\$11(a)	\$5
1997	\$10	\$8	-	\$12(a)	\$6
=====					

(a) Accounts receivable written off including net uncollectible amounts of \$7 in 1999, \$10 in 1998 and \$11 in 1997 charged directly to operating expense and credited to accounts receivable.

To CMS Energy Corporation:

We have audited in accordance with generally accepted auditing standards, CMS Energy Corporation's consolidated financial statements included in this Form 10-K, and have issued our report thereon dated February 4, 2000. Our audit was made for the purpose of forming an opinion on those basic consolidated financial statements taken as a whole. The schedule listed in Item 14(a) is the responsibility of the Company's management and is presented for the purpose of complying with the Securities and Exchange Commission's rules and is not part of the basic consolidated financial statements. This schedule has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, fairly states in all material respects the financial data required to be set forth therein in relation to the basic consolidated financial statements taken as a whole.

/s/ Arthur Andersen LLP

Detroit, Michigan,  
February 4, 2000.

Report of Independent Public Accountants

To Consumers Energy Company:

We have audited in accordance with generally accepted auditing standards, Consumers Energy Company's consolidated financial statements included in this Form 10-K, and have issued our report thereon dated February 4, 2000. Our audit was made for the purpose of forming an opinion on those basic consolidated financial statements taken as a whole. The schedule listed in Item 14(a) is the responsibility of the Company's management and is presented for the purpose of complying with the Securities and Exchange Commission's rules and is not part of the basic consolidated financial statements. This schedule has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, fairly states in all material respects the financial data required to be set forth therein in relation to the basic consolidated financial statements taken as a whole.

/s/ Arthur Andersen LLP

Detroit, Michigan,  
February 4, 2000.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, CMS Energy Corporation has duly caused this Annual Report to be signed on its behalf by the undersigned, thereunto duly authorized, on the 29th day of March 2000.

## CMS ENERGY CORPORATION

By William T. McCormick, Jr.  
-----  
WILLIAM T. MCCORMICK, JR.  
CHAIRMAN OF THE BOARD  
AND CHIEF EXECUTIVE OFFICER

Pursuant to the requirements of the Securities Exchange Act of 1934, this Annual Report has been signed below by the following persons on behalf of CMS Energy Corporation and in the capacities and on the 29th day of March 2000.

Signature

Title

-----

-----

(i) Principal executive officer:

William T. McCormick, Jr.

-----  
WILLIAM T. MCCORMICK, JR.Chairman of the Board,  
Chief Executive Officer  
and Director

(ii) Principal financial officer:

A. M. Wright

-----  
ALAN M. WRIGHTSenior Vice President,  
and Chief Financial Officer

(iii) Controller or principal accounting officer:

P. D. Hopper

-----  
PRESTON D. HOPPERSenior Vice President, Controller  
and Chief Accounting Officer

(iv) A majority of the Directors including those named above:

John M Deutch\*

-----  
JOHN M. DEUTCH

Director

Signature -----	Title -----
James J. Duderstadt* ----- JAMES J. DUDERSTADT	Director
K R Flaherty* ----- KATHLEEN R. FLAHERTY	Director
Victor J. Fryling* ----- VICTOR J. FRYLING	Director
Earl D. Holton* ----- EARL D. HOLTON	Director
W. U. Parfet* ----- WILLIAM U. PARFET	Director
Percy A. Pierre* ----- PERCY A. PIERRE	Director
Kenneth L. Way* ----- KENNETH L. WAY	Director
K. Whipple* ----- KENNETH WHIPPLE	Director
John B. Yasinsky* ----- JOHN B. YASINSKY	Director

\* By

Thomas A. McNish  
-----  
THOMAS A. MCNISH, ATTORNEY-IN-FACT

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, Consumers Energy Company has duly caused this Annual Report to be signed on its behalf by the undersigned, thereunto duly authorized, on the 29th day of March 2000.

CONSUMERS ENERGY COMPANY

By William T. McCormick Jr.  
-----  
WILLIAM T. MCCORMICK, JR.  
CHAIRMAN OF THE BOARD

Pursuant to the requirements of the Securities Exchange Act of 1934, this Annual Report has been signed below by the following persons on behalf of Consumers Energy Company and in the capacities and on the 29th day of March 2000.

Signature

-----

Title

-----

(i) Principal executive officer:

Victor J. Fryling

-----  
VICTOR J. FRYLING

Vice Chairman of the Board,  
President and Director

(ii) Principal financial officer:

A. M. Wright

-----  
ALAN M. WRIGHT

Senior Vice President and  
Chief Financial Officer

(iii) Controller or principal accounting officer:

Dennis DaPra

-----  
DENNIS DAPRA

Vice President and  
Controller

(iv) A majority of the Directors including those named above:

John M Deutch\*

-----  
JOHN M. DEUTCH

Director

Signature -----	Title -----
James J. Duderstadt* ----- JAMES J. DUDERSTADT	Director
K R Flaherty* ----- KATHLEEN R. FLAHERTY	Director
Earl D. Holton* ----- EARL D. HOLTON	Director
William T. McCormick, Jr.* ----- WILLIAM T. MCCORMICK, JR.	Director
W. U. Parfet* ----- WILLIAM U. PARFET	Director
Percy A. Pierre* ----- PERCY A. PIERRE	Director
Kenneth L. Way* ----- KENNETH L. WAY	Director
K. Whipple* ----- KENNETH WHIPPLE	Director
John B. Yasinsky* ----- JOHN B. YASINSKY	Director
*By Thomas A. McNish ----- THOMAS A. MCNISH, ATTORNEY-IN-FACT	

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, Panhandle Eastern Pipe Line Company has duly caused this Annual Report to be signed on its behalf by the undersigned, thereunto duly authorized, on the 29th day of March 2000.

PANHANDLE EASTERN PIPE LINE COMPANY

By William T. McCormick, Jr.

-----  
WILLIAM T. MCCORMICK, JR.  
CHAIRMAN OF THE BOARD

Pursuant to the requirements of the Securities Exchange Act of 1934, this Annual Report has been signed below by the following persons on behalf of Panhandle Eastern Pipe Line Company and in the capacities and on the 29th day of March 2000.

Signature

Title

-----

-----

(i) Principal executive officer:

Vice Chairman of the Board,  
Chief Executive Officer and Director

William J. Haener

-----  
WILLIAM J. HAENER

(ii) Principal financial officer:

Senior Vice President,  
Chief Financial Officer, Treasurer and Director

A. M. Wright

-----  
ALAN M. WRIGHT

(iii) Controller or principal accounting officer:

Controller

G. W. Lefelar

-----  
GARY W. LEFELAR

(iv) A majority of the Directors including those named above:

Director

William T. McCormick, Jr.

-----  
WILLIAM T. MCCORMICK, JR.

## EXHIBIT INDEX

## CMS ENERGY, CONSUMERS AND PANHANDLE EXHIBITS

Exhibits	Previously Filed		Description
	With File Number	As Exhibit Number	
(3)(a)	1-9513	(3)(a)	- Restated Articles of Incorporation of CMS Energy. (3rd qtr. 1999 Form 10-Q)
(3)(b)			- By-Laws of CMS Energy.
(3)(c)	1-5611	(3)(c)	- Certificate of Amendment to the Articles of Incorporation dated March 10, 1997 and Restated Articles of Incorporation dated March 25, 1994 of Consumers. (1996 Form 10-K)
(3)(d)			- By-Laws of Consumers.
(3)(e)	1-2921	3.01	- Restated Certificate of Incorporation of Panhandle. (1993 Form 10-K)
(3)(f)			- By-Laws of Panhandle.
(4)(a)	2-65973	(b)(1)-4	- Indenture dated as of September 1, 1945, between Consumers and Chemical Bank (successor to Manufacturers Hanover Trust Company), as Trustee, including therein indentures supplemental thereto through the Forty-third Supplemental Indenture dated as of May 1, 1979.
	33-31866	(4)(d)	- Indentures Supplemental thereto:
	33-41126	(4)(c)	- 67th dated as of 11/15/89
	1-5611	(4)	- 68th dated as of 06/15/93
	1-5611	(4)(a)	- 69th dated as of 09/15/93 (Form 8-K dated Sep. 21, 1993)
	1-5611	(4)(a)	- 70th dated as of 02/01/98 (1997 Form 10-K)
	1-5611	(4)(a)	- 71st dated as of 03/06/98 (1997 Form 10-K)
	1-5611	(4)(b)	- 72nd dated as of 05/01/98 (1st Qtr. 1998 Form 10-Q)
	333-58943	(4)(d)	- 73rd dated as of 06/15/98
	1-5611	(4)(b)	- 74th dated as of 10/29/98 (3rd Qtr. 1998 Form 10-Q)
(4)(b)			- 75th dated as of 10/1/99
(4)(c)			- 76th dated as of 10/4/99
(4)(d)			- 77th dated as of 10/1/99
(4)(e)	1-5611	(4)(b)	- Indenture dated as of January 1, 1996 between Consumers and The Bank of New York, as Trustee. (1995 Form 10-K)
			- Indentures Supplemental thereto:
	1-5611	(4)(b)	- 1st dated as of 01/18/96 (1995 Form 10-K)
	1-5611	(4)(a)	- 2nd dated as of 09/04/97 (3rd qtr 1997 Form 10-Q)
	1-9513	(4)(a)	- 3rd 11/04/99 (3rd qtr 1999 Form 10-Q)
(4)(f)	1-5611	(4)(c)	- Indenture dated as of February 1, 1998 between Consumers and The Chase Manhattan Bank, as Trustee. (1997 Form 10-K)
	1-5611	(4)(a)	- 1st dated as of 05/01/98 (1st Qtr. 1998 Form 10-Q)
	333-58943	(4)(b)	- 2nd dated as of 06/15/98

	1-5611	(4)(a)	-	3rd 10/29/98 (3rd Qtr. 1998 Form 10-Q)
(4)(g)	33-47629	(4)(a)	-	Indenture dated as of September 15, 1992 between CMS Energy and NBD Bank, as Trustee. (Form S-3 filed May 1, 1992)
			-	Indentures Supplemental thereto:
	1-9513	(4)	-	1st dated as of 10/01/92 (Form 8-K dated October 1, 1992)
	1-9513	(4)(a)	-	2nd dated as of 10/01/92 (Form 8-K dated October 1, 1992)
	1-9513	(4)	-	3rd dated as of 05/06/97 (1st qtr 1997 Form 10-Q)
	333-37241	(4)(a)	-	4th dated as of 09/26/97 (Form S-3 filed October 6, 1997)
	1-9513	(4)(b)	-	5th dated as of 11/04/97 (3rd qtr 1997 Form 10-Q)
	1-9513	(4)(d)	-	6th dated as of 01/13/98 (1997 Form 10-K)
	1-9513	(4)(d)(i)	-	7th dated as of 01/25/99 (1998 Form 10-K)
	1-9513	(4)(d)(ii)	-	8th dated as of 02/03/99 (1998 Form 10-K)
(4)(h)	1-9513	(4)(a)	-	9th dated as of 06/22/99 (2nd qtr 1999 Form 10-Q)
	1-9513	(4)(b)	-	Indenture between CMS Energy and The Chase Manhattan Bank, as Trustee, dated as of January 15, 1994. (Form 8-K dated March 29, 1994)
			-	Indentures Supplemental thereto:
	1-9513	(4b)	-	1st dated as of 01/20/94 (Form 8-K dated March 29, 1994)
	1-9513	(4)	-	2nd dated as of 03/19/96 (1st qtr 1996 Form 10-Q)
	1-9513	(4)(a)(iv)	-	3rd dated as of 03/17/97 (Form 8-K dated May 1, 1997)
	333-36115	(4)(d)	-	4th dated as of 09/17/97 (Form S-3 filed September 22, 1997)
	333-63229	(4)(c)	-	5th dated as of 08/26/98 (Form S-4 filed September 10, 1998)
(4)(i)	1-9513	(4a)	-	Indenture dated as of June 1, 1997, between CMS Energy and The Bank of New York, as trustee. (Form 8-K filed July 1, 1997)
			-	Indentures Supplemental thereto:
	1-9513	(4)(b)	-	1st dated as of 06/20/97 (Form 8-K filed July 1, 1997)
	1-9513	(4)(b)	-	2nd dated as of 06/01/99 (2nd qtr 1999 Form 10-Q)
			-	Pursuant to Item 601(b)(4)(iii) of Regulation S-K, in lieu of filing a copy of such agreement, CMS Energy agrees to furnish a copy of such agreement to the Commission upon request.
(4)(j)	1-5611	(4)(a)	-	Indenture dated as of March 29, 1999, among CMS Panhandle Holding Company, Panhandle Eastern Pipe Line Company and NBD Bank, as Trustee. (1st Qtr. 1999 10-Q)
(4)(k)	1-9513	(4)(b)	-	1st Supplemental Indenture dated as of March 29, 1999, among CMS Panhandle Holding Company, Panhandle Eastern Pipe Line Company and NBD Bank, as Trustee, including a form of Guarantee by Panhandle Eastern Pipe Line Company of the obligations of CMS Panhandle Holding Company. (1st qtr 1999 Form 10-Q)
(4)(l)	33-58552	4	-	Indenture, dated as of February 1, 1993, between Panhandle and Morgan Guaranty Trust Company of New York. (Form S-3 filed February 19, 1993)
(10)(a)	1-9513	(4)	-	Credit Agreement dated as of July 2, 1997, among CMS Energy, the Administrative Agent, Collateral Agent, Documentation Agent, Syndication Agent, Co-Agents and Lead Manager, all as

			defined therein, and the Exhibits and Schedules thereto. (2nd qtr 1997 Form 10-Q)
	333-63229	(4)(f)	- 1st Amendment dated 01/30/98. (Form S-4 filed September 10, 1998)
	1-9513	(10)(b)(i)	- 2nd Amendment dated 11/05/98. (1998 Form 10-K)
(10)(b)	1-9513	(10)(a)	- 3rd Amendment dated 06/22/99. (2nd qtr 1999 Form 10-Q)
			- Form of Employment Agreement entered into by CMS Energy's and Consumers' executive officers.
(10)(c)	1-5611	(10)(g)	- Consumers' Executive Stock Option and Stock Appreciation Rights Plan effective December 1, 1989. (1990 Form 10-K)
(10)(d)			- CMS Energy's Performance Incentive Stock Plan effective February 3, 1988, as amended December 3, 1999.
(10)(e)	1-9513	(10)(m)	- CMS Deferred Salary Savings Plan effective January 1, 1994. (1993 Form 10-K)
(10)(f)	1-5611	(10)(n)	- CMS Energy and Consumers Annual Executive Incentive Compensation Plan effective January 1, 1986, as amended January 1995. (1995 Form 10-K)
(10)(g)	1-5611	(10)(o)	- Consumers' Supplemental Executive Retirement Plan effective November 1, 1990. (1993 Form 10-K)
(10)(h)			- Supplemental Executive Retirement Plan for Employees of CMS Energy / Consumers Energy Company effective January 1, 1982, as amended December 3, 1999
(10)(i)	33-37977	4.1	- Senior Trust Indenture, Leasehold Mortgage and Security Agreement dated as of June 1, 1990 between The Connecticut National Bank and United States Trust Company of New York. (MCV Partnership) Indenture Supplemental thereto:
	33-37977	4.2	- Supplement No. 1 dated as of June 1, 1990. (MCV Partnership)
(10)(j)	1-9513	(28)(b)	- Collateral Trust Indenture dated as of June 1, 1990 among Midland Funding Corporation I, MCV Partnership and United States Trust Company of New York, Trustee. (3rd qtr 1990 Form 10-Q) Indenture Supplemental thereto:
	33-37977	4.4	- Supplement No. 1 dated as of June 1, 1990. (MCV Partnership)
(10)(k)	1-9513	(10)(v)	- Amended and Restated Investor Partner Tax Indemnification Agreement dated as of June 1, 1990 among Investor Partners, CMS Midland as Indemnitor and CMS Energy as Guarantor. (1990 Form 10-K)
(10)(l)	1-9513	(19)(d)**	- Environmental Agreement dated as of June 1, 1990 made by CMS Energy to The Connecticut National Bank and Others. (1990 Form 10-K)
(10)(m)	1-9513	(10)(z)**	- Indemnity Agreement dated as of June 1, 1990 made by CMS Energy to Midland Cogeneration Venture Limited Partnership. (1990 Form 10-K)

(10)(n)	1-9513	(10)(aa)**	-	Environmental Agreement dated as of June 1, 1990 made by CMS Energy to United States Trust Company of New York, Meridian Trust Company, each Subordinated Collateral Trust Trustee and Holders from time to time of Senior Bonds and Subordinated Bonds and Participants from time to time in Senior Bonds and Subordinated Bonds. (1990 Form 10-K)
(10)(o)	33-37977	10.4	-	Amended and Restated Participation Agreement dated as of June 1, 1990 among MCV Partnership, Owner Participant, The Connecticut National Bank, United States Trust Company, Meridian Trust Company, Midland Funding Corporation I, Midland Funding Corporation II, MEC Development Corporation and Institutional Senior Bond Purchasers. (MCV Partnership)
(10)(p)	1-5611 33-3797	(10)(w) 10.4	-	Amendment No. 1 dated as of July 1, 1991. (1991 Form 10-K) Power Purchase Agreement dated as of July 17, 1986 between MCV Partnership and Consumers. (MCV Partnership)
	33-37977	10.5	-	Amendments thereto: Amendment No. 1 dated September 10, 1987. (MCV Partnership)
	33-37977	10.6	-	Amendment No. 2 dated March 18, 1988. (MCV Partnership)
	33-37977	10.7	-	Amendment No. 3 dated August 28, 1989. (MCV Partnership)
	33-37977	10.8	-	Amendment No. 4A dated May 25, 1989. (MCV Partnership)
(10)(q)	1-5611	(10)(y)	-	Unwind Agreement dated as of December 10, 1991 by and among CMS Energy, Midland Group, Ltd., Consumers, CMS Midland, Inc., MEC Development Corp. and CMS Midland Holdings Company. (1991 Form 10-K)
(10)(r)	1-5611	(10)(z)	-	Stipulated AGE Release Amount Payment Agreement dated as of June 1, 1990, among CMS Energy, Consumers and The Dow Chemical Company. (1991 Form 10-K)
(10)(s)	1-5611	(10)(aa)**	-	Parent Guaranty dated as of June 14, 1990 from CMS Energy to MCV, each of the Owner Trustees, the Indenture Trustees, the Owner Participants and the Initial Purchasers of Senior Bonds in the MCV Sale Leaseback transaction, and MEC Development. (1991 Form 10-K)
(10)(t)	1-8157	10.41	-	Contract for Firm Transportation of Natural Gas between Consumers Power Company and Trunkline Gas Company, dated November 1, 1989, and Amendment, dated November 1, 1989. (1989 Form 10-K of PanEnergy Corp.)
(10)(u)	1-8157	10.41	-	Contract for Firm Transportation of Natural Gas between Consumers Power Company and Trunkline Gas Company, dated November 1, 1989. (1991 Form 10-K of PanEnergy Corp.)
(10)(v)	1-2921	10.03	-	Contract for Firm Transportation of Natural Gas between Consumers Power Company and Trunkline Gas Company, dated September 1, 1993. (1993 Form 10-K)

- |         |        |         |   |  |
|---------|--------|---------|---|--|
| (12)    |        |         | - | Statements regarding computation of CMS Energy's Ratio of Earnings to Fixed Charges. |
| (16)(b) | 1-0291 | (16)(b) | - | Letter of Deloitte & Touche LLP (Form 8-K/A dated July 19, 1999)                     |
| (21)(a) |        |         | - | Subsidiaries of CMS Energy.  |
| (21)(b) |        |         | - | Subsidiaries of Consumers.   |
| (23)(a) |        |         | - | Consent of Arthur Andersen LLP for CMS Energy.                                       |
| (23)(b) |        |         | - | Consent of Arthur Andersen LLP for Consumers.  |
| (24)(a) |        |         | - | Power of Attorney for CMS Energy.  |
| (24)(b) |        |         | - | Power of Attorney for Consumers.   |
| (27)(a) |        |         | - | Financial Data Schedule UT for CMS Energy.   |
| (27)(b) |        |         | - | Financial Data Schedule UT for Consumers.  |
| (27)(c) |        |         | - | Financial Data Schedule UT for Panhandle.  |

\*\* Obligations of only CMS Holdings and CMS Midland, second tier subsidiaries of Consumers, and of CMS Energy but not of Consumers.

Exhibits listed above which have heretofore been filed with the Securities and Exchange Commission pursuant to various acts administered by the Commission, and which were designated as noted above, are hereby incorporated herein by reference and made a part hereof with the same effect as if filed herewith.

## CMS ENERGY CORPORATION

## BYLAWS

## ARTICLE I: LOCATION OF OFFICES

Section 1 - Registered Office: The registered office of CMS Energy Corporation, (the "Corporation") shall be at such place in the City of Dearborn, County of Wayne, Michigan, or elsewhere in the State of Michigan, as the Board of Directors may from time to time designate.

Section 2 - Other Offices: The Corporation may have and maintain other offices within or without the State of Michigan.

## ARTICLE II: CORPORATE SEAL

Section 1 - Corporate Seal: The Corporation shall have a corporate seal bearing the name of the Corporation. The form of the corporate seal may be altered by the Board of Directors.

## ARTICLE III: FISCAL YEAR

Section 1 - Fiscal Year: The fiscal year of the Corporation shall begin with the first day of January and end with the thirty-first day of December of each year.

## ARTICLE IV: SHAREHOLDERS' MEETINGS

Section 1 - Annual Meetings: An annual meeting of the shareholders for election of Directors and for such other business as may come before the meeting shall be held at the registered office of the Corporation or at such other place within or without the State of Michigan, at 10:00 AM, Eastern Daylight Saving Time, or at such other time on the fourth Friday in May of each year or upon such other day as the Board of Directors may designate, but in no event shall such date be more than ninety (90) days after the fourth Friday in May.

Section 2 - Special Meetings: Special meetings of the shareholders may be called by the Board of Directors or by the Chairman of the Board. Such meetings shall be held at the registered office of the Corporation or at such other place within or without the State of Michigan as the Board of Directors may designate.

Section 3 - Notices: Except as otherwise provided by law, written notice of any meeting of the shareholders shall be given, either personally or by mail to each shareholder of record entitled to vote at such meeting, not less than ten (10) days nor more than sixty (60) days prior to the date of the meeting, at their last known address as the same appears on the stock records of the Corporation. Written notice shall be considered given when deposited, with postage thereon prepaid, in a post office or official depository under the control of the United States postal service. Such notice shall specify the time and place of holding the meeting, the purpose or purposes for which such meeting is called, and the record date fixed for the determination of shareholders entitled to notice of and to vote at such meeting. The Board of Directors shall fix a record date for determining shareholders entitled to notice of and to vote at such meeting. The Board of Directors shall fix a record date for determining shareholders entitled to notice of and to vote at a meeting of shareholders, which record date shall not be more than sixty (60) days nor less than ten (10) days before the date of the meeting. Such record date shall apply to any adjournment of the meeting unless the Board of Directors shall fix a new record date for purposes of the adjourned meeting.

No notice of an adjourned meeting shall be necessary if the time and place to which the meeting is adjourned are announced at the meeting at which the adjournment is taken. At the adjourned meeting only such business may be transacted as might have been transacted at the original meeting. If, after an adjournment, the Board of Directors shall fix a new record date for the adjourned meeting, a notice of the adjourned meeting shall be mailed, in conformity with the provisions of the first paragraph of this Section 3, to each shareholder of record on the new record date entitled to vote at the adjourned meeting.

Section 4 - Quorum: Except as otherwise provided by law or by the Articles of Incorporation of the Corporation, the holders of the shares of stock of the Corporation entitled to cast a majority of the votes at a meeting shall constitute a quorum for the transaction of business at the meeting, but a lesser number may convene any meeting and, by a majority vote of the shares present at the meeting, may adjourn the same from time to time until a quorum shall be present.

Section 5 - Voting: Shareholders may vote at all meetings in person or by proxy, but all proxies shall be filed with the Secretary of the meeting before being voted upon.

Subject to the provisions of the Articles of Incorporation of the Corporation at all meetings of the shareholders of the Corporation each holder of Common Stock shall be entitled on all questions to one vote for each share of stock held by such holder, and a majority of the votes cast by the holders of shares entitled to vote thereon shall be sufficient for the adoption of any question presented, unless otherwise provided by law or by the Articles of Incorporation of the Corporation.

Section 6 - Inspectors: In advance of any meeting of shareholders the Board of Directors shall appoint one or more inspectors to act at such meeting or any adjournment thereof. The inspectors shall have such powers and duties as are provided by law.

#### ARTICLE V: DIRECTORS

Section 1 - Number: The Board of Directors of the Corporation shall consist of not less than seven (7) nor more than seventeen (17) members, as fixed from time to time by resolution of the Board of Directors.

Section 2 - Election: The Directors shall be elected annually at the annual meeting of the shareholders or at any adjournment thereof.

Section 3 - Term of Office: Subject to the provisions of the Articles of Incorporation of the Corporation and unless otherwise provided by law, the Directors shall hold office from the date of their election until the next succeeding annual meeting and until their successors are elected and shall qualify.

Section 4 - Vacancies: Any vacancy or vacancies in the Board of Directors arising from any cause may be filled by the affirmative vote of a majority of the Directors then in office although less than a quorum. An increase in the number of members shall be construed as creating a vacancy.

#### ARTICLE VI: DIRECTORS' MEETINGS

Section 1 - Organization Meeting: As soon as possible after their election, the Board of Directors shall meet and organize and may also transact other business.

Section 2 - Other Meetings: Meetings of the Board of Directors may be held at any time upon call of the Secretary or an Assistant Secretary made at the direction of the Chairman of the Board, the President, a Vice Chairman, if any, or a Vice President.

Section 3 - Place of Meeting: All meetings of Directors shall be held at such place within or without the State of Michigan as may be designated in the call therefore.

Section 4 - Notice: A reasonable notice of all meetings, in writing or otherwise, shall be given to each Director or sent to the Director's residence or place of business; provided, however, that no notice shall be required for an organization meeting if held on the same day as the shareholders' meeting at which Directors were elected.

No notice of the holding of an adjourned meeting shall be necessary.

Notice of all meetings shall specify the time and place of holding the meeting and unless otherwise stated any and all business may be transacted at any such meeting.

Notice of the time, place and purpose of any meeting may be waived in writing either before or after the holding thereof.

Section 5 - Quorum: At all meetings of the Board of Directors a majority of the Board then in office shall constitute a quorum but a majority of the Directors present may convene and adjourn any such meeting from time to time until a quorum shall be present; provided, that if the Board shall consist of ten (10) and not more than fifteen (15), then five (5) members shall constitute a quorum; and if the Board shall consist of more than fifteen (15), then seven (7) members shall constitute a quorum.

Section 6 - Voting: All questions coming before any meeting of the Board of Directors for action shall be decided by a majority vote of the Directors present at such meeting, unless otherwise provided by law, the Articles of Incorporation of the Corporation or by these Bylaws.

Section 7 - Participation by Communications Equipment: A Director or a member of a Committee designated by the Board of Directors may participate in a meeting by means of conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other. Participation in a meeting by such means shall constitute presence in person at the meeting.

Section 8 - Action Without Meeting: Any action required or permitted to be taken pursuant to authorization voted at a meeting of the Board of Directors or a Committee thereof, may be taken without a meeting if, before or after the action, all members of the Board or of the Committee consent thereto in writing. The written consents shall be filed with the minutes of the proceedings of the Board or Committee, and the consents shall have the same effect as a vote of the Board or Committee for all purposes.

#### ARTICLE VII: EXECUTIVE AND OTHER COMMITTEES

Section 1 - Number and Qualifications: By resolution passed by a majority of the whole Board, the Board of Directors may from time to time designate one or more of their number to constitute an Executive or any other Committee of the Board, as the Board of Directors may from time to time determine to be desirable, and may fix the number of and designate the Chairman of each such Committee. Except as otherwise provided by law, the powers of each such Committee shall be as defined in the resolution or resolutions of the Board of Directors relating to the authorization

of such Committee, and may include, if such resolution or resolutions so provide, the power and authority to declare a dividend or to authorize issuance of shares of stock of the Corporation.

Section 2 - Appointment: The appointment of members of each such Committee, or other action respecting any Committee, may take place at any meeting of the Directors.

Section 3 - Term of Office: The members of each Committee shall hold office at the pleasure of the Board of Directors.

Section 4 - Vacancies: Any vacancy or vacancies in any such Committee arising from any cause shall be filled by resolution passed by a majority of the whole Board of Directors. By like vote the Board may designate one or more Directors to serve as alternate members of a Committee, who may replace an absent or disqualified member at a meeting of a Committee; provided, however, in the absence or disqualification of a member of a Committee, the members of the Committee present at a meeting and not disqualified from voting, whether or not constituting a quorum, may unanimously appoint another member of the Board of Directors to act in the place of the absent or disqualified member.

Section 5 - Minutes: Except as provided in Section 2 of Article X hereof or as otherwise determined by the Board of Directors, each such Committee shall make a written report or recommendation following its meetings or keep minutes of all its meetings.

Section 6 - Quorum: At all meetings of any duly authorized Committee of the Board of Directors, a majority of the members of such Committee shall constitute a quorum but a majority of the members present may convene and adjourn any such meeting from time to time until a quorum shall be present; provided, that with respect to any Committee of the Board other than the Executive Committee, if the membership of such Committee is four (4) or less, then two (2) members of such Committee shall constitute a quorum and one member may convene and adjourn any such meeting from time to time until a quorum shall be present.

#### ARTICLE VIII: OFFICERS

Section 1 - Election: The officers shall be chosen by the Board of Directors. The Corporation shall have a Chairman of the Board, a President, a Secretary and a Treasurer, and such other officers as the Board of Directors may from time to time determine, who shall have respectively such duties and authority as may be provided by these Bylaws or as may be provided by resolution of the Board of Directors not inconsistent herewith. Any two (2) or more of such offices may be held by the same persons but no officer shall execute, acknowledge or verify any instrument in more than one capacity if such instrument is required by law, by the Articles of Incorporation of the Corporation or by these Bylaws to be executed, acknowledged or verified by two (2) or more officers.

Section 2 - Qualifications: The Chairman of the Board and Vice Chairman, if any, shall be chosen from among the Board of Directors, but the other officers need not be members of the Board.

Section 3 - Vacancies: Any vacancy or vacancies among the officers arising from any cause shall be filled by the Board of Directors. In case of the absence of any officer of the Corporation or for any other reason that the Board of Directors may deem sufficient, the Board of Directors may delegate, for the time being, the powers or duties, or any of them, of any officer to any other officer or to any Director.

Section 4 - Term of Office: Each officer of the Corporation shall hold office until a successor is chosen and qualified, or until the officer's resignation or removal. Any officer appointed by the Board of Directors may be removed at any time by the Board of Directors with or without cause.

Section 5 - Compensation: The compensation of the officers shall be fixed by the Board of Directors.

ARTICLE IX: AGENTS

Section 1 - Resident Agent: The Corporation shall have and continuously maintain a resident agent, which may be either an individual resident in the State of Michigan whose business office is identical with the Corporation's registered office or a Michigan corporation or a foreign corporation authorized to transact business in Michigan and having a business office identical with the Corporation's registered office. The Board of Directors shall appoint the resident agent.

Section 2 - Other Agents: The Board of Directors may appoint such other agents as may in their judgment be necessary for the proper conduct of the business of the Corporation.

ARTICLE X: POWERS AND DUTIES

Section 1 - Directors: The business and affairs of the Corporation shall be managed by the Board of Directors which shall have and exercise all of the powers and authority of the Corporation except as otherwise provided by law, by the Articles of Incorporation of the Corporation or by these Bylaws.

Section 2 - Executive Committee: In the interim between meetings of the Board of Directors the Executive Committee shall have and exercise all the powers and authority of the Board of Directors except as otherwise provided by law. The Executive Committee shall meet from time to time on the call of the Chairman of the Board or the Chairman of the Committee. The Secretary shall keep minutes in sufficient detail to advise fully the Board of Directors of the actions taken by the Committee and shall submit copies of such minutes to the Board of Directors for its approval or other action at its next meeting.

Section 3 - Chairman of the Board: The Chairman of the Board shall be the chief executive officer of the Corporation and, subject to the supervision of the Board of Directors and of the Executive Committee, shall have general charge of the business and affairs of the Corporation; shall preside at all meetings of Directors and shareholders; and shall perform and do all acts and things incident to the position of Chairman of the Board, and such other duties as may be assigned from time to time by the Board of Directors or the Executive Committee.

Unless otherwise provided by the Board or the Executive Committee, the Chairman of the Board shall have full power and authority on behalf of the Corporation to execute any shareholders' consents and to attend and act and to vote in person or by proxy at any meetings of shareholders of any corporation in which the Corporation may own stock and at any such meeting shall possess and may exercise any and all the rights and powers incident to the ownership of such stock and which, as the owner thereof, the Corporation might have possessed and exercised if present. If the Chairman of the Board shall not exercise such powers, or in the absence or inability to act of the Chairman, the President may exercise such powers. In the absence or inability to act of the President, a Vice Chairman, if any, may exercise such powers. In the absence or inability to act of a Vice Chairman, any Vice President may exercise such powers. The Board of Directors or Executive Committee by resolution from time to time may confer like powers upon any other person or persons.

Section 4 - President: The President shall be the chief operating officer of the Corporation; shall perform and do all acts and things incident to such position and such other duties as may be assigned from time to time by the Board of Directors, the Executive Committee or the Chairman of the Board; in the absence of the Chairman of the Board and a Vice Chairman, shall preside at meetings of Directors; and in the absence of the Chairman of the Board shall preside at meetings of shareholders.

Section 5 - Vice Chairman: A Vice Chairman, if any, shall perform such of the duties of the Chairman of the Board or the President on behalf of the Corporation as may be respectively assigned from time to time by the Board of Directors, the Executive Committee, the Chairman of the Board or the President; in the absence of the Chairman of the Board shall preside at meetings of Directors; and in the absence of the Chairman of the Board and the President shall preside at meetings of shareholders.

Section 6 - Vice Presidents: Vice Presidents, if any, shall perform such of the duties of the Chairman of the Board or the President or the Vice Chairman, if any, on behalf of the Corporation as may be respectively assigned to them from time to time by the Board of Directors, the Executive Committee, the Chairman of the Board or the President or a Vice Chairman. The Board of Directors or Executive Committee may designate one or more of the Vice Presidents as Executive Vice President or Senior Vice President.

Section 7 - Controller: Subject to the control of the Board of Directors, the Executive Committee, the Chairman of the Board, the President and the Vice President having general charge of accounting, the Controller, if any, shall have charge of the supervision of the accounting system of the Corporation, including the preparation and filing of all tax returns and financial reports required by law to be made to any and all public authorities and officials; and shall perform such other duties as may be assigned, from time to time, by the Board of Directors, the Executive Committee, the Chairman of the Board, the President, a Vice Chairman, if any, or Vice President having general charge of accounting.

Section 8 - Treasurer: It shall be the duty of the Treasurer to have the care and custody of all the funds and securities, including the investment thereof, of the Corporation which may come into Treasurer's hands, and to endorse checks, drafts and other instruments for the payment of money for deposit or collection when necessary or proper and to deposit the same to the credit of the Corporation in such bank or banks or depository as may be designated, may endorse all commercial documents requiring endorsements for or on behalf of the Corporation, may sign all receipts and vouchers for the payments made to the Corporation, shall render an account of transactions to the Board of Directors or the Executive Committee as often as the Board or the Committee shall require, and shall perform all acts incident to the position of Treasurer, subject to the control of the Board of Directors, the Executive Committee, the Chairman of the Board, the President and a Vice Chairman, if any.

Section 9 - Secretary: The Secretary shall act as custodian of and record the minutes of all meetings of the Board of Directors, of the Executive Committee, of the shareholders and of any Committees of the Board of Directors which keep formal minutes; shall attend to the giving and serving of all notices of the Corporation; shall prepare or cause to be prepared the list of shareholders required to be produced at any meeting; shall attest the seal of the Corporation upon all contracts and instruments executed under such seal, shall affix or cause to be affixed the seal of the Corporation thereto and to all certificates of shares of the capital stock, shall have charge of the stock records of the Corporation, and shall, in general, perform all the duties of Secretary, subject to the control of the Board of Directors, the Executive Committee, the Chairman of the Board, the President and a Vice Chairman, if any.

Section 10 - General Counsel: The General Counsel, if any, shall have charge of all matters of a legal nature involving the Corporation.

Section 11 - Assistant Controllers, Assistant Secretaries and Assistant Treasurers: An Assistant Controller, an Assistant Secretary or an Assistant Treasurer, if any, shall, in the absence or inability to act or at the request of the Controller, Secretary or Treasurer, respectively, perform the duties of the Controller or Secretary or Treasurer, respectively, and shall perform such other duties as may from time to time be assigned by the Board of Directors, the Executive Committee, the Chairman of the Board, the President or a Vice Chairman, if any. The performance of any such duty shall be conclusive evidence of right to act.

Section 12 - Principal Financial Officer and Principal Accounting Officer: The Board of Directors or the Executive Committee may from time to time designate officers of the Corporation to be the Principal Financial Officer and the Principal Accounting Officer of the Corporation.

#### ARTICLE XI: STOCK

Section 1 - Stock Certificates: The shares of stock of the Corporation shall be represented by certificates which shall be numbered and shall be entered on the stock records of the Corporation and registered as they are issued. Each certificate shall state on its face that the Corporation is formed under the laws of Michigan, the name of the person or persons to whom issued, the number and class of shares and the designation of the series the certificate represents, and the par value of each share represented by the certificate; shall be signed by the Chairman of the Board or a Vice Chairman or the President or one of the Vice Presidents and by the Treasurer or an Assistant Treasurer or the Secretary or an Assistant Secretary; and shall be sealed with the seal of the Corporation or a facsimile thereof. When such certificates are countersigned by a transfer agent or registered by a registrar, the signatures of any such Chairman of the Board, Vice Chairman, President, Vice President, Treasurer, Assistant Treasurer, Secretary or Assistant Secretary may be facsimiles. In case any officer, who shall have signed or whose facsimile signature shall have been placed on any such certificate, shall cease to be such officer of the Corporation before such certificate shall have been issued by the Corporation, such certificate may nevertheless be issued by the Corporation with the same effect as if the person, who signed such certificate or whose facsimile signature shall have been placed thereon, were such officer of the Corporation at the date of issue.

Each certificate shall set forth on its face or back or state that the Corporation will furnish to a shareholder upon request and without charge a full statement of the designations, relative rights, preferences and limitations of the shares of stock of each class authorized to be issued and of each series so far as the same have been prescribed and the authority of the Board of Directors to designate and prescribe the relative rights, preferences and limitations of other series.

Section 2 - Stock Records: The shares of stock of the Corporation shall be transferable on the stock records of the Corporation in person or by proxy duly authorized and upon surrender and cancellation of the old certificates therefore.

The Board of Directors may fix a date preceding the date fixed for any meeting of the shareholders or any dividend payment date or the date for the allotment of rights or the date when any change, conversion or exchange of stock shall go into effect or the date for any other action, as the record date for the determination of the shareholders entitled to notice of and to vote at such meeting or to receive payment of such dividend or to receive such allotment of rights or to exercise such rights in respect of any such change, conversion or exchange of stock or to take such other action, as the case may be, notwithstanding any transfer of shares on the records of the Corporation or otherwise after any such record date fixed as aforesaid. The record date so fixed by the Board shall not be more than sixty (60) nor less than ten (10) days before the date of the meeting of the shareholders, nor more than sixty (60) days before any other action. If the Board of Directors does not fix a date of record, as aforesaid, the record date shall be as provided by law.

Section 3 - Stock - Preferred and Common: The designations, relative rights, preferences, limitations and voting powers, or restrictions, or qualifications of the shares of Preferred Stock and Common Stock shall be as set forth in the Articles of Incorporation of the Corporation.

Section 4 - Replacing Certificates: In case of the alleged loss, theft or destruction of any certificate of shares of stock and the submission of proper proof thereof, a new certificate may be issued in lieu thereof upon delivery to the Corporation by the owner or legal representative of a bond of indemnity against any claim that may be made against the Corporation on account of such alleged lost, stolen or destroyed certificate or such issuance of a new certificate.

#### ARTICLE XII: AUTHORIZED SIGNATURES

Section 1 - Authorized Signatures: All checks, drafts and other negotiable instruments issued by the Corporation shall be made in the name of the Corporation and shall be signed manually or signed by facsimile signature by such one of the officers of the Corporation or such other person as the Chairman of the Board, the Vice Chairman of the Board, the President or the Treasurer may from time to time designate.

#### ARTICLE XIII: INSURANCE

Section 1 - Insurance: The Corporation may purchase and maintain liability insurance, to the full extent permitted by law, on behalf of any person who is or was a director, officer, employee or agent of the Corporation, or is or was serving at the request of the Corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise against any liability asserted against such person and incurred by such person in any such capacity.

#### ARTICLE XIV: AMENDMENTS OF BYLAWS

Section 1 - Amendments, How Effected: These Bylaws may be amended or repealed, or new Bylaws may be adopted, either by the majority vote of the votes cast by the shareholders entitled to vote thereon or by the majority vote of the Directors then in office at any meeting of the Directors.

February 26, 1999

## CONSUMERS ENERGY COMPANY

## BYLAWS

## ARTICLE I: LOCATION OF OFFICES

Section 1 - Registered Office: The registered office of Consumers Energy Company, (the "Company") shall be at such place in the City of Jackson, County of Jackson, Michigan, or elsewhere in the State of Michigan, as the Board of Directors may from time to time designate.

Section 2 - Other Offices: The Company may have and maintain other offices within or without the State of Michigan.

## ARTICLE II: CORPORATE SEAL

Section 1 - Corporate Seal: The Company shall have a corporate seal bearing the name of the Company. The form of the corporate seal may be altered by the Board of Directors.

## ARTICLE III: FISCAL YEAR

Section 1 - Fiscal Year: The fiscal year of the Company shall begin with the first day of January and end with the thirty-first day of December of each year.

## ARTICLE IV: SHAREHOLDERS' MEETINGS

Section 1 - Annual Meetings: An annual meeting of the shareholders for election of Directors and for such other business as may come before the meeting shall be held at the registered office of the Company or at such other place within or without the State of Michigan, at 10:00 AM, Eastern Daylight Saving Time, or at such other time on the fourth Friday in May of each year or upon such other date as the Board of Directors may designate, but in no event shall such date be more than ninety (90) days after the fourth Friday in May.

Section 2 - Special Meetings: Special meetings of the shareholders may be called by the Board of Directors or by the Chairman of the Board. Such meetings shall be held at the registered office of the Company or at such other place within or without the State of Michigan as the Board of Directors may designate.

Section 3 - Notices: Except as otherwise provided by law, written notice of any meeting of the shareholders shall be given, either personally or by mail to each shareholder of record entitled to vote at such meeting, not less than ten (10) days nor more than sixty (60) days prior to the date of the meeting, at their last known address as the same appears on the stock records of the Company. Written notice shall be considered given when deposited, with postage thereon prepaid, in a post office or official depository under the control of the United States postal service. Such notice shall specify the time and place of holding the meeting, the purpose or purposes for which such meeting is called, and the record date fixed for the determination of shareholders entitled to notice of and to vote at such meeting. The Board of Directors shall fix a record date for determining shareholders entitled to notice of and to vote at a meeting of shareholders, which record date shall not be more than sixty (60) days nor less than ten (10) days before the date of the meeting. Such record date shall apply to any adjournment of the meeting unless the Board of Directors shall fix a new record date for purposes of the adjourned meeting.

No notice of an adjourned meeting shall be necessary if the time and place to which the meeting is adjourned are announced at the meeting at which the adjournment is taken. At the adjourned meeting only such business may be transacted as might have been transacted at the original meeting. If, after an adjournment, the Board of Directors shall fix a new record date for the adjourned meeting, a notice of the adjourned meeting shall be mailed, in conformity with the provisions of the first paragraph of this Section 3, to each shareholder of record on the new record date entitled to vote at the adjourned meeting.

Section 4 - Quorum: Except as otherwise provided by law or by the Articles of Incorporation of the Company, the holders of the shares of stock of the Company entitled to cast a majority of the votes at a meeting shall constitute a quorum for the transaction of business at the meeting, but a lesser number may convene any meeting and, by a majority vote of the shares present at the meeting, may adjourn the same from time to time until a quorum shall be present.

Section 5 - Voting: Shareholders may vote at all meetings in person or by proxy, but all proxies shall be filed with the Secretary of the meeting before being voted upon.

The voting powers of the shares of Preferred Stock, Class A Preferred Stock, Preference Stock and Common Stock shall be as provided by law or set forth in the Articles of Incorporation of the Company.

Section 6 - Inspectors: In advance of any meeting of shareholders the Board of Directors shall appoint one or more inspectors to act at such meeting or any adjournment thereof. The inspectors shall have such powers and duties as are provided by law.

#### ARTICLE V: DIRECTORS

Section 1 - Number: The Board of Directors of the Company shall consist of not less than seven (7) nor more than seventeen (17) members, as fixed from time to time by resolution of the Board of Directors.

Section 2 - Election: The Directors shall be elected annually at the annual meeting of the shareholders or at any adjournment thereof.

Section 3 - Term of Office: Subject to the provisions of the Articles of Incorporation of the Company and unless otherwise provided by law, the Directors shall hold office from the date of their election until the next succeeding annual meeting and until their successors are elected and shall qualify.

Section 4 - Vacancies: Any vacancy or vacancies in the Board of Directors arising from any cause may be filled by the affirmative vote of a majority of the Directors then in office although less than a quorum. An increase in the number of members shall be construed as creating a vacancy.

#### ARTICLE VI: DIRECTORS' MEETINGS

Section 1 - Organization Meeting: As soon as possible after their election, the Board of Directors shall meet and organize and may also transact other business.

Section 2 - Other Meetings: Meetings of the Board of Directors may be held at any time upon call of the Secretary or an Assistant Secretary made at the direction of the Chairman of the Board, the President, a Vice Chairman, if any, or a Vice President.

Section 3 - Place of Meeting: All meetings of Directors shall be held at such place within or without the State of Michigan as may be designated in the call therefor.

Section 4 - Notice: A reasonable notice of all meetings, in writing or otherwise, shall be given to each Director or sent to the Director's residence or place of business; provided, however, that no notice shall be required for an organization meeting if held on the same day as the shareholders' meeting at which the Directors were elected.

No notice of the holding of an adjourned meeting shall be necessary.

Notice of all meetings shall specify the time and place of holding the meeting and unless otherwise stated any and all business may be transacted at any such meeting.

Notice of the time, place and purpose of any meeting may be waived in writing either before or after the holding thereof.

Section 5 - Quorum: At all meetings of the Board of Directors a majority of the Board then in office shall constitute a quorum but a majority of the Directors present may convene and adjourn any such meeting from time to time until a quorum shall be present; provided, that if the Board shall consist of ten (10) and not more than fifteen (15), then five (5) members shall constitute a quorum; and if the Board shall consist of more than fifteen (15), then seven (7) members shall constitute a quorum.

Section 6 - Voting: All questions coming before any meeting of the Board of Directors for action shall be decided by a majority vote of the Directors present at such meeting, unless otherwise provided by law, the Articles of Incorporation of the Company or by these Bylaws.

Section 7 - Participation by Communications Equipment: A Director or a member of a Committee designated by the Board of Directors may participate in a meeting by means of conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other. Participation in a meeting by such means shall constitute presence in person at the meeting.

Section 8 - Action Without Meeting: Any action required or permitted to be taken pursuant to authorization voted at a meeting of the Board of Directors or a Committee thereof, may be taken without a meeting if, before or after the action, all members of the Board or of the Committee consent thereto in writing. The written consents shall be filed with the minutes of the proceedings of the Board or Committee, and the consents shall have the same effect as a vote of the Board or Committee for all purposes.

#### ARTICLE VII: EXECUTIVE AND OTHER COMMITTEES

Section 1 - Number and Qualifications: By resolution passed by a majority of the whole Board, the Board of Directors may from time to time designate one or more of their number to constitute an Executive or any other Committee of the Board, as the Board of Directors may from time to time determine to be desirable, and may fix the number of and designate the Chairman of each such Committee. Except as otherwise provided by law, the powers of each such Committee shall be as defined in the resolution or resolutions of the Board of Directors relating to the authorizations of such Committee, and may include, if such resolution or resolutions so provide, the power and authority to declare a dividend or to authorize issuance of shares of stock of the Company.

Section 2 - Appointment: The appointment of members of each such Committee, or other action respecting any Committee, may take place at any meeting of the Directors.

Section 3 - Term of Office: The members of each Committee shall hold office at the pleasure of the Board of Directors.

Section 4 - Vacancies: Any vacancy or vacancies in any such Committee arising from any cause shall be filled by resolution passed by a majority of the whole Board of Directors. By like vote the Board may designate one or more Directors to serve as alternate members of a Committee, who may replace an absent or disqualified member at a meeting of a Committee; provided, however, in the absence or disqualification of a member of a Committee, the members of the Committee present at a meeting and not disqualified from voting, whether or not constituting a quorum, may unanimously appoint another member of the Board of Directors to act in the place of the absent or disqualified member.

Section 5 - Minutes: Except as provided in Section 2 of Article X hereof or as otherwise determined by the Board of Directors, each such Committee shall make a written report or recommendation following its meetings or keep minutes of all its meetings.

Section 6 - Quorum: At all meetings of any duly authorized Committee of the Board of Directors, a majority of the members of such Committee shall constitute a quorum but a majority of the members present may convene and adjourn any such meeting from time to time until a quorum shall be present; provided, that with respect to any Committee of the Board other than the Executive Committee, if the membership of such Committee is four (4) or less, then two (2) members of such Committee shall constitute a quorum and one member may convene and adjourn any such meeting from time to time until a quorum shall be present.

#### ARTICLE VIII: OFFICERS

Section 1 - Election: The officers shall be chosen by the Board of Directors. The Company shall have a Chairman of the Board, a President, a Secretary and a Treasurer, and such other officers as the Board of Directors may from time to time determine, who shall have respectively such duties and authority as may be provided by these Bylaws or as may be provided by resolution of the Board of Directors not inconsistent herewith. Any two (2) or more of such offices may be held by the same person but no officer shall execute, acknowledge or verify any instrument in more than one capacity if such instrument is required by law, by the Articles of Incorporation of the Company or by these Bylaws to be executed, acknowledged or verified by two (2) or more officers.

Section 2 - Qualifications: The Chairman of the Board and Vice Chairman, if any, shall be chosen from among the Board of Directors, but the other officers need not be members of the Board.

Section 3 - Vacancies: Any vacancy or vacancies among the officers arising from any cause shall be filled by the Board of Directors. In case of the absence of any officer of the Company or for any other reason that the Board of Directors may deem sufficient, the Board of Directors may delegate, for the time being, the powers or duties, or any of them, of any officer to any other officer or to any Director.

Section 4 - Term of Office: Each officer of the Company shall hold office until the officer's successor is chosen and qualified, or until the officer's resignation or removal. Any officer appointed by the Board of Directors may be removed at any time by the Board of Directors with or without cause.

Section 5 - Compensation: The compensation of the officers shall be fixed by the Board of Directors.

#### ARTICLE IX: AGENTS

Section 1 - Resident Agent: The Company shall have and continuously maintain a resident agent, which may be either an individual resident in the State of Michigan whose business office is identical with the Company's registered office or a Michigan corporation or a foreign corporation authorized to transact business in Michigan and having a business office identical with the Company's registered office. The Board of Directors shall appoint the resident agent.

Section 2 - Other Agents: The Board of Directors may appoint such other agents as may in their judgment be necessary for the proper conduct of the business of the Company.

#### ARTICLE X: POWERS AND DUTIES

Section 1 - Directors: The business and affairs of the Company shall be managed by the Board of Directors which shall have and exercise all of the powers and authority of the Board of Directors except as otherwise provided by law, by the Articles of Incorporation of the Company or by these Bylaws.

Section 2 - Executive Committee: In the interim between meetings of the Board of Directors the Executive Committee shall have and exercise all the powers and authority of the Board of Directors except as otherwise provided by law. The Executive Committee shall meet from time to time on the call of the Chairman of the Board or the Chairman of the Committee. The Secretary shall keep minutes in sufficient detail to advise fully the Board of Directors of the actions taken by the Committee and shall submit copies of such minutes to the Board of Directors for its approval or other action at its next meeting.

Section 3 - Chairman of the Board: The Chairman of the Board shall preside at all meetings of Directors and shareholders; shall perform and do all acts and things incident to the position of Chairman of the Board; and shall perform such other duties as may be assigned from time to time by the Board of Directors or the Executive Committee.

Unless otherwise provided by the Board or the Executive Committee, the Chairman of the Board shall have full power and authority on behalf of the Company to execute any shareholders' consents and to attend and act and to vote in person or by proxy at any meetings of shareholders of any corporation in which the Company may own stock and at any such meeting shall possess and may exercise any and all the rights and powers incident to the ownership of such stock and which, as the owner thereof, the Company might have possessed and exercised if present. If the Chairman of the Board shall not exercise such powers, or in the absence or inability to act of the Chairman, the President may exercise such powers. In the absence or inability to act of the President, a Vice Chairman, if any, may exercise such powers. In the absence or inability to act of a Vice Chairman, any Vice President may exercise such powers. The Board of Directors or Executive Committee by resolution from time to time may confer like powers upon any other person or persons.

Section 4 - President: The President shall be the chief executive officer of the Company and, subject to the supervision of the Board of Directors and of the Executive Committee, shall have general charge of the business and affairs of the Company; shall perform and do all acts and things incident to such position; and shall perform such other duties as may be assigned from time to time by the Board of Directors, the Executive Committee or the Chairman of the Board.

In the absence of the Chairman of the Board and a Vice Chairman, the President shall preside at meetings of Directors. In the absence of the Chairman of the Board, the President shall preside at meetings of shareholders.

Section 5 - Vice Chairman: The Vice Chairman, if any, shall perform such of the duties of the Chairman of the Board or the President on behalf of the Company as may be respectively assigned from time to time by the Board of Directors, the Executive Committee, the Chairman of the Board or the President. In the absence of the Chairman of the Board, the Vice Chairman shall preside at meetings of Directors. In the absence of the Chairman of the Board and the President, the Vice Chairman shall preside at meetings of shareholders.

Section 6 - Vice Presidents: Vice Presidents, if any, shall perform such of the duties of the Chairman of the Board or the President or the Vice Chairman, if any, on behalf of the Company as may be respectively assigned from time to time by the Board of Directors, the Executive Committee, the Chairman of the Board or the President or a Vice Chairman. The Board of Directors or Executive Committee may designate one or more of the Vice Presidents as Executive Vice President or Senior Vice President.

Section 7 - Controller: Subject to the Board of Directors, the Executive Committee, the Chairman of the Board, the President and the Vice President having general charge of accounting, the Controller, if any, shall have charge of the supervision of the accounting system of the Company, including the preparation and filing of all tax returns and financial reports required by law to be made to any and all public authorities and officials; and shall perform such other duties as may be assigned, from time to time, by the Board of Directors, the Executive Committee, the Chairman of the Board, the President, a Vice Chairman, if any, or Vice President having general charge of accounting.

Section 8 - Treasurer: It shall be the duty of the Treasurer to have the care and custody of all the funds and securities, including the investment thereof, of the Company which may come into the Treasurer's hands, and to endorse checks, drafts and other instruments for the payment of money for deposit or collection when necessary or proper and to deposit the same to the credit of the Company in such bank or banks or depository as the Treasurer may designate, and the Treasurer may endorse all commercial documents requiring endorsements for or on behalf of the Company. The Treasurer may sign all receipts and vouchers for the payments made to the Company; shall render an account of transactions to the Board of Directors or the Executive Committee as often as the Board or the Committee shall require; and shall perform all acts incident to the position of Treasurer, subject to the control of the Board of Directors, the Executive Committee, the Chairman of the Board, the President and a Vice Chairman, if any.

Section 9 - Secretary: The Secretary shall act as custodian of and record the minutes of all meetings of the Board of Directors, of the Executive Committee, of the shareholders and of any Committees of the Board of Directors which keep formal minutes; shall attend to the giving and serving of all notices of the Company; shall prepare or cause to be prepared the list of shareholders required to be produced at any meeting; shall attest the seal of the Company upon all contracts and instruments executed under such seal and shall affix or cause to be affixed the seal of the Company thereto and to all certificates of shares of the capital stock; shall have charge of the stock records of the Company and such other books and papers as the Board of Directors, the Executive Committee, the Chairman of the Board, the President or a Vice Chairman, if any, may direct; and shall, in general, perform all the duties of Secretary, subject to the control of the Board of Directors, the Executive Committee, the Chairman of the Board, the President and a Vice Chairman, if any.

Section 10 - General Counsel: The General Counsel, if any, shall have charge of all matters of a legal nature involving the Company.

Section 11 - Assistant Controllers, Assistant Secretaries and Assistant Treasurers: An Assistant Controller, an Assistant Secretary or an Assistant Treasurer, if any, shall, in the absence or inability to act or at the request of the Controller, Secretary or Treasurer, respectively, perform the duties of the Controller or Secretary or Treasurer, respectively, and shall perform such other duties as may from time to time be assigned by the Board of Directors, the Executive Committee, the Chairman of the Board, the President or a Vice Chairman, if any. The performance of any such duty shall be conclusive evidence of their right to act.

Section 12 - Principal Financial Officer and Principal Accounting Officer: The Board of Directors or the Executive Committee may from time to time designate officers of the Company to be the Principal Financial Officer and the Principal Accounting Officer of the Company.

#### ARTICLE XI: STOCK

Section 1 - Stock Certificates: The shares of stock of the Company shall be represented by certificates which shall be numbered and shall be entered on the stock records of the Company and registered as they are issued. Each certificate shall state on its face that the Company is formed under the laws of Michigan, the name of the person or persons to whom issued, the number and class of shares and the designation of the series the certificate represents, and the par value of each share represented by the certificate; shall be signed by the Chairman of the Board or a Vice Chairman or the President or one of the Vice Presidents and also may be signed by the Treasurer or an Assistant Treasurer or the Secretary or an Assistant Secretary; and shall be sealed with the seal of the Company or a facsimile thereof. When such certificates are countersigned by a transfer agent or registered by a registrar, the signatures of any such Chairman of the Board, Vice Chairman, President, Vice President, Treasurer, Assistant Treasurer, Secretary or Assistant Secretary may be facsimiles. In case any officer, who shall have signed or whose facsimile signature shall have been placed on any such certificate, shall cease to be such officer of the Company before such certificate shall have been issued by the Company, such certificate may nevertheless be issued by the Company with the same effect as if the person, who signed such certificate or whose facsimile signature shall have been placed thereon, were such officer of the Company at the date of issue.

Each certificate shall set forth on its face or back or state that the Company will furnish to a shareholder upon request and without charge a full statement of the designations, relative rights, preferences and limitations of the shares of stock of each class authorized to be issued and of each series so far as the same have been prescribed and the authority of the Board of Directors to designate and prescribe the relative rights, preferences and limitations of other series.

Section 2 - Stock Records: The shares of stock of the Company shall be transferable on the stock records of the Company in person or by proxy duly authorized and upon surrender and cancellation of the old certificates therefor.

The Board of Directors may fix a date preceding the date fixed for any meeting of the shareholders or any dividend payment date or the date for the allotment of rights or the date when any change, conversion or exchange of stock shall go into effect or the date for any other action, as the record date for the determination of the shareholders entitled to notice of and to vote at such meeting or to receive payment of such dividend or to receive such allotment of rights or to exercise such rights in respect of any such change, conversion or exchange of stock or to take such other action, as the case may be, notwithstanding any transfer of shares on the

records of the Company or otherwise after any such record date fixed as aforesaid. The record date so fixed by the Board shall not be more than sixty (60) nor less than ten (10) days before the date of the meeting of the shareholders, nor more than sixty (60) days before any other action. If the Board of Directors does not fix a date of record, as aforesaid, the record date shall be as provided by law.

Section 3 - Stock - Preferred, Class A Preferred, Preference and Common: The Preferred Stock, Class A Preferred Stock, Preference Stock and Common Stock of the Company shall consist of shares having a par value of \$100, no par value, \$1 and \$10 per share, respectively.

The designations, relative rights, preferences, limitations and voting powers, or restrictions, or qualifications of the shares of Preferred Stock, Class A Preferred Stock, Preference Stock and Common Stock shall be as set forth in the Articles of Incorporation of the Company.

Section 4 - Replacing Certificates: In case of the alleged loss, theft or destruction of any certificate of shares of stock and the submission of proper proof thereof, a new certificate may be issued in lieu thereof upon delivery to the Company by the owner or the owner's legal representative of a bond of indemnity against any claim that may be made against the Company on account of such alleged lost, stolen or destroyed certificate or such issuance of a new certificate.

#### ARTICLE XII: AUTHORIZED SIGNATURES

Section 1 - Authorized Signatures: All checks, drafts and other negotiable instruments issued by the Company shall be made in the name of the Company and shall be signed manually or signed by facsimile signature by such one of the officers of the Company or such other person as the Chairman of the Board, the Vice Chairman of the Board, President or the Treasurer may from time to time designate.

#### ARTICLE XIII: INSURANCE

Section 1 - Insurance: The Company may purchase and maintain liability insurance, to the full extent permitted by law, on behalf of any person who is or was a director, officer, employee or agent of the Company, or is or was serving at the request of the Company as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise against any liability asserted against such person and incurred by such person in any such capacity.

#### ARTICLE XIV: AMENDMENTS OF BYLAWS

Section 1 - Amendments, How Effectuated: These Bylaws may be amended or repealed, or new Bylaws may be adopted, either by the majority vote of the votes cast by the shareholders entitled to vote thereon or by the majority vote of the Directors then in office at any meeting of the Directors.

February 26, 1999

## PANHANDLE EASTERN PIPE LINE COMPANY

## BYLAWS

## ARTICLE I: LOCATION OF OFFICES

Section 1 - Registered Office: The registered office of Panhandle Eastern Pipe Line Company ("the Company") shall be at such place in the City of Wilmington, County of New Castle, Delaware, or elsewhere in the State of Delaware, as the Board of Directors may from time to time designate.

Section 2 - Other Offices: The Company may have and maintain other offices within or without the State of Delaware.

## ARTICLE II: CORPORATE SEAL

Section 1 - Corporate Seal: The Company shall have a corporate seal bearing the name of the Company. The form of the corporate seal may be altered by the Board of Directors.

## ARTICLE III: FISCAL YEAR

Section 1 - Fiscal Year: The fiscal year of the Company shall begin with the first day of January and end with the thirty-first day of December of each year.

## ARTICLE IV: SHAREHOLDERS' MEETINGS

Section 1 - Annual Meetings: An annual meeting of the shareholders for election of Directors and for such other business as may come before the meeting shall be held at the registered office of the Company or at such other place within or without the State of Delaware, at 10:00 A.M., Eastern Standard Time, or at such other time on the first Wednesday in June of each year or upon such other date as the Board of Directors may designate, but in no event shall such date be more than ninety (90) days after the first Wednesday in June of each year.

Section 2 - Special Meetings: Special meetings of the shareholders may be called by the Board of Directors, by the Chairman of the Board, or by the President. Such meetings shall be held at the registered office of the Company or at such other place within or without the State of Delaware as the Board of Directors may designate.

Section 3 - Notices: Except as otherwise provided by law, written notice of any meeting of the shareholders shall be given, either personally or by mail to each shareholder of record entitled to vote at such meeting, not less than ten (10) days nor more than sixty (60) days prior to the date of the meeting, at their last known address as the same appears on the stock records of the Company. Written notice shall be considered given when deposited, with postage thereon prepaid, in a post office or official depository under the control of the United States postal service. Such notice shall specify the time and place of holding the meeting, the purpose or purposes for which such meeting is called, and the record date fixed for the determination of shareholders entitled to notice of and to vote at such meeting. The Board of Directors shall fix a record date for determining shareholders entitled to notice of and to vote at a meeting of shareholders, which record date shall not be more than sixty

(60) days nor less than ten (10) days before the date of the meeting. Such record date shall apply to any adjournment of the meeting unless the Board of Directors shall fix a new record date for purposes of the adjourned meeting.

No notice of an adjourned meeting shall be necessary if the time and place to which the meeting is adjourned are announced at the meeting at which the adjournment is taken. At the adjourned meeting only such business may be transacted as might have been transacted at the original meeting. If, after an adjournment, the Board of Directors shall fix a new record date for the adjourned meeting, a notice of the adjourned meeting shall be mailed, in conformity with the provisions of the first paragraph of this Section 3, to each shareholder of record on the new record date entitled to vote at the adjourned meeting.

Section 4 - Quorum: Except as otherwise provided by law or by the Articles of Incorporation of the Company, the holders of the shares of stock of the Company entitled to cast a majority of the votes at a meeting shall constitute a quorum for the transaction of business at the meeting, but a lesser number may convene any meeting and by a majority vote of the shares present at the meeting, may adjourn the same from time to time until a quorum shall be present.

Section 5 - Voting: Shareholders may vote at all meetings in person or by proxy in writing, but all proxies shall be filed with the Secretary of the meeting before being voted upon.

Subject to the provisions of the Articles of Incorporation of the Company, at all meetings of the shareholders of the Company, each holder of Common Stock shall be entitled on all questions to one vote for each share of stock held by such holder, and a majority of the votes cast by the holders of shares entitled to vote thereon shall be sufficient for the adoption of any question presented, unless otherwise provided by law or by the Articles of Incorporation of the Company.

Section 6 - Participation by Communications Equipment: Shareholders may participate in a meeting of shareholders by means of conference telephone or similar communications equipment by which all persons participating in the meeting can hear each other. Participation in a meeting by such means shall constitute presence in person at the meeting.

Section 7 - Action Without Meeting: Any action required or permitted under law to be taken at an annual or special meeting of shareholders may be taken without a meeting, without prior notice and without a vote, if all the shareholders entitled to vote thereon consent thereto in writing.

#### ARTICLE V: DIRECTORS

Section 1 - Number: The Board of Directors of the Company shall consist of one (1) member, or as many members as shall be fixed from time to time by resolution of the Board of Directors.

Section 2 - Election: The Directors shall be elected annually at the annual meeting of the shareholders or at any adjournment thereof.

Section 3 - Term of Office: Subject to the provisions of the Articles of Incorporation of the Company and unless otherwise provided by law, the Directors shall hold office from the date of their election until the next succeeding annual meeting and until their successors are elected and shall qualify.

Section 4 - Vacancies: Any vacancy or vacancies in the Board of Directors arising from any cause may be filled by the affirmative vote of a majority of the Directors then in office although less than a quorum. An increase in the number of members shall be construed as creating a vacancy.

Section 5 - Fees: Except as otherwise provided by law, the Board of Directors, by affirmative vote of a majority of Directors then in office, may establish reasonable compensation for Directors for services to the Company as Directors, and may from time to time review and adjust such compensation in an amount the Board may deem reasonable.

#### ARTICLE VI: DIRECTORS' MEETINGS

Section 1 - Organization Meeting: As soon as possible after their election, the Board of Directors shall meet and organize and may also transact other business.

Section 2 - Other Meetings: Meetings of the Board of Directors may be held at any time upon call of the Secretary or an Assistant Secretary made at the direction of the Chairman of the Board, the President or two Directors.

Section 3 - Place of Meeting: All meetings of Directors shall be held at such place within or without the State of Delaware as may be designated in the call therefor.

Section 4 - Notice: A reasonable notice of all meetings, in writing or otherwise, shall be given to each Director or sent to the Director's residence or place of business; provided, however, that no notice shall be required for an organization meeting if held on the same day as the shareholders' meeting at which the Directors were elected.

No notice of the holding of an adjourned meeting shall be necessary.

Notice of all meetings shall specify the time and place of holding the meeting and unless otherwise stated any and all business may be transacted at any such meeting.

Notice of the time, place and purpose of any meeting may be waived in writing either before or after the holding thereof.

Section 5 - Quorum: At all meetings of the Board of Directors a majority of the Board then in office shall constitute a quorum but a majority of the Directors present may convene and adjourn any such meeting from time to time until a quorum shall be present.

Section 6 - Voting: All questions coming before any meeting of the Board of Directors for action shall be decided by a majority vote of the Directors present at such meeting, unless otherwise provided by law, the Articles of Incorporation of the Company or by these Bylaws.

Section 7 - Participation by Communications Equipment: A Director or a member of a Committee designated by the Board of Directors may participate in a meeting by means of conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other. Participation in a meeting by such means shall constitute presence in person at the meeting.

Section 8 - Action Without Meeting: Any action required or permitted to be taken pursuant to authorization voted at a meeting of the Board of Directors or a Committee thereof, may be taken without a meeting if, before or after the action, all members of the Board or of the Committee consent thereto in writing. The written consents shall be filed with the minutes of the proceedings of the Board or Committee, and the consents shall have the same effect as a vote of the Board or Committee for all purposes.

#### ARTICLE VII: EXECUTIVE AND OTHER COMMITTEES

Section 1 - Number and Qualifications: By resolution passed by a majority of the whole Board, the Board of Directors may from time to time designate one or more of their number to constitute an Executive or any other Committee of the Board, as the Board of Directors may from time to time determine to be desirable, and may fix the number of and designate the Chairman of each such Committee. Except as otherwise provided by law, the powers of each such Committee shall be as defined in the resolution or resolutions of the Board of Directors relating to the authorizations of such Committee, and may include, if such resolution or resolutions so provide, the power and authority to declare a dividend or to authorize issuance of shares of stock of the Company.

Section 2 - Appointment: The appointment of members of each such Committee, or other action respecting any Committee, may take place at any meeting of the Directors.

Section 3 - Term of Office: The members of each Committee shall hold office at the pleasure of the Board of Directors.

Section 4 - Vacancies: Any vacancy or vacancies in any such Committee arising from any cause shall be filled by resolution passed by a majority of the whole Board of Directors. By like vote the Board may designate one or more Directors to serve as alternate members of a Committee, who may replace an absent or disqualified member at a meeting of a Committee; provided, however, in the absence or disqualification of a member of a Committee, the members of the Committee present at a meeting and not disqualified from voting, whether or not constituting a quorum, may unanimously appoint another member of the Board of Directors to act in the place of the absent or disqualified member.

Section 5 - Fees: Except as otherwise provided by law, the Board of Directors, by affirmative vote of a majority of Directors then in office, may establish reasonable compensation of Directors for services to the Company on Committees of the Board, and may from time to time review and adjust such compensation in an amount the Board may deem reasonable.

Section 6 - Minutes: Except as provided in Section 2 of Article IX hereof or as otherwise determined by the Board of Directors, each such Committee shall make a written report or recommendation following its meetings or keep minutes of all its meetings.

Section 7 - Quorum: At all meetings of any duly authorized Committee of the Board of Directors, a majority of the members of such Committee shall constitute a quorum but a majority of the members present may convene and adjourn any such meeting from time to time until a quorum shall be present; provided, that with respect to any Committee of the Board other than the Executive Committee, if the membership of such Committee is four (4) or less, then two (2) members of such Committee shall constitute a quorum and one member may convene and adjourn any such meeting from time to time until a quorum shall be present.

## ARTICLE VIII: OFFICERS

Section 1 - Election: The officers shall be chosen by the Board of Directors. The Company shall have a President, a Secretary and a Treasurer, and such other officers as the Board of Directors may from time to time determine, who shall have respectively such duties and authority as may be provided by these Bylaws or as may be provided by resolution of the Board of Directors not inconsistent herewith. Any two (2) or more of such offices may be held by the same person but no officer shall execute, acknowledge or verify any instrument in more than one capacity if such instrument is required by law, by the Articles of Incorporation of the Company or by these Bylaws to be executed, acknowledged or verified by two (2) or more officers.

Section 2 - Qualifications: The Chairman of the Board and a Vice Chairman, if any, shall be chosen from among the Board of Directors, but the other officers need not be members of the Board.

Section 3 - Vacancies: Any vacancy or vacancies among the officers arising from any cause shall be filled by the Board of Directors. In case of the absence of any officer of the Company or for any other reason that the Board of Directors may deem sufficient, the Board of Directors may delegate, for the time being, the powers or duties, or any of them, of any officer to any other officer or to any Director.

Section 4 - Term of Office: Each officer of the Company shall hold office until a successor is chosen and qualified, or until the officer's resignation or removal. Any officer appointed by the Board of Directors may be removed at any time by the Board with or without cause.

Section 5 - Compensation: The compensation of the officers shall be fixed by the Board of Directors.

## ARTICLE IX: AGENTS

Section 1 - Resident Agent: The Company shall have and continuously maintain a resident agent, which may be either an individual resident in the State of Delaware whose business office is identical with the Company's registered office or a Delaware corporation or a foreign corporation authorized to transact business in Delaware and having a business office identical with the Company's registered office. The Board of Directors shall appoint the resident agent.

Section 2 - Other Agents: The Board of Directors may appoint such other agents as may in their judgement be necessary for the proper conduct of the business of the Company.

## ARTICLE X: POWERS AND DUTIES

Section 1 - Directors: The business and affairs of the Company shall be managed by the Board of Directors which shall have and exercise all of the powers and authority of the Company except as otherwise provided by law, by the Articles of Incorporation of the Company or by these Bylaws.

Section 2 - Executive Committee: In the interim between meetings of the Board of Directors, the Executive Committee shall have and exercise all the powers and authority of the Board of Directors except as otherwise provided by law. The Executive Committee shall meet from time to time on the call of the Chairman of the Board, the President, or the Chairman of the Committee. The Secretary shall keep minutes in sufficient detail to advise fully the Board of Directors of the actions taken by

the Committee and shall submit copies of such minutes to the Board of Directors for its approval or other action at its next meeting.

Section 3 - Chairman of the Board: The Chairman of the Board shall be subject to the supervision of the Board of Directors and of the Executive Committee; shall have general charge of the business and affairs of the Company; shall preside at all meetings of Directors and shareholders; shall perform and do all acts and things incident to the position of Chairman of the Board; and shall perform such other duties as may be assigned from time to time by the Board of Directors or the Executive Committee.

Unless otherwise provided by the Board or the Executive Committee, the Chairman of the Board shall have full power and authority on behalf of the Company to execute any shareholders' consents and to attend and act and to vote in person or by proxy at any meetings of shareholders of any corporation in which the Company may own stock and at any such meeting shall possess and may exercise any and all the rights and powers incident to the ownership of such stock and which, as the owner thereof, the Company might have possessed and exercised if present. If the Chairman of the Board shall not exercise such powers, or in the absence or inability to act of the Chairman, the President may exercise such powers. In the absence or inability to act of the President, a Vice Chairman, if any, may exercise such powers. The Board of Directors or Executive Committee by resolution from time to time may confer like powers upon any other person or persons.

Section 4 - President: The President shall be the chief executive officer and chief operating officer of the Company. The President shall perform and do all acts and things incident to such positions; and shall perform such other duties as may be assigned from time to time by the Board of Directors, the Executive Committee or the Chairman of the Board. In the absence of the Chairman of the Board and a Vice Chairman, the President shall preside at meetings of Directors. In the absence of the Chairman of the Board, the President shall preside at meetings of shareholders.

Section 5 - Vice Chairman: A Vice Chairman, if any, shall perform such of the duties of the Chairman of the Board or the President on behalf of the Company as may be respectively assigned from time to time by the Board of Directors, the Executive Committee, the Chairman of the Board or the President. In the absence of the Chairman of the Board, the Vice Chairman shall preside at meetings of Directors. In the absence of the Chairman of the Board and the President, the Vice Chairman shall preside at meetings of shareholders.

Section 6 - Vice Presidents: Vice Presidents, if any, shall perform such of the duties of the Chairman of the Board, the President or the Vice Chairman, if any, on behalf of the Company as may be respectively assigned from time to time by the Board of Directors, the Executive Committee, the Chairman of the Board, the President or a Vice Chairman, if any. The Board of Directors or Executive Committee may designate one or more of the Vice Presidents as Executive Vice President or Senior Vice President.

Section 7 - Controller: Subject to the control of the Board of Directors, the Executive Committee, the Chairman of the Board, the President, a Vice Chairman, if any, and the Vice President having general charge of accounting, the Controller, shall have charge of the supervision of the accounting system of the Company, including the preparation and filing of all tax returns and financial reports required by law to be made to any and all public authorities and officials. The Controller shall perform such other duties as may be assigned, from time to time, by the Board of Directors, the Executive Committee, the Chairman of the Board, the President, a Vice Chairman, if any, or the Vice President having general charge of accounting.

Section 8 - Treasurer: It shall be the duty of the Treasurer to have the care and custody of all the funds and securities, including the investment thereof, of the Company which may come into the Treasurer's hands, and to endorse checks, drafts and other instruments for the payment of money for deposit or collection when necessary or proper and to deposit the same to the credit of the Company in such bank or banks or depository as the Treasurer may designate; endorse all commercial documents requiring endorsements for or on behalf of the Company; sign all receipts and vouchers for the payments made to the Company; render an account of transactions to the Board of Directors or the Executive Committee as often as the Board or the Committee shall require; and perform all acts incident to the position of Treasurer, subject to the control of the Board of Directors, the Executive Committee, the Chairman of the Board, the President or a Vice Chairman, if any.

Section 9 - Secretary: The Secretary shall act as custodian of and keep the minutes of all meetings of the Board of Directors, of the Executive Committee, of the shareholders and of any Committees of the Board of Directors which keep formal minutes; attend to the giving and serving of all notices of the Company; and prepare or cause to be prepared the list of shareholders required to be produced at any meeting. The Secretary shall have charge of the stock records of the Company and such other books and papers as the Board of Directors, the Executive Committee, the Chairman of the Board, the President or a Vice Chairman, if any, may direct, and in general, perform all the duties of Secretary, subject to the control of the Board of Directors, the Executive Committee, the Chairman of the Board, the President or a Vice Chairman, if any.

Section 10 - General Counsel: The General Counsel, if any, shall have charge of all matters of a legal nature involving the Company.

Section 11 - Assistant Controllers, Assistant Secretaries and Assistant Treasurers: An Assistant Controller, an Assistant Secretary or an Assistant Treasurer, if any, shall, in the absence or inability to act or at the request of the Controller, Secretary or Treasurer, respectively, perform the duties of the Controller or Secretary or Treasurer, respectively, and shall perform such other duties as may from time to time be assigned by the Board of Directors, the Executive Committee, the Chairman of the Board, the President or a Vice Chairman, if any. The performance of any such duty shall be conclusive evidence of their right to act.

Section 12 - Principal Financial Officer and Principal Accounting Officer: The Board of Directors or the Executive Committee may from time to time designate officers of the Company to be the Principal Financial Officer and the Principal Accounting Officer of the Company.

#### ARTICLE XI: STOCK

Section 1 - Stock Certificates: The shares of stock of the Company shall be represented by certificates which shall be numbered and shall be entered on the stock records of the Company and registered as they are issued. Each certificate shall state on its face that the Company is formed under the laws of Delaware, the name of the person or persons to whom issued, the number and class of shares and the designation of the series the certificate represents; and shall be signed by the Chairman of the Board, a Vice Chairman, if any, the President or a Vice President and by the Treasurer, an Assistant Treasurer, the Secretary or an Assistant Secretary. When such certificates are countersigned by a transfer agent or registered by a registrar, the signatures of any such Chairman of the Board, Vice Chairman, President, Vice President, Treasurer, Assistant Treasurer, Secretary or Assistant Secretary may be facsimiles. In the case any officer, who shall have signed or whose

facsimile signature shall have been placed on any such certificate, shall cease to be such officer of the Company before such certificate shall have been issued by the Company, such certificate may nevertheless be issued by the Company with the same effect as if the person, who signed such certificate or whose facsimile signature shall have been placed thereon, were such officer of the Company at the date of issue.

Each certificate shall set forth on its face or back or state that the Company will furnish to a shareholder upon request and without charge a full statement of the designations, relative rights, preferences and limitations of the shares of stock of each class authorized to be issued and of each series so far as the same have been prescribed and the authority of the Board of Directors to designate and prescribe the relative rights, preferences and limitations of other series.

Section 2 - Stock Records: The shares of stock of the Company shall be transferable on the stock records of the Company in person or by proxy duly authorized and upon surrender and cancellation of the old certificates therefor.

The Board of Directors may fix a date preceding the date fixed for any meeting of the shareholders or any dividend payment date or the date for the allotment of rights or the date when any change, conversion or exchange of stock shall go into effect or the date for any other action, as the record date for the determination of the shareholders entitled to notice of and to vote at such meeting or to receive payment of such dividend or to receive such allotment of rights or to exercise such rights in respect of any such change, conversion or exchange of stock or to take such other action, as the case may be, notwithstanding any transfer of shares on the records of the Company or otherwise after any such record date fixed as aforesaid. The record date so fixed by the Board shall not be more than sixty (60) nor less than ten (10) days before the date of the meeting of the shareholders, nor more than sixty (60) days before any other action. If the Board of Directors does not fix a date of record, as aforesaid, the record date shall be as provided by law.

Section 3 - Stock: The designations, relative rights, preferences, limitations and voting powers, or restrictions, or qualifications of the shares of the Company's stock shall be as set forth in the Articles of Incorporation of the Company.

Section 4 - Replacing Certificates: In case of the alleged loss, theft or destruction of any certificate of shares of stock and the submission of proper proof thereof, a new certificate may be issued in lieu thereof upon delivery to the Company by the owner or their legal representative of a bond of indemnity against any claim that may be made against the Company on account of such alleged lost, stolen or destroyed certificate or such issuance of a new certificate.

#### ARTICLE XII: DIVIDENDS AND DISTRIBUTIONS

Section 1 - Declaration and Payment: Subject to the provisions of applicable law and the Articles of Incorporation of the Company, the Board of Directors may from time to time declare and pay dividends, or make other distributions, on its outstanding shares of stock.

#### ARTICLE XIII: AUTHORIZED SIGNATURES

Section 1 - Authorized Signatures: All checks, drafts and other negotiable instruments issued by the Company shall be made in the name of the Company and shall be signed manually or signed by

facsimile signature by such one of the officers of the Company or such other person as the President or Treasurer may from time to time designate.

Section 2 - Contracts, Conveyances, etc.: The Board of Directors shall have the power to designate the officers and agents who shall have authority to execute any instrument on behalf of the Company. When the execution of any contract, conveyance or other instrument has been authorized without specification of the executing officers, the President or any Vice President may execute the same in the name of and on behalf of the Company.

#### ARTICLE XIV: INSURANCE

Section 1 - Insurance: The Company may purchase and maintain liability insurance, to the full extent permitted by law, on behalf of any person who is or was a director, officer, employee or agent of the Company, or is or was serving at the request of the Company as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise against any liability asserted against such person and incurred by such person in any such capacity.

#### ARTICLE XV: AMENDMENTS OF BYLAWS

Section 1 - Amendments, How Effectuated: These Bylaws may be amended or repealed, or new Bylaws may be adopted, either by the majority vote of the votes cast by the shareholders entitled to vote thereon or by the majority vote of the Directors then in office at any meeting of the Directors.

March 29, 1999

SEVENTY-FIFTH SUPPLEMENTAL INDENTURE

Providing among other things for  
FIRST MORTGAGE BONDS,  
Series 1993A Ambac Bonds due June 15, 2010

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Dated as of October 1, 1999

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CONSUMERS ENERGY COMPANY

TO

THE CHASE MANHATTAN BANK,  
TRUSTEE

Counterpart \_\_\_\_\_ of 80

SEVENTY-FIFTH SUPPLEMENTAL INDENTURE, dated as of October 1, 1999 (herein sometimes referred to as "this Supplemental Indenture"), made and entered into by and between CONSUMERS ENERGY COMPANY, a corporation organized and existing under the laws of the State of Michigan, with its principal executive office and place of business at 212 West Michigan Avenue, in Jackson, Jackson County, Michigan 49201, formerly known as Consumers Power Company, (hereinafter sometimes referred to as the "Company"), and THE CHASE MANHATTAN BANK, a corporation organized and existing under the laws of the State of New York, with its corporate trust offices at 450 W. 33rd Street, in the Borough of Manhattan, The City of New York, New York 10001 (hereinafter sometimes referred to as the "Trustee"), as Trustee under the Indenture dated as of September 1, 1945 between Consumers Power Company, a Maine corporation (hereinafter sometimes referred to as the "Maine corporation"), and City Bank Farmers Trust Company (Citibank, N.A., successor, hereinafter sometimes referred to as the "Predecessor Trustee"), securing bonds issued and to be issued as provided therein (hereinafter sometimes referred to as the "Indenture"),

WHEREAS at the close of business on January 30, 1959, City Bank Farmers Trust Company was converted into a national banking association under the title "First National City Trust Company"; and

WHEREAS at the close of business on January 15, 1963, First National City Trust Company was merged into First National City Bank; and

WHEREAS at the close of business on October 31, 1968, First National City Bank was merged into The City Bank of New York, National Association, the name of which was thereupon changed to First National City Bank; and

WHEREAS effective March 1, 1976, the name of First National City Bank was changed to Citibank, N.A.; and

WHEREAS effective July 16, 1984, Manufacturers Hanover Trust Company succeeded Citibank, N.A. as Trustee under the Indenture; and

WHEREAS effective June 19, 1992, Chemical Bank succeeded by merger to Manufacturers Hanover Trust Company as Trustee under the Indenture; and

WHEREAS effective July 15, 1996, The Chase Manhattan Bank (National Association), merged with and into Chemical Bank which thereafter was renamed The Chase Manhattan Bank as Trustee under the Indenture; and

WHEREAS the Indenture was executed and delivered for the purpose of securing such bonds as may from time to time be issued under and in accordance with the terms of the Indenture, the aggregate principal amount of bonds to be secured thereby being limited to \$5,000,000,000 at any one time outstanding (except as provided in Section 2.01 of the Indenture), and the Indenture describes and sets forth the property conveyed thereby and is filed in the Office of the Secretary of State of the State of Michigan and is of record in the Office of the Register of Deeds of each county in the State of Michigan in which this Supplemental Indenture is to be recorded; and

WHEREAS the Indenture has been supplemented and amended by various indentures supplemental thereto, each of which is filed in the Office of the Secretary of State of the State of Michigan and is of record in the Office of the Register of Deeds of each county in the State of Michigan in which this Supplemental Indenture is to be recorded; and

WHEREAS the Company and the Maine corporation entered into an Agreement of Merger and Consolidation, dated as of February 14, 1968, which provided for the Maine corporation to merge into the Company; and

WHEREAS the effective date of such Agreement of Merger and Consolidation was June 6, 1968, upon which date the Maine corporation was merged into the Company and the name of the Company was changed from "Consumers Power Company of Michigan" to "Consumers Power Company"; and

WHEREAS the Company and the Predecessor Trustee entered into a Sixteenth Supplemental Indenture, dated as of June 4, 1968, which provided, among other things, for the assumption of the Indenture by the Company; and

WHEREAS said Sixteenth Supplemental Indenture became effective on the effective date of such Agreement of Merger and Consolidation; and

WHEREAS the Company has succeeded to and has been substituted for the Maine corporation under the Indenture with the same effect as if it had been named therein as the mortgagor corporation; and

WHEREAS effective March 11, 1997, the name of Consumers Power Company was changed to Consumers Energy Company; and

WHEREAS, pursuant to a Trust Indenture, dated as of June 15, 1993 (the "MSF Trust Indenture") by and between the Michigan Strategic Fund, (the "Issuer") and The Chase Manhattan Bank, (the "MSF Trust Indenture Trustee") the Issuer has issued \$27,900,000 in aggregate principal amount of its Adjustable Rate Demand Limited Obligation Refunding Revenue Bonds (Consumers Power Company Project) Series 1993A (hereinafter sometimes called the "MSF Bonds"); and

WHEREAS, the MSF Trust Indenture has been amended as set forth in the Amended and Restated Trust Indenture dated as of October 1, 1999 (the "Amended MSF Trust Indenture") to provide, among other things, for substitute credit enhancement on the MSF Bonds; and

WHEREAS, Ambac Assurance Corporation, a Wisconsin-domiciled stock insurance company ("Ambac") has provided such substitute credit enhancement on the MSF Bonds through the issuance of its Municipal Bond Insurance Policy (the "Policy") which insures certain payments of principal of and interest on the MSF Bonds, as specified therein; and

WHEREAS, the Company has entered into an Insurance Agreement, dated as of October 1, 1999 with Ambac (the "Insurance Agreement") in connection with the Policy and pursuant to the Insurance Agreement the Company has agreed to issue a new series of bonds under the Indenture in order to secure its obligations under the Insurance Agreement; and

WHEREAS, for such purposes the Company desires to issue a new series of bonds, to be designated First Mortgage Bonds, Series 1993A Ambac Bonds due June 15, 2010, each of which bonds shall also bear the descriptive title "First Mortgage Bond" (hereinafter provided for and hereinafter sometimes referred to as the "Series 1993A Ambac Bonds"), the bonds of which series are to be issued as registered bonds without coupons and are to bear interest at the rate per annum specified herein and are to mature June 15, 2010; and

WHEREAS, the Series 1993A Ambac Bonds shall be issued to Ambac in connection with the issuance of the Policy; and

WHEREAS each of the registered bonds without coupons of the Series 1993A Ambac Bonds and the Trustee's Authentication Certificate thereon are to be substantially in the following forms, to wit:

[FORM OF REGISTERED BOND OF THE SERIES 1993A AMBAC BONDS]

[FACE]

NOTWITHSTANDING ANY PROVISIONS HEREOF OR IN THE INDENTURE, THIS BOND IS NOT ASSIGNABLE OR TRANSFERABLE.

CONSUMERS ENERGY COMPANY

FIRST MORTGAGE BOND, SERIES 1993A AMBAC BONDS  
DUE JUNE 15, 2010

No. \$

CONSUMERS ENERGY COMPANY, a Michigan corporation (hereinafter called the "Company"), for value received, hereby promises to pay to Ambac Assurance Corporation ("Ambac"), or registered assigns, the principal sum of Twenty-Seven Million Nine Hundred Thousand Dollars on June 15, 2010, and to pay to the registered holder hereof interest on said sum payable at the rate and in the manner as set forth in the MSF Bonds, defined below. In the event that one or more MSF Bonds shall have different interest rates from other MSF Bonds, the interest rate of each allocable portion of the Series 1993A Ambac Bonds shall be deemed to correspond to the interest rate of each such MSF Bonds (as defined below).

Under a Trust Indenture dated as of June 15, 1993 between the Michigan Strategic Fund, as issuer ("the Issuer") and The Chase Manhattan Bank, as trustee (the "MSF Trust Indenture Trustee"), which has been amended and restated pursuant to the Amended and Restated Trust Indenture dated as of October 1, 1999 between the Issuer and the MSF Trust Indenture Trustee and acknowledged and agreed to by the Company (as so amended and restated, the "MSF Trust Indenture"). MSF has issued Adjustable Rate Demand Limited Obligation Refunding Revenue Bonds (Consumers Power Company Project) Series 1993A (hereinafter sometimes called the "MSF Bonds"). Payments of principal of, premiums, if any, or interest on, the MSF Bonds shall constitute payments on this bond as further provided herein and in the supplemental indenture pursuant to which this bond has been issued; provided that payments of principal and interest made on the MSF Bonds by Ambac pursuant to its municipal bond insurance policy (the "Policy") issued with respect of the MSF Bonds shall not constitute payments on this bond unless all amounts in respect thereof owed to Ambac pursuant to Section 2.01(a) of the Insurance Agreement dated October 1, 1999 between Ambac, the Company and the MSF Trust Indenture Trustee (the "Insurance Agreement") shall have been paid in full.

The provisions of this bond are continued on the reverse hereof and such continued provisions shall for all purposes have the same effect as though fully set forth at this place.

This bond shall not be valid or become obligatory for any purpose unless and until it shall have been authenticated by the execution by the Trustee or its successor in trust under the Indenture of the certificate hereon.

IN WITNESS WHEREOF, Consumers Energy Company has caused this bond to be executed in its name by its Chairman of the Board, its President or one of its Vice Presidents by his or her signature or a facsimile thereof, and its corporate seal or a facsimile thereof to be affixed hereto or imprinted

hereon and attested by its Secretary or one of its Assistant Secretaries by his or her signature or a facsimile thereof.

CONSUMERS ENERGY COMPANY,

Dated: By \_\_\_\_\_  
Its \_\_\_\_\_

Attest: \_\_\_\_\_  
Secretary

[FORM OF TRUSTEE'S AUTHENTICATION CERTIFICATE]

TRUSTEE'S AUTHENTICATION CERTIFICATE

This is one of the bonds, of the series designated therein, described in the within-mentioned Indenture.

THE CHASE MANHATTAN BANK, Trustee

By \_\_\_\_\_  
Authorized Officer

[REVERSE]

CONSUMERS ENERGY COMPANY

FIRST MORTGAGE BOND, SERIES 1993A AMBAC BONDS  
DUE JUNE 15, 2010

The interest payable on any date as specified in the MSF Bonds (each "Interest Payment Date") will, subject to certain exceptions provided in the Indenture hereinafter mentioned, be paid to the person in whose name this bond is registered at the close of business on the record date as specified in the MSF Bonds. The principal of and the premium, if any, and the interest on this bond shall be payable at the office or agency of the Company in the City of Jackson, Michigan designated for that purpose, in any coin or currency of the United States of America which at the time of payment is legal tender for public and private debts.

Upon any payment of the principal of, premium, if any, or interest on, all or any portion of the MSF Bonds (other than payments of principal or interest made thereon by Ambac pursuant to the Policy which are not reimbursed to Ambac when due in accordance with Section 2.01(a) of the Insurance Agreement), whether at maturity or prior to maturity by redemption or otherwise, Series 1993A Ambac Bonds in a principal amount equal to the principal amount of such MSF Bonds shall, to the extent of such payment of principal, premium, if any, and interest or reimbursements to Ambac, be deemed fully paid and

the obligation of the Company thereunder to make such payment shall be discharged to such extent and, in the case of the payment of principal (and premium, if any) such bonds of Series 1993A Ambac Bonds shall be surrendered to the Company for cancellation as provided in Section 3.01(a) of the Insurance Agreement. The Trustee may at anytime and all times conclusively assume that the obligation of the Company to make payments with respect to the principal of, and premium, if any, and interest on the Series 1993A Ambac Bonds and the obligation of the Company to make payments with respect to Section 2.01(a) of the Insurance Agreement, so far as such payments at the time have become due, have been fully satisfied and discharged pursuant to the foregoing sentence unless and until the Trustee shall have received a written notice from Ambac signed by one of its officers stating (i) that a claim or claims have been made under the Policy, (ii) that the Company is in arrears as to the payments required to be made by it to Ambac pursuant to the Insurance Agreement, and (iii) the amount of the arrearage.

In the event that there is an Event of Default (as defined in the MSF Indenture) under the MSF Bonds that results in an acceleration of all outstanding amounts of principal, premium if any, and interest of the MSF Bonds and there is an Event of Default (as defined in the Insurance Agreement) with respect to non-payment of the Company's obligations under Section 2.01(a) of the Insurance Agreement, then Ambac shall give written notice thereof to the Trustee and such events shall constitute a default under this bond and the remedies set forth in the Indenture shall be applicable as provided in the Indenture.

This bond is one of the bonds issued and to be issued from time to time under and in accordance with and all secured by an Indenture dated as of September 1, 1945, given by the Company (or its predecessor, Consumers Power Company, a Maine corporation) to City Bank Farmers Trust Company (The Chase Manhattan Bank, successor) (hereinafter sometimes referred to as the "Trustee"), and indentures supplemental thereto, heretofore or hereafter executed, to which indenture and indentures supplemental thereto (hereinafter referred to collectively as the "Indenture") reference is hereby made for a description of the property mortgaged and pledged, the nature and extent of the security and the rights, duties and immunities thereunder of the Trustee and the rights of the holders of said bonds and of the Trustee and of the Company in respect of such security, and the limitations on such rights. By the terms of the Indenture, the bonds to be secured thereby are issuable in series which may vary as to date, amount, date of maturity, rate of interest and in other respects as provided in the Indenture.

The Indenture contains provisions permitting the Company and the Trustee, with the consent of the holders of not less than seventy-five per centum in principal amount of the bonds (exclusive of bonds disqualified by reason of the Company's interest therein) at the time outstanding, including, if more than one series of bonds shall be at the time outstanding, not less than sixty per centum in principal amount of each series affected, to effect, by an indenture supplemental to the Indenture, modifications or alterations of the Indenture and of the rights and obligations of the Company and the rights of the holders of the bonds and coupons; provided, however, that no such modification or alteration shall be made without the written approval or consent of the holder hereof which will (a) extend the maturity of this bond or reduce the rate or extend the time of payment of interest hereon or reduce the amount of the principal hereof, or (b) permit the creation of any lien, not otherwise permitted, prior to or on a parity with the lien of the Indenture, or (c) reduce the percentage of the principal amount of the bonds the holders of which are required to approve any such supplemental indenture.

The Company reserves the right, without any consent, vote or other action by holders of bonds of this series or any other series created after the Sixty-eighth Supplemental Indenture to amend the Indenture to reduce the percentage of the principal amount of bonds the holders of which are required to approve any supplemental indenture (other than any supplemental indenture which is subject to the proviso contained in the immediately preceding sentence) (a) from not less than seventy-five per centum (including sixty per centum of each series affected) to not less than a majority in principal amount of the bonds at the time outstanding or (b) in case fewer than all series are affected, not less than a majority in principal amount of the bonds of all affected series, voting together.

This bond is not redeemable by the operation of the improvement fund or the maintenance and replacement provisions of the Indenture or with the proceeds of released property.

This bond is redeemable on the respective dates and in the respective principal amounts which correspond to the redemption dates for, and the principal amounts to be redeemed of, the MSF Bonds (provided that this bond may not be redeemed where any portion of the principal or interest on the MSF Bonds is paid by Ambac pursuant to the Policy in connection with the redemption of the MSF Bonds and Ambac has not been paid as provided in Section 2.01(a) of the Insurance Agreement). In addition, this bond is redeemable at the option of the Company in connection with a call for purchase of the MSF Bonds, as set forth in Section 109 of the Amended MSF Trust Indenture.

This bond shall not be assignable or transferable.

As provided in Section 3.01(b) of the Insurance Agreement, from and after the Release Date (as defined in the Insurance Agreement), the obligations of the Company with respect to this bond shall be deemed to be satisfied and discharged, this bond shall cease to secure in any manner any obligation outstanding under the Insurance Agreement, and, pursuant to Section 3.01(a) of the Insurance Agreement, provided that all amounts owed to Ambac pursuant to Section 2.01(a) of the Insurance Agreement shall be indefeasibly paid in full, Ambac shall forthwith deliver this bond to the Company for cancellation.

In case of certain defaults as specified in the Indenture, the principal of this bond may be declared or may become due and payable on the conditions, at the time, in the manner and with the effect provided in the Indenture.

No recourse shall be had for the payment of the principal of or premium, if any, or interest on this bond, or for any claim based hereon, or otherwise in respect hereof or of the Indenture, to or against any incorporator, stockholder, director or officer, past, present or future, as such, of the Company, or of any predecessor or successor company, either directly or through the Company, or such predecessor or successor company, or otherwise, under any constitution or statute or rule of law, or by the enforcement of any assessment or penalty, or otherwise, all such liability of incorporators, stockholders, directors and officers, as such, being waived and released by the holder and owner hereof by the acceptance of this bond and being likewise waived and released by the terms of the Indenture.

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AND WHEREAS all acts and things necessary to make the bonds of the Series 1993A Ambac Bonds, when duly executed by the Company and authenticated by the Trustee or its agent and issued as prescribed in the Indenture, as heretofore supplemented and amended, and this Supplemental Indenture provided, the valid, binding and legal obligations of the Company, and to constitute the Indenture, as supplemented and amended as aforesaid, as well as by this Supplemental Indenture, a valid, binding and legal instrument for the security thereof, have been done and performed, and the creation, execution and delivery of this Supplemental Indenture and the creation, execution and issuance of bonds subject to the terms hereof and of the Indenture, as so supplemented and amended, have in all respects been duly authorized;

NOW, THEREFORE, in consideration of the premises, of the acceptance and purchase by the holders thereof of the bonds issued and to be issued under the Indenture, as supplemented and amended as above set forth, and of the sum of One Dollar duly paid by the Trustee to the Company, and of other good and valuable considerations, the receipt whereof is hereby acknowledged, and for the purpose of securing the due and punctual payment of the principal of and premium, if any, and interest on all bonds now outstanding under the Indenture and the \$27,900,000 principal amount of Series 1993A Ambac Bonds

proposed to be issued initially and all other bonds which shall be issued under the Indenture, as supplemented and amended from time to time, and for the purpose of securing the faithful performance and observance of all covenants and conditions therein, and in any indenture supplemental thereto, set forth, the Company has given, granted, bargained, sold, released, transferred, assigned, hypothecated, pledged, mortgaged, confirmed, set over, warranted, alienated and conveyed and by these presents does give, grant, bargain, sell, release, transfer, assign, hypothecate, pledge, mortgage, confirm, set over, warrant, alien and convey unto The Chase Manhattan Bank, as Trustee, as provided in the Indenture, and its successor or successors in the trust thereby and hereby created and to its or their assigns forever, all the right, title and interest of the Company in and to all the property, described in Section 12 hereof, together (subject to the provisions of Article X of the Indenture) with the tolls, rents, revenues, issues, earnings, income, products and profits thereof, excepting, however, the property, interests and rights specifically excepted from the lien of the Indenture as set forth in the Indenture.

TOGETHER WITH all and singular the tenements, hereditaments and appurtenances belonging or in any wise appertaining to the premises, property, franchises and rights, or any thereof, referred to in the foregoing granting clause, with the reversion and reversions, remainder and remainders and (subject to the provisions of Article X of the Indenture) the tolls, rents, revenues, issues, earnings, income, products and profits thereof, and all the estate, right, title and interest and claim whatsoever, at law as well as in equity, which the Company now has or may hereafter acquire in and to the aforesaid premises, property, franchises and rights and every part and parcel thereof.

SUBJECT, HOWEVER, with respect to such premises, property, franchises and rights, to excepted encumbrances as said term is defined in Section 1.02 of the Indenture, and subject also to all defects and limitations of title and to all encumbrances existing at the time of acquisition.

TO HAVE AND TO HOLD all said premises, property, franchises and rights hereby conveyed, assigned, pledged or mortgaged, or intended so to be, unto the Trustee, its successor or successors in trust and their assigns forever;

BUT IN TRUST, NEVERTHELESS, with power of sale for the equal and proportionate benefit and security of the holders of all bonds now or hereafter authenticated and delivered under and secured by the Indenture and interest coupons appurtenant thereto, pursuant to the provisions of the Indenture and of any supplemental indenture, and for the enforcement of the payment of said bonds and coupons when payable and the performance of and compliance with the covenants and conditions of the Indenture and of any supplemental indenture, without any preference, distinction or priority as to lien or otherwise of any bond or bonds over others by reason of the difference in time of the actual authentication, delivery, issue, sale or negotiation thereof or for any other reason whatsoever, except as otherwise expressly provided in the Indenture; and so that each and every bond now or hereafter authenticated and delivered thereunder shall have the same lien, and so that the principal of and premium, if any, and interest on every such bond shall, subject to the terms thereof, be equally and proportionately secured, as if it had been made, executed, authenticated, delivered, sold and negotiated simultaneously with the execution and delivery thereof.

AND IT IS EXPRESSLY DECLARED by the Company that all bonds authenticated and delivered under and secured by the Indenture, as supplemented and amended as above set forth, are to be issued, authenticated and delivered, and all said premises, property, franchises and rights hereby and by the Indenture and indentures supplemental thereto conveyed, assigned, pledged or mortgaged, or intended so to be, are to be dealt with and disposed of under, upon and subject to the terms, conditions, stipulations, covenants, agreements, trusts, uses and purposes expressed in the Indenture, as supplemented and amended as above set forth, and the parties hereto mutually agree as follows:

SECTION 1. There is hereby created one series of bonds (the "Series 1993A Ambac Bonds") designated as hereinabove provided, which shall also bear the descriptive title "First Mortgage

Bond", and the form thereof shall be substantially as hereinbefore set forth. Series 1993A Ambac Bonds shall be issued in the aggregate principal amount of \$27,900,000, shall mature on June 15, 2010 and shall be issued only as registered bonds without coupons in denominations of \$1,000 and any multiple thereof. The serial numbers of bonds of the Series 1993A Ambac Bonds shall be such as may be approved by any officer of the Company, the execution thereof by any such officer either manually or by facsimile signature to be conclusive evidence of such approval. Series 1993A Ambac Bonds shall bear interest at the rate per annum, until the principal thereof shall be paid in full at the times and in the manner as specified in the MSF Bonds to the holder of the 1993A Ambac Bonds. The principal of, and the premium, if any, and the interest on said bonds shall be payable in any coin or currency of the United States of America which at the time of payment is legal tender for public and private debts, at the office or agency of the Company in the City of Jackson, Michigan designated for that purpose.

Upon any payment of the principal of, premium, if any, and interest on, all or any portion of the MSF Bonds (other than payments of principal or interest made thereon by Ambac pursuant to the Policy which have not been reimbursed in accordance with Section 2.01(a)), whether at maturity or prior to maturity by redemption or otherwise, Series 1993A Ambac Bonds in a principal amount equal to the principal amount of such MSF Bonds shall, to the extent of such payment of principal, premium, if any, and interest, or reimbursements to Ambac, provided that all amounts owed to Ambac under Section 2.01(a) of the Insurance Agreement shall be paid in full to Ambac, be deemed fully paid and the obligation of the Company thereunder to make such payment shall be discharged to such extent and, in the case of the payment of principal (and premium, if any) such bonds of Series 1993A Ambac Bonds shall be surrendered to the Company for cancellation as provided in Section 3.01(a) of the Insurance Agreement. The Trustee may at anytime and all times conclusively assume that the obligation of the Company to make payments with respect to the principal of, and premium, if any, and interest on the Series 1993A Ambac Bonds and the obligation of the Company to make payments with respect to Section 2.01(a) of the Insurance Agreement, so far as such payments at the time have become due, have been fully satisfied and discharged pursuant to the foregoing sentence unless and until the Trustee shall have received a written notice from Ambac as set forth in Section 3 herein.

Each Series 1993A Ambac Bond is to be issued to and registered in the name of Ambac to secure any and all obligations of the Company under the Insurance Agreement.

The Series 1993A Ambac Bonds shall not be assignable or transferable.

SECTION 2. Series 1993A Ambac Bonds shall not be redeemable except on the respective dates, in the respective principal amounts and for the respective redemption prices which correspond to the redemption dates for, the principal amounts to be redeemed of, and the redemption prices for, the MSF Bonds.

In the event the Company elects to or is required to redeem or is required to purchase any MSF Bonds prior to maturity in accordance with the provisions of the MSF Indenture, Ambac shall on the same date deliver to the Company the Series 1993A Ambac Bonds in principal amounts corresponding to the MSF Bonds so redeemed or purchased, as provided in Section 3.01(a) of the Insurance Agreement; provided that Ambac has not made any payments pursuant to the Policy in connection with any such redemption or purchase of the MSF Bonds which have not been reimbursed to Ambac in accordance with Section 2.01(a) of the Insurance Agreement. The Company agrees to give the Trustee and Ambac notice of any such redemption or purchase of the MSF Bonds on or before the date fixed for any such redemption or purchase.

Series 1993A Ambac Bonds are not redeemable by the operation of the improvement fund or the maintenance and replacement provisions of this Indenture or with the proceeds of released property.

SECTION 3. In the event that there is an Event of Default (as defined in the MSF Trust Indenture) under the MSF Bonds that results in an acceleration of all outstanding amounts of principal, premium if any, and interest on the MSF Bonds and there is an Event of Default (as defined in the Insurance Agreement) with respect to non-payment of the Company's obligations under Section 2.01(a) of the Insurance Agreement, then Ambac shall give written notice thereof to the Trustee and such events shall constitute an Event of Default under this bond and the remedies set forth in the Indenture shall be applicable as provided in the Indenture.

SECTION 4. As provided in Section 3.01(b) of the Insurance Agreement and provided that all amounts owing to Ambac under Section 2.01(a) of the Insurance Agreement shall have been paid in full, from and after the Release Date (as defined therein), the obligations of the Company with respect to the Series 1993A Ambac Bonds (the "Bonds") shall be deemed to be satisfied and discharged, the Bonds shall cease to secure in any manner any obligations outstanding under the Insurance Agreement, and, pursuant to Section 3.01(a) of the Insurance Agreement, Ambac shall forthwith deliver the Bonds to the Company for cancellation.

SECTION 5. The Company reserves the right, without any consent, vote or other action by the holder of the Series 1993A Ambac Bonds or of any subsequent series of bonds issued under the Indenture, to make such amendments to the Indenture, as supplemented, as shall be necessary in order to amend Section 17.02 to read as follows:

SECTION 17.02. With the consent of the holders of not less than a majority in principal amount of the bonds at the time outstanding or their attorneys-in-fact duly authorized, or, if fewer than all series are affected, not less than a majority in principal amount of the bonds at the time outstanding of each series the rights of the holders of which are affected, voting together, the Company, when authorized by a resolution, and the Trustee may from time to time and at any time enter into an indenture or indentures supplemental hereto for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of this Indenture or of any supplemental indenture or modifying the rights and obligations of the Company and the rights of the holders of any of the bonds and coupons; provided, however, that no such supplemental indenture shall (1) extend the maturity of any of the bonds or reduce the rate or extend the time of payment of interest thereon, or reduce the amount of the principal thereof, or reduce any premium payable on the redemption thereof, without the consent of the holder of each bond so affected, or (2) permit the creation of any lien, not otherwise permitted, prior to or on a parity with the lien of this Indenture, without the consent of the holders of all the bonds then outstanding, or (3) reduce the aforesaid percentage of the principal amount of bonds the holders of which are required to approve any such supplemental indenture, without the consent of the holders of all the bonds then outstanding. For the purposes of this Section, bonds shall be deemed to be affected by a supplemental indenture if such supplemental indenture adversely affects or diminishes the rights of holders thereof against the Company or against its property. The Trustee may in its discretion determine whether or not, in accordance with the foregoing, bonds of any particular series would be affected by any supplemental indenture and any such determination shall be conclusive upon the holders of bonds of such series and all other series. Subject to the provisions of Sections 16.02 and 16.03 hereof, the Trustee shall not be liable for any determination made in good faith in connection herewith.

Upon the written request of the Company, accompanied by a resolution authorizing the execution of any such supplemental indenture, and upon the filing with the Trustee of evidence of the consent of bondholders as aforesaid (the instrument or instruments evidencing such consent to be dated within one year of such request), the Trustee shall join with the Company in the execution of such supplemental indenture unless such supplemental indenture affects the Trustee's own rights, duties or immunities under this Indenture or otherwise, in which case the Trustee may in its discretion but shall not be obligated to enter into such supplemental indenture.

It shall not be necessary for the consent of the bondholders under this Section to approve the particular form of any proposed supplemental indenture, but it shall be sufficient if such consent shall approve the substance thereof.

The Company and the Trustee, if they so elect, and either before or after such consent has been obtained, may require the holder of any bond consenting to the execution of any such supplemental indenture to submit his bond to the Trustee or to ask such bank, banker or trust company as may be designated by the Trustee for the purpose, for the notation thereon of the fact that the holder of such bond has consented to the execution of such supplemental indenture, and in such case such notation, in form satisfactory to the Trustee, shall be made upon all bonds so submitted, and such bonds bearing such notation shall forthwith be returned to the persons entitled thereto.

Prior to the execution by the Company and the Trustee of any supplemental indenture pursuant to the provisions of this Section, the Company shall publish a notice, setting forth in general terms the substance of such supplemental indenture, at least once in one daily newspaper of general circulation in each city in which the principal of any of the bonds shall be payable, or, if all bonds outstanding shall be registered bonds without coupons or coupon bonds registered as to principal, such notice shall be sufficiently given if mailed, first class, postage prepaid, and registered if the Company so elects, to each registered holder of bonds at the last address of such holder appearing on the registry books, such publication or mailing, as the case may be, to be made not less than thirty days prior to such execution. Any failure of the Company to give such notice, or any defect therein, shall not, however, in any way impair or affect the validity of any such supplemental indenture.

SECTION 6. As supplemented and amended as above set forth, the Indenture is in all respects ratified and confirmed, and the Indenture and all indentures supplemental thereto shall be read, taken and construed as one and the same instrument.

SECTION 7. Nothing contained in this Supplemental Indenture shall, or shall be construed to, confer upon any person other than a holder of bonds issued under the Indenture, as supplemented and amended as above set forth, the Company, the Trustee and Ambac any right or interest to avail himself of any benefit under any provision of the Indenture, as so supplemented and amended.

SECTION 8. The Trustee assumes no responsibility for or in respect of the validity or sufficiency of this Supplemental Indenture or of the Indenture as hereby supplemented or the due execution hereof by the Company or for or in respect of the recitals and statements contained herein (other than those contained in the sixth and seventh recitals hereof), all of which recitals and statements are made solely by the Company.

SECTION 9. This Supplemental Indenture may be simultaneously executed in several counterparts and all such counterparts executed and delivered, each as an original, shall constitute but one and the same instrument.

SECTION 10. In the event the date of any notice required or permitted hereunder or the date of maturity of interest on or principal of the Series 1993A Ambac Bonds or the date fixed for redemption or repayment of the Series 1993A Ambac Bonds shall not be a Business Day, then (notwithstanding any other provision of the Indenture or of any supplemental indenture thereto) such notice or such payment of such interest or principal need not be made on such date, but may be made on the next succeeding Business Day with the same force and effect as if made on the date fixed for such notice or as if made on the date of maturity or the date fixed for redemption or repayment, and no interest shall accrue for the period from and after such date. "Business Day" means, with respect to this Section 10, a day of the year on which banks are not required or authorized to close in New York City or Detroit, Michigan.

SECTION 11. This Supplemental Indenture and the Series 1993A Ambac Bonds shall be governed by and deemed to be a contract under, and construed in accordance with, the laws of the State of Michigan, and for all purposes shall be construed in accordance with the laws of such state, except as may otherwise be required by mandatory provisions of law.

SECTION 12. Detailed Description of Property Mortgaged:

I.

ELECTRIC GENERATING PLANTS AND DAMS

All the electric generating plants and stations of the Company, constructed or otherwise acquired by it and not heretofore described in the Indenture or any supplement thereto and not heretofore released from the lien of the Indenture, including all powerhouses, buildings, reservoirs, dams, pipelines, flumes, structures and works and the land on which the same are situated and all water rights and all other lands and easements, rights of way, permits, privileges, towers, poles, wires, machinery, equipment, appliances, appurtenances and supplies and all other property, real or personal, forming a part of or appertaining to or used, occupied or enjoyed in connection with such plants and stations or any of them, or adjacent thereto.

II.

ELECTRIC TRANSMISSION LINES

All the electric transmission lines of the Company, constructed or otherwise acquired by it and not heretofore described in the Indenture or any supplement thereto and not heretofore released from the lien of the Indenture, including towers, poles, pole lines, wires, switches, switch racks, switchboards, insulators and other appliances and equipment, and all other property, real or personal, forming a part of or appertaining to or used, occupied or enjoyed in connection with such transmission lines or any of them or adjacent thereto; together with all real property, rights of way, easements, permits, privileges, franchises and

rights for or relating to the construction, maintenance or operation thereof, through, over, under or upon any private property or any public streets or highways, within as well as without the corporate limits of any municipal corporation. Also all the real property, rights of way, easements, permits, privileges and rights for or relating to the construction, maintenance or operation of certain transmission lines, the land and rights for which are owned by the Company, which are either not built or now being constructed.

### III.

#### ELECTRIC DISTRIBUTION SYSTEMS

All the electric distribution systems of the Company, constructed or otherwise acquired by it and not heretofore described in the Indenture or any supplement thereto and not heretofore released from the lien of the Indenture, including substations, transformers, switchboards, towers, poles, wires, insulators, subways, trenches, conduits, manholes, cables, meters and other appliances and equipment, and all other property, real or personal, forming a part of or appertaining to or used, occupied or enjoyed in connection with such distribution systems or any of them or adjacent thereto; together with all real property, rights of way, easements, permits, privileges, franchises, grants and rights, for or relating to the construction, maintenance or operation thereof, through, over, under or upon any private property or any public streets or highways within as well as without the corporate limits of any municipal corporation.

### IV.

#### ELECTRIC SUBSTATIONS, SWITCHING STATIONS AND SITES

All the substations, switching stations and sites of the Company, constructed or otherwise acquired by it and not heretofore described in the Indenture or any supplement thereto and not heretofore released from the lien of the Indenture, for transforming, regulating, converting or distributing or otherwise controlling electric current at any of its plants and elsewhere, together with all buildings, transformers, wires, insulators and other appliances and equipment, and all other property, real or personal, forming a part of or appertaining to or used, occupied or enjoyed in connection with any of such substations and switching stations, or adjacent thereto, with sites to be used for such purposes.

### V.

#### GAS COMPRESSOR STATIONS, GAS PROCESSING PLANTS, DESULPHURIZATION STATIONS, METERING STATIONS, ODORIZING STATIONS, REGULATORS AND SITES

All the compressor stations, processing plants, desulphurization stations, metering stations, odorizing stations, regulators and sites of the Company, constructed or otherwise acquired by it and not heretofore described in the Indenture or any supplement thereto and not heretofore released from the lien of the Indenture, for compressing, processing, desulphurizing, metering, odorizing and regulating manufactured or natural gas at any of its plants and elsewhere, together with all buildings, meters and other appliances and equipment, and all other property, real or personal, forming a part of or appertaining to or used, occupied or enjoyed in connection with any of such purposes, with sites to be used for such purposes.

## VI.

## GAS STORAGE FIELDS

The natural gas rights and interests of the Company, including wells and well lines (but not including natural gas, oil and minerals), the gas gathering system, the underground gas storage rights, the underground gas storage wells and injection and withdrawal system used in connection therewith, constructed or otherwise acquired by it and not heretofore described in the Indenture or any supplement thereto and not heretofore released from the lien of the Indenture: In the Overisel Gas Storage Field, located in the Township of Overisel, Allegan County, and in the Township of Zeeland, Ottawa County, Michigan; in the Northville Gas Storage Field located in the Township of Salem, Washtenaw County, Township of Lyon, Oakland County, and the Townships of Northville and Plymouth and City of Plymouth, Wayne County, Michigan; in the Salem Gas Storage Field, located in the Township of Salem, Allegan County, and in the Township of Jamestown, Ottawa County, Michigan; in the Ray Gas Storage Field, located in the Townships of Ray and Armada, Macomb County, Michigan; in the Lenox Gas Storage Field, located in the Townships of Lenox and Chesterfield, Macomb County, Michigan; in the Ira Gas Storage Field, located in the Township of Ira, St. Clair County, Michigan; in the Puttygut Gas Storage Field, located in the Township of Casco, St. Clair County, Michigan; in the Four Corners Gas Storage Field, located in the Townships of Casco, China, Cottrellville and Ira, St. Clair County, Michigan; in the Swan Creek Gas Storage Field, located in the Township of Casco and Ira, St. Clair County, Michigan; and in the Hessen Gas Storage Field, located in the Townships of Casco and Columbus, St. Clair, Michigan.

## VII.

## GAS TRANSMISSION LINES

All the gas transmission lines of the Company, constructed or otherwise acquired by it and not heretofore described in the Indenture or any supplement thereto and not heretofore released from the lien of the Indenture, including gas mains, pipes, pipelines, gates, valves, meters and other appliances and equipment, and all other property, real or personal, forming a part of or appertaining to or used, occupied or enjoyed in connection with such transmission lines or any of them or adjacent thereto; together with all real property, right of way, easements, permits, privileges, franchises and rights for or relating to the construction, maintenance or operation thereof, through, over, under or upon any private property or any public streets or highways, within as well as without the corporate limits of any municipal corporation.

## VIII.

## GAS DISTRIBUTION SYSTEMS

All the gas distribution systems of the Company, constructed or otherwise acquired by it and not heretofore described in the Indenture or any supplement thereto and not heretofore released from the lien of the Indenture, including tunnels, conduits, gas mains and pipes, service pipes, fittings, gates, valves, connections, meters and other appliances and equipment, and all other property, real or personal, forming a part of or appertaining to or used, occupied or enjoyed in connection with such distribution systems or any of them or adjacent thereto; together with all real property, rights of way, easements, permits, privileges, franchises, grants and rights, for or relating to the construction, maintenance or operation thereof, through, over, under or upon any private property or any public streets or highways within as well as without the corporate limits of any municipal corporation.

## IX.

OFFICE BUILDINGS,  
SERVICE BUILDINGS, GARAGES, ETC.

All office, garage, service and other buildings of the Company, wherever located, in the State of Michigan, constructed or otherwise acquired by it and not heretofore described in the Indenture or any supplement thereto and not heretofore released from the lien of the Indenture, together with the land on which the same are situated and all easements, rights of way and appurtenances to said lands, together with all furniture and fixtures located in said buildings.

## X.

TELEPHONE PROPERTIES AND  
RADIO COMMUNICATION EQUIPMENT

All telephone lines, switchboards, systems and equipment of the Company, constructed or otherwise acquired by it and not heretofore described in the Indenture or any supplement thereto and not heretofore released from the line of the Indenture, used or available for use in the operation of its properties, and all other property, real or personal, forming a part of or appertaining to or used, occupied or enjoyed in connection with such telephone properties or any of them or adjacent thereto; together with all real estate, rights of way, easements, permits, privileges, franchises, property, devices or rights related to the dispatch, transmission, reception or reproduction of messages, communications, intelligence, signals, light, vision or sound by electricity, wire or otherwise, including all telephone equipment installed in buildings used as general and regional offices, substations and generating stations and all telephone lines erected on towers and poles; and all radio communication equipment of the Company, together with all property, real or personal (except any in the Indenture expressly excepted), fixed stations, towers, auxiliary radio buildings and equipment, and all appurtenances used in connection therewith, wherever located, in the State of Michigan.

## XI.

## OTHER REAL PROPERTY

All other real property of the Company and all interests therein, of every nature and description (except any in the Indenture expressly excepted) wherever located, in the State of Michigan, acquired by it and not heretofore described in the Indenture or any supplement thereto and not heretofore released from the line of the Indenture. Such real property includes but is not limited to the following described property, such property is subject to any interests that were excepted or reserved in the conveyance to the Company:

## ALCONA COUNTY

Certain land in Caledonia Township, Alcona County, Michigan described as:

The East 330 feet of the South 660 feet of the SW 1/4 of the SW 1/4 of Section 8, T28N, R8E, except the West 264 feet of the South 330 feet thereof; said land being more particularly described as follows: To find the place of beginning of this description, commence at the Southwest corner of said section, run thence East along the South line of said section 1243

feet to the place of beginning of this description, thence continuing East along said South line of said section 66 feet to the West 1/8 line of said section, thence N 02(deg) 09' 30" E along the said West 1/8 line of said section 660 feet, thence West 330 feet, thence S 02(deg) 09' 30" W, 330 feet, thence East 264 feet, thence S 02(deg) 09' 30" W, 330 feet to the place of beginning.

#### ALLEGAN COUNTY

Certain land in Lee Township, Allegan County, Michigan described as:

The NE 1/4 of the NW 1/4 of Section 16, T1N, R15W.

#### ALPENA COUNTY

Certain land in Wilson and Green Townships, Alpena County, Michigan described as:

All that part of the S'ly 1/2 of the former Boyne City-Gaylord and Alpena Railroad right of way, being the Southerly 50 feet of a 100 foot strip of land formerly occupied by said Railroad, running from the East line of Section 31, T31N, R7E, Southwesterly across said Section 31 and Sections 5 and 6 of T30N, R7E and Sections 10, 11 and the E1/2 of Section 9, except the West 1646 feet thereof, all in T30N, R6E.

#### ANTRIM COUNTY

Certain land in Mancelona Township, Antrim County, Michigan described as:

The S 1/2 of the NE 1/4 of Section 33, T29N, R6W, excepting therefrom all mineral, coal, oil and gas and such other rights as were reserved unto the State of Michigan in that certain deed running from the State of Michigan to August W. Schack and Emma H. Schack, his wife, dated April 15, 1946 and recorded May 20, 1946 in Liber 97 of Deeds on page 682 of Antrim County Records.

#### ARENAC COUNTY

Certain land in Standish Township, Arenac County, Michigan described as:

A parcel of land in the SW 1/4 of the NW 1/4 of Section 12, T18N, R4E, described as follows: To find the place of beginning of said parcel of land, commence at the Northwest corner of Section 12, T18N, R4E; run thence South along the West line of said section, said West line of said section being also the center line of East City Limits Road 2642.15 feet to the W 1/4 post of said section and the place of beginning of said parcel of land; running thence N 88(deg) 26' 00" E along the East and West 1/4 line of said section, 660.0 feet; thence North parallel with the West line of said section, 310.0 feet; thence S 88(deg) 26' 00" W, 330.0 feet; thence South parallel with the West line of said section, 260.0 feet; thence S 88(deg) 26' 00" W, 330.0 feet to the West line of said section and the center line of East City Limits

Road; thence South along the said West line of said section, 50.0 feet to the place of beginning.

#### BARRY COUNTY

Certain land in Johnstown Township, Barry County, Michigan described as:

A strip of land 311 feet in width across the SW 1/4 of the NE 1/4 of Section 31, T1N, R8W, described as follows: To find the place of beginning of this description, commence at the E 1/4 post of said section; run thence N 00(degree) 55' 00" E along the East line of said section, 555.84 feet; thence N 59(degree) 36' 20" W, 1375.64 feet; thence N 88(degree) 30' 00" W, 130 feet to a point on the East 1/8 line of said section and the place of beginning of this description; thence continuing N 88(degree) 30' 00" W, 1327.46 feet to the North and South 1/4 line of said section; thence S 00(degree) 39' 35" W along said North and South 1/4 line of said section, 311.03 feet to a point, which said point is 952.72 feet distant N'ly from the East and West 1/4 line of said section as measured along said North and South 1/4 line of said section; thence S 88(degree) 30' 00" E, 1326.76 feet to the East 1/8 line of said section; thence N 00(degree) 47' 20" E along said East 1/8 line of said section, 311.02 feet to the place of beginning.

#### BAY COUNTY

Certain land in Frankenlust Township, Bay County, Michigan described as:

The South 250 feet of the N 1/2 of the W 1/2 of the W 1/2 of the SE 1/4 of Section 9, T13N, R4E.

#### BENZIE COUNTY

Certain land in Benzonia Township, Benzie County, Michigan described as:

A parcel of land in the Northeast 1/4 of Section 7, Township 26 North, Range 14 West, described as beginning at a point on the East line of said Section 7, said point being 320 feet North measured along the East line of said section from the East 1/4 post; running thence West 165 feet; thence North parallel with the East line of said section 165 feet; thence East 165 feet to the East line of said section; thence South 165 feet to the place of beginning.

#### BRANCH COUNTY

Certain land in Girard Township, Branch County, Michigan described as:

A parcel of land in the NE1/4 of Section 23 T5S, R6W, described as beginning at a point on the North and South quarter line of said section at a point 1278.27 feet distant South of the North quarter post of said section,

said distance being measured along the North and South quarter line of said section, running thence S89(degree)21'E 250 feet, thence North along a line parallel with the said North and South quarter line of said section 200 feet, thence N89(degree)21'W 250 feet to the North and South quarter line of said section, thence South along said North and South quarter line of said section 200 feet to the place of beginning.

#### CALHOUN COUNTY

Certain land in Convis Township, Calhoun County, Michigan described as:

A parcel of land in the SE 1/4 of the SE 1/4 of Section 32, T1S, R6W, described as follows: To find the place of beginning of this description, commence at the Southeast corner of said section; run thence North along the East line of said section 1034.32 feet to the place of beginning of this description; running thence N 89(degree) 39' 52" W, 333.0 feet; thence North 290.0 feet to the South 1/8 line of said section; thence S 89(degree) 39' 52" E along said South 1/8 line of said section 333.0 feet to the East line of said section; thence South along said East line of said section 290.0 feet to the place of beginning. (Bearings are based on the East line of Section 32, T1S, R6W, from the Southeast corner of said section to the Northeast corner of said section assumed as North.)

#### CASS COUNTY

Certain easement rights located across land in Marcellus Township, Cass County, Michigan described as:

The East 6 rods of the SW 1/4 of the SE 1/4 of Section 4, T5S, R13W.

#### CHARLEVOIX COUNTY

Certain land in South Arm Township, Charlevoix County, Michigan described as:

A parcel of land in the SW 1/4 of Section 29, T32N, R7W, described as follows: Beginning at the Southwest corner of said section and running thence North along the West line of said section 788.25 feet to a point which is 528 feet distant South of the South 1/8 line of said section as measured along the said West line of said section; thence N 89(degree) 30' 19" E, parallel with said South 1/8 line of said section 442.1 feet; thence South 788.15 feet to the South line of said section; thence S 89(degree) 29' 30" W, along said South line of said section 442.1 feet to the place of beginning.

## CHEBOYGAN COUNTY

Certain land in Inverness Township, Cheboygan County, Michigan described as:

A parcel of land in the SW fr1 1/4 of Section 31, T37N, R2W, described as beginning at the Northwest corner of the SW fr1 1/4, running thence East on the East and West quarter line of said Section, 40 rods, thence South parallel to the West line of said Section 40 rods, thence West 40 rods to the West line of said Section, thence North 40 rods to the place of beginning.

## CLARE COUNTY

Certain land in Frost Township, Clare County, Michigan described as:

The East 150 feet of the North 225 feet of the NW 1/4 of the NW 1/4 of Section 15, T20N, R4W.

## CLINTON COUNTY

Certain land in Watertown Township, Clinton County, Michigan described as:

The NE 1/4 of the NE 1/4 of the SE 1/4 of Section 22, and the North 165 feet of the NW 1/4 of the NE 1/4 of the SE 1/4 of Section 22, T5N, R3W.

## CRAWFORD COUNTY

Certain land in Lovells Township, Crawford County, Michigan described as:

A parcel of land in Section 1, T28N, R1W, described as: Commencing at NW corner said section; thence South 89(degree)53'30" East along North section line 105.78 feet to point of beginning; thence South 89(degree)53'30" East along North section line 649.64 feet; thence South 55(degree)42'30" East 340.24 feet; thence South 55(degree)44'37" East 5,061.81 feet to the East section line; thence South 00(degree)00'08" West along East section line 441.59 feet; thence North 55(degree)44'37" West 5,310.48 feet; thence North 55(degree)42'30" West 877.76 feet to point of beginning.

## EATON COUNTY

Certain land in Eaton Township, Eaton County, Michigan described as:

A parcel of land in the SW 1/4 of Section 6, T2N, R4W, described as follows: To find the place of beginning of this description commence at the Southwest corner of said section; run thence N 89(degree) 51' 30" E along the South line of said section 400 feet to the place of beginning of this description; thence continuing N 89(degree) 51' 30" E, 500 feet; thence N 00(degree) 50' 00" W, 600 feet; thence S 89(degree) 51' 30" W parallel with the South line of said section 500 feet; thence S 00(degree) 50' 00" E, 600 feet to the place of beginning.

## EMMET COUNTY

Certain land in Wawatam Township, Emmet County, Michigan described as:

The West 1/2 of the Northeast 1/4 of the Northeast 1/4 of Section 23, T39N, R4W.

## GENESEE COUNTY

Certain land in Argentine Township, Genesee County, Michigan described as:

A parcel of land of part of the SW 1/4 of Section 8, T5N, R5E, being more particularly described as follows:

Beginning at a point of the West line of Duffield Road, 100 feet wide, (as now established) distant 829.46 feet measured N01(degree)42'56"W and 50 feet measured S88(degree)14'04"W from the South quarter corner, Section 8, T5N, R5E; thence S88(degree)14'04"W a distance of 550 feet; thence N01(degree)42'56"W a distance of 500 feet to a point on the North line of the South half of the Southwest quarter of said Section 8; thence N88(degree)14'04"E along the North line of South half of the Southwest quarter of said Section 8 a distance 550 feet to a point on the West line of Duffield Road, 100 feet wide (as now established); thence S01(degree)42'56"E along the West line of said Duffield Road a distance of 500 feet to the point of beginning.

## GLADWIN COUNTY

Certain land in Secord Township, Gladwin County, Michigan described as:

The East 400 feet of the South 450 feet of Section 2, T19N, R1E.

## GRAND TRAVERSE COUNTY

Certain land in Mayfield Township, Grand Traverse County, Michigan described as:

A parcel of land in the Northwest 1/4 of Section 3, T25N, R11W, described as follows: Commencing at the Northwest corner of said section, running thence S 89(degree)19'15" E along the North line of said section and the center line of Clouss Road 225 feet, thence South 400 feet, thence N 89(degree)19'15" W 225 feet to the West line of said section and the center line of Hannah Road, thence North along the West line of said section and the center line of Hannah Road 400 feet to the place of beginning for this description.

## GRATIOT COUNTY

Certain land in Washington Township, Gratiot County, Michigan described as:

Commencing at the Northeast corner of Section 10, T9N, R2W, running thence West along the North line of said section a distance of 194.5 feet, thence S0(degree)07'10"W 200 feet to a point, thence East 194.5 feet to the East line of said Section 10, thence N0(degree)07'10"E along the East line of said section a distance of 200 feet to the point of beginning.

## HILLSDALE COUNTY

Certain land in Litchfield Village, Hillsdale County, Michigan described as:

Lots numbered three (3) and four (4) of Block three (3) of Harvey Smiths Southern Addition to the Village of Litchfield according to the recorded plat thereof as recorded in Liber AK of deeds, page 490.

## HURON COUNTY

Certain easement rights located across land in Sebewaing Township, Huron County, Michigan described as:

The North 1/2 of the Northwest 1/4 of Section 15, T15N, R9E.

## INGHAM COUNTY

Certain land in Vevay Township, Ingham County, Michigan described as:

A parcel of land 660 feet wide in the Southwest 1/4 of Section 7 lying South of the centerline of Sitts Road as extended to the North-South 1/4 line of said Section 7, T2N, R1W, more particularly described as follows: Commence at the Southwest corner of said Section 7, thence North along the West line of said Section 2502.71 feet to the centerline of Sitts Road; thence South 89(degree)54'45" East along said centerline 2282.38 feet to the place of beginning of this description; thence continuing South 89(degree)54'45" East along said centerline and said centerline extended 660.00 feet to the North-South 1/4 line of said section; thence South 00(degree)07'20" West 1461.71 feet; thence North 89(degree)34'58" West 660.00 feet; thence North 00(degree)07'20" East 1457.91 feet to the centerline of Sitts Road and the place of beginning.

## IONIA COUNTY

Certain land in Sebewa Township, Ionia County, Michigan described as:

A strip of land 280 feet wide across that part of the SW 1/4 of the NE 1/4 of Section 15, T5N, R6W, described as follows: To find the place of beginning of this description commence at the E 1/4 corner of said section;

run thence N 00(degree) 05' 38" W along the East line of said section, 1218.43 feet; thence S 67(degree) 18' 24" W, 1424.45 feet to the East 1/8 line of said section and the place of beginning of this description; thence continuing S 67(degree) 18' 24" W, 1426.28 feet to the North and South 1/4 line of said section at a point which said point is 105.82 feet distant N'ly of the center of said section as measured along said North and South 1/4 line of said section; thence N 00(degree) 04' 47" E along said North and South 1/4 line of said section, 303.67 feet; thence N 67(degree) 18' 24" E, 1425.78 feet to the East 1/8 line of said section; thence S 00(degree) 00' 26" E along said East 1/8 line of said section, 303.48 feet to the place of beginning. (Bearings are based on the East line of Section 15, T5N, R6W, from the E 1/4 corner of said section to the Northeast corner of said section assumed as N 00(degree) 05' 38" W.)

#### IOSCO COUNTY

Certain land in Alabaster Township, Iosco County, Michigan described as:

A parcel of land in the NW 1/4 of Section 34, T21N, R7E, described as follows: To find the place of beginning of this description commence at the N 1/4 post of said section; run thence South along the North and South 1/4 line of said section, 1354.40 feet to the place of beginning of this description; thence continuing South along the said North and South 1/4 line of said section, 165.00 feet to a point on the said North and South 1/4 line of said section which said point is 1089.00 feet distant North of the center of said section; thence West 440.00 feet; thence North 165.00 feet; thence East 440.00 feet to the said North and South 1/4 line of said section and the place of beginning.

#### ISABELLA COUNTY

Certain land in Chippewa Township, Isabella County, Michigan described as:

The North 8 rods of the NE 1/4 of the SE 1/4 of Section 29, T14N, R3W.

#### JACKSON COUNTY

Certain land in Waterloo Township, Jackson County, Michigan described as:

A parcel of land in the North fractional part of the N fractional 1/2 of Section 2, T1S, R2E, described as follows: To find the place of beginning of this description commence at the E 1/4 post of said section; run thence N 01(degree) 03' 40" E along the East line of said section 1,335.45 feet to the North 1/8 line of said section and the place of beginning of this description; thence N 89(degree) 32' 00" W, 2677.7 feet to the North and South 1/4 line of said section; thence S 00(degree) 59' 25" W along the North and South 1/4 line of said section 22.38 feet to the North 1/8 line of said section; thence S 89(degree) 59' 10" W along the North 1/8 line of said section 653.65 feet; thence North 22 feet; thence S 89(degree) 59' 10" W, 1601.19 feet to the center line of State

Trunkline Highway M-52; thence N 53(degree) 46' 00" W along the center line of said highway to the West line of said section; thence N 00(degree) 55' 10" E along the West line of said section 74.35 feet; thence S 89(degree) 32' 00" E, 5356.02 feet to the East line of said section; thence S 01(degree) 03' 40" W along the East line of said section 250 feet to the place of beginning.

KALAMAZOO COUNTY

Certain land in Alamo Township, Kalamazoo County, Michigan described as:

The South 350 feet of the NW 1/4 of the NW 1/4 of Section 16, T1S, R12W, being more particularly described as follows: To find the place of beginning of this description, commence at the Northwest corner of said section; run thence S 00(degree) 36' 55" W along the West line of said section 971.02 feet to the place of beginning of this description; thence continuing S 00(degree) 36' 55" W along said West line of said section 350.18 feet to the North 1/8 line of said section; thence S 87(degree) 33' 40" E along the said North 1/8 line of said section 1325.1 feet to the West 1/8 line of said section; thence N 00(degree) 38' 25" E along the said West 1/8 line of said section 350.17 feet; thence N 87(degree) 33' 40" W, 1325.25 feet to the place of beginning.

KALKASKA COUNTY

Certain land in Kalkaska Township, Kalkaska County, Michigan described as:

The NW 1/4 of the SW 1/4 of Section 4, T27N, R7W, excepting therefrom all mineral, coal, oil and gas and such other rights as were reserved unto the State of Michigan in that certain deed running from the Department of Conservation for the State of Michigan to George Welker and Mary Welker, his wife, dated October 9, 1934 and recorded December 28, 1934 in Liber 39 on page 291 of Kalkaska County Records, and subject to easement for pipeline purposes as granted to Michigan Consolidated Gas Company by first party herein on April 4, 1963 and recorded June 21, 1963 in Liber 91 on page 631 of Kalkaska County Records.

KENT COUNTY

Certain land in Caledonia Township, Kent County, Michigan described as:

A parcel of land in the Northwest fractional 1/4 of Section 15, T5N, R10W, described as follows: To find the place of beginning of this description commence at the North 1/4 corner of said section, run thence S 0(degree) 59' 26" E along the North and South 1/4 line of said section 2046.25 feet to the place of beginning of this description, thence continuing S 0(degree) 59' 26" E along said North and South 1/4 line of said section 332.88 feet, thence S 88(degree) 58' 30" W 2510.90 feet to a point herein designated "Point A" on the East bank of the Thornapple River, thence continuing S 88(degree) 53' 30" W to the center thread of the Thornapple River, thence NW'ly along the center thread of said Thornapple River to a point which said point is S 88(degree) 58'

30" W of a point on the East bank of the Thornapple River herein designated "Point B", said "Point B" being N 23(degree) 41' 35" W 360.75 feet from said above-described "Point A", thence N 88(degree) 58' 30" E to said "Point B", thence continuing N 88(degree) 58' 30" E 2650.13 feet to the place of beginning. (Bearings are based on the East line of Section 15, T5N, R10W between the East 1/4 corner of said section and the Northeast corner of said section assumed as N 0(degree) 59' 55" W.)

#### LAKE COUNTY

Certain land in Pinora and Cherry Valley Townships, Lake County, Michigan described as:

A strip of land 50 feet wide East and West along and adjoining the West line of highway on the East side of the North 1/2 of Section 13 T18N, R12W. Also a strip of land 100 feet wide East and West along and adjoining the East line of the highway on the West side of following described land: The South 1/2 of NW 1/4, and the South 1/2 of the NW 1/4 of the SW 1/4, all in Section 6, T18N, R11W.

#### LAPEER COUNTY

Certain land in Hadley Township, Lapeer County, Michigan described as:

The South 825 feet of the W 1/2 of the SW 1/4 of Section 24, T6N, R9E, except the West 1064 feet thereof.

#### LEELANAU COUNTY

Certain land in Cleveland Township, Leelanau County, Michigan described as:

The North 200 feet of the West 180 feet of the SW 1/4 of the SE 1/4 of Section 35, T29N, R13W.

#### LENAWEE COUNTY

Certain land in Madison Township, Lenawee County, Michigan described as:

A strip of land 165 feet wide off the West side of the following described premises: The E 1/2 of the SE 1/4 of Section 12. The E 1/2 of the NE 1/4 and the NE 1/4 of the SE 1/4 of Section 13, being all in T7S, R3E, excepting therefrom a parcel of land in the E 1/2 of the SE 1/4 of Section 12, T7S, R3E, beginning at the Northwest corner of said E 1/2 of the SE 1/4 of Section 12, running thence East 4 rods, thence South 6 rods, thence West 4 rods, thence North 6 rods to the place of beginning.

## LIVINGSTON COUNTY

Certain land in Cohoctah Township, Livingston County, Michigan described as:

## Parcel 1

The East 390 feet of the East 50 rods of the SW 1/4 of Section 30, T4N, R4E.

## Parcel 2

A parcel of land in the NW 1/4 of Section 31, T4N, R4E, described as follows: To find the place of beginning of this description commence at the N 1/4 post of said section; run thence N 89(degree) 13' 06" W along the North line of said section, 330 feet to the place of beginning of this description; running thence S 00(degree) 52' 49" W, 2167.87 feet; thence N 88(degree) 59' 49" W, 60 feet; thence N 00(degree) 52' 49" E, 2167.66 feet to the North line of said section; thence S 89(degree) 13' 06" E along said North line of said section, 60 feet to the place of beginning.

## MACKINAC COUNTY

Certain easement rights located across land in Moran Township, Mackinac County, Michigan described as:

A 20 foot wide strip of land, 10 feet on each side of the hereinafter described center line, through Lots 16, 17 and 21, Block 12 of Partition Plat of Private Claim No. 1, Section 23, Township 40 North, Range 4 West: Said center line being described as beginning at Edison Sault Electric Company's existing 35 foot service pole located 200 feet, more or less, Northerly of the shoreline of the Straits of Mackinac, running thence Easterly to a point approximately 20 feet Westerly of the center line of Lakehead Pipeline Company's existing 20 inch pipeline, thence Northerly and Easterly along and approximately 20 feet Westerly and Northerly of the center line of said 20 inch existing pipeline to a certain Michigan Bell Telephone Company's existing pole located Easterly of the Westerly line of Lot 22, Block 12 of Partition Plat of Private Claim No. 1 in said Section 23.

## MACOMB COUNTY

Certain land in Macomb Township, Macomb County, Michigan described as:

A parcel of land commencing on the West line of the E 1/2 of the NW 1/4 of fractional Section 6, 20 chains South of the NW corner of said E 1/2 of the NW 1/4 of Section 6; thence South on said West line and the East line of A. Henry Kotner's Hayes Road Subdivision #15, according to the recorded plat thereof, as recorded in Liber 24 of Plats, on page 7, 24.36 chains to the East and West 1/4 line of said Section 6; thence East on said East and West 1/4 line 8.93 chains; thence North parallel with the said

West line of the E 1/2 of the NW 1/4 of Section 6, 24.36 chains; thence West 8.93 chains to the place of beginning, all in T3N, R13E.

MANISTEE COUNTY

Certain land in Manistee Township, Manistee County, Michigan described as:

A parcel of land in the SW 1/4 of Section 20, T22N, R16W, described as follows: To find the place of beginning of this description, commence at the Southwest corner of said section; run thence East along the South line of said section 832.2 feet to the place of beginning of this description; thence continuing East along said South line of said section 132 feet; thence North 198 feet; thence West 132 feet; thence South 198 feet to the place of beginning, excepting therefrom the South 2 rods thereof which was conveyed to Manistee Township for highway purposes by a Quitclaim Deed dated June 13, 1919 and recorded July 11, 1919 in Liber 88 of Deeds on page 638 of Manistee County Records.

MASON COUNTY

Certain land in Riverton Township, Mason County, Michigan described as:

Parcel 1

The South 10 acres of the West 20 acres of the S 1/2 of the NE 1/4 of Section 22, T17N, R17W.

Parcel 2

A parcel of land containing 4 acres of the West side of highway, said parcel of land being described as commencing 16 rods South of the Northwest corner of the NW 1/4 of the SW 1/4 of Section 22, T17N, R17W, running thence South 64 rods, thence NE'ly and N'ly and NW'ly along the W'ly line of said highway to the place of beginning, together with any and all right, title, and interest of Howard C. Wicklund and Katherine E. Wicklund in and to that portion of the hereinbefore mentioned highway lying adjacent to the E'ly line of said above described land.

MECOSTA COUNTY

Certain land in Wheatland Township, Mecosta County, Michigan described as:

A parcel of land in the SW1/4 of the SW1/4 of Section 16, T14N, R7W, described as beginning at the Southwest corner of said section; thence East along the South line of Section 133 feet; thence North parallel to the West section line 133 feet; thence West 133 feet to the West line of said Section; thence South 133 feet to the place of beginning.

## MIDLAND COUNTY

Certain land in Ingersoll Township, Midland County, Michigan described as:

The West 200 feet of the W 1/2 of the NE 1/4 of Section 4, T13N, R2E.

## MISSAUKEE COUNTY

Certain land in Norwich Township, Missaukee County, Michigan described as:

A parcel of land in the NW 1/4 of the NW 1/4 of Section 16, T24N, R6W, described as follows: Commencing at the Northwest corner of said section, running thence N 89(degree) 01' 45" E along the North line of said section 233.00 feet; thence South 233.00 feet; thence S 89(degree) 01' 45" W, 233.00 feet to the West line of said section; thence North along said West line of said section 233.00 feet to the place of beginning. (Bearings are based on the West line of Section 16, T24N, R6W, between the Southwest and Northwest corners of said section assumed as North.)

## MONROE COUNTY

Certain land in LaSalle Township, Monroe County, Michigan described as:

A strip of land 150 feet in width across part of the S 1/2 of the SE 1/4 of Section 35, T7S, R8E, described as follows: To find the place of beginning of this description commence at the S 1/4 post of said section; run thence N 89(degree) 30' 20" E along the South line of said section 2118.39 feet to the place of beginning of this description; thence continuing N 89(degree) 30' 20" E along said South line of said section 198.56 feet to the NW'ly right-of-way line of Highway I-75, so called; thence N 40(degree) 26' 30" E along the NW'ly line of said highway 477.72 feet to the East line of said section; thence N 00(degree) 25' 15" W along the East line of said section 229.27 feet; thence S 40(degree) 26' 30" W, 781.21 feet to the place of beginning.

## MONTCALM COUNTY

Certain land in Crystal Township, Montcalm County, Michigan described as:

The N 1/2 of the S 1/2 of the SE 1/4 of Section 35, T10N, R5W.

## MONTMORENCY COUNTY

Certain land in the Village of Hillman, Montmorency County, Michigan described as:

Lot 14 of Hillman Industrial Park, being a subdivision in the South 1/2 of the Northwest 1/4 of Section 24, T31N, R4E, according to the plat thereof recorded in Liber 4 of Plats on Pages 32-34, Montmorency County Records.

## MUSKEGON COUNTY

Certain land in Casnovia Township, Muskegon County, Michigan described as:

The West 433 feet of the North 180 feet of the South 425 feet of the SW 1/4 of Section 3, T10N, R13W.

## NEWAYGO COUNTY

Certain land in Ashland Township, Newaygo County, Michigan described as:

The West 250 feet of the NE 1/4 of Section 23, T11N, R13W.

## OAKLAND COUNTY

Certain land in Wixcom City, Oakland County, Michigan described as:

The E 75 feet of the N 160 feet of the N 330 feet of the W 526.84 feet of the NW 1/4 of the NW 1/4 of Section 8, T1N, R8E, more particularly described as follows: Commence at the NW corner of said Section 8, thence N 87(degree) 14' 29" E along the North line of said Section 8 a distance of 451.84 feet to the place of beginning for this description; thence continuing N 87(degree) 14' 29" E along said North section line a distance of 75.0 feet to the East line of the West 526.84 feet of the NW 1/4 of the NW 1/4 of said Section 8; thence S 02(degree) 37' 09" E along said East line a distance of 160.0 feet; thence S 87(degree) 14' 29" W a distance of 75.0 feet; thence N 02(degree) 37' 09" W a distance of 160.0 feet to the place of beginning.

## OCEANA COUNTY

Certain land in Crystal Township, Oceana County, Michigan described as:

The East 290 feet of the SE 1/4 of the NW 1/4 and the East 290 feet of the NE 1/4 of the SW 1/4, all in Section 20, T16N, R16W.

## OGEMAW COUNTY

Certain land in West Branch Township, Ogemaw County, Michigan described as:

The South 660 feet of the East 660 feet of the NE 1/4 of the NE 1/4 of Section 33, T22N, R2E.

## OSCEOLA COUNTY

Certain land in Hersey Township, Osceola County, Michigan described as:

A parcel of land in the North 1/2 of the Northeast 1/4 of Section 13, T17N, R9W, described as commencing at the Northeast corner of said Section; thence West along the North Section line 999 feet to the point of beginning of this description; thence S 01(degree) 54' 20" E 1327.12 feet to the North 1/8 line; thence S 89(degree) 17' 05" W along the North 1/8 line 330.89 feet; thence N 01(degree) 54' 20" W 1331.26 feet to the North Section line; thence East along the North Section line 331 feet to the point of beginning.

## OSCODA COUNTY

Certain land in Comins Township, Oscoda County, Michigan described as:

The East 400 feet of the South 580 feet of the W 1/2 of the SW 1/4 of Section 15, T27N, R3E.

## OTSEGO COUNTY

Certain land in Corwith Township, Otsego County, Michigan described as:

Part of the NW 1/4 of the NE 1/4 of Section 28, T32N, R3W, described as: Beginning at the N 1/4 corner of said section; running thence S 89(degree) 04' 06" E along the North line of said section, 330.00 feet; thence S 00(degree) 28' 43" E, 400.00 feet; thence N 89(degree) 04' 06" W, 330.00 feet to the North and South 1/4 line of said section; thence N 00(degree) 28' 43" W along the said North and South 1/4 line of said section, 400.00 feet to the point of beginning; subject to the use of the N'ly 33.00 feet thereof for highway purposes.

## OTTAWA COUNTY

Certain land in Robinson Township, Ottawa County, Michigan described as:

The North 660 feet of the West 660 feet of the NE 1/4 of the NW 1/4 of Section 26, T7N, R15W.

## PRESQUE ISLE COUNTY

Certain land in Belknap and Pulawski Townships, Presque Isle County, Michigan described as:

Part of the South half of the Northeast quarter, Section 24, T34N, R5E, and part of the Northwest quarter, Section 19, T34N, R6E, more fully described as: Commencing at the East 1/4 corner of said Section 24; thence N 00(degree)15'47" E, 507.42 feet, along the East line of said Section 24 to the point of beginning; thence S 88(degree)15'36" W, 400.00 feet, parallel with the

North 1/8 line of said Section 24; thence N 00(degree)15'47" E, 800.00 feet, parallel with said East line of Section 24; thence N 88(degree)15'36"E, 800.00 feet, along said North 1/8 line of Section 24 and said line extended; thence S 00(degree)15'47" W, 800.00 feet, parallel with said East line of Section 24; thence S 88(degree)15'36" W, 400.00 feet, parallel with said North 1/8 line of Section 24 to the point of beginning.

Together with a 33 foot easement along the West 33 feet of the Northwest quarter lying North of the North 1/8 line of Section 24, Belknap Township, extended, in Section 19, T34N, R6E.

#### ROSCOMMON COUNTY

Certain land in Backus Township, Roscommon County, Michigan described as:

A parcel of land the NW 1/4 of the NE 1/4 of the NE 1/4 of Section 18, T22N, R2W described as commencing at the North quarter corner thereof; thence North 89(degree)00'56" East along the North Section line 208 feet to the point of beginning; thence continue East along the North line of said Section 245 feet; thence South 00(degree)59'03" East 233 feet; thence South 89(degree)00'57" West 245 feet; thence North 00(degree)59'03" West 233 feet to the point of beginning.

#### SAGINAW COUNTY

Certain land in Chapin Township, Saginaw County, Michigan described as:

A parcel of land in the SW 1/4 of Section 13, T9N, R1E, described as follows: To find the place of beginning of this description commence at the Southwest corner of said section; run thence North along the West line of said section 1581.4 feet to the place of beginning of this description; thence continuing North along said West line of said section 230 feet to the center line of a creek; thence S 70(degree) 07' 00" E along said center line of said creek 196.78 feet; thence South 163.13 feet; thence West 185 feet to the West line of said section and the place of beginning.

#### SANILAC COUNTY

Certain easement rights located across land in Minden Township, Sanilac County, Michigan described as:

The Southeast 1/4 of the Southeast 1/4 of Section 1, T14N, R14E, excepting therefrom the South 83 feet of the East 83 feet thereof.

## SHIAWASSEE COUNTY

Certain land in Burns Township, Shiawassee County, Michigan described as:

The South 330 feet of the E 1/2 of the NE 1/4 of Section 36, T5N, R4E.

## ST. CLAIR COUNTY

Certain land in Ira Township, St. Clair County, Michigan described as:

The N 1/2 of the NW 1/4 of the NE 1/4 of Section 6, T3N, R15E.

## ST. JOSEPH COUNTY

Certain land in Mendon Township, St. Joseph County, Michigan described as:

The North 660 feet of the West 660 feet of the NW 1/4 of SW 1/4, Section 35, T5S, R10W.

## TUSCOLA COUNTY

Certain land in Millington Township, Tuscola County, Michigan described as:

A strip of land 280 feet wide across the East 96 rods of the South 20 rods of the N 1/2 of the SE 1/4 of Section 34, T10N, R8E, more particularly described as commencing at the Northeast corner of Section 3, T9N, R8E, thence S 89(degree) 55' 35" W along the South line of said Section 34 a distance of 329.65 feet, thence N 18(degree) 11' 50" W a distance of 1398.67 feet to the South 1/8 line of said Section 34 and the place of beginning for this description; thence continuing N 18(degree) 11' 50" W a distance of 349.91 feet; thence N 89(degree) 57' 01" W a distance of 294.80 feet; thence S 18(degree) 11' 50" E a distance of 350.04 feet to the South 1/8 line of said Section 34; thence S 89(degree) 58' 29" E along the South 1/8 line of said section a distance of 294.76 feet to the place of beginning.

## VAN BUREN COUNTY

Certain land in Covert Township, Van Buren County, Michigan described as:

All that part of the West 20 acres of the N 1/2 of the NE fractional 1/4 of Section 1, T2S, R17W, except the West 17 rods of the North 80 rods, being more particularly described as follows: To find the place of beginning of this description commence at the N 1/4 post of said section; run thence N 89(degree) 29' 20" E along the North line of said section 280.5 feet to the place of beginning of this description; thence continuing N 89(degree) 29' 20" E along said North line of said section 288.29 feet; thence S 00(degree) 44' 00" E, 1531.92 feet; thence S 89(degree) 33' 30" W, 568.79 feet to the North and South 1/4 line of said section; thence N 00(degree) 44' 00" W along said North and South

1/4 line of said section 211.4 feet; thence N 89(degree) 29' 20" E, 280.5 feet; thence N 00(degree) 44' 00" W, 1320 feet to the North line of said section and the place of beginning.

WASHTENAW COUNTY

Certain land in Manchester Township, Washtenaw County, Michigan described as:

A parcel of land in the NE 1/4 of the NW 1/4 of Section 1, T4S, R3E, described as follows: To find the place of beginning of this description commence at the Northwest corner of said section; run thence East along the North line of said section 1355.07 feet to the West 1/8 line of said section; thence S 00(degree) 22' 20" E along said West 1/8 line of said section 927.66 feet to the place of beginning of this description; thence continuing S 00(degree) 22' 20" E along said West 1/8 line of said section 660 feet to the North 1/8 line of said section; thence N 86(degree) 36' 57" E along said North 1/8 line of said section 660.91 feet; thence N 00(degree) 22' 20" W, 660 feet; thence S 86(degree) 36' 57" W, 660.91 feet to the place of beginning.

WAYNE COUNTY

Certain land in Livonia City, Wayne County, Michigan described as:

Commencing at the Southeast corner of Section 6, T1S, R9E; thence North along the East line of Section 6 a distance of 253 feet to the point of beginning; thence continuing North along the East line of Section 6 a distance of 50 feet; thence Westerly parallel to the South line of Section 6, a distance of 215 feet; thence Southerly parallel to the East line of Section 6 a distance of 50 feet; thence easterly parallel with the South line of Section 6 a distance of 215 feet to the point of beginning.

WEXFORD COUNTY

Certain land in Selma Township, Wexford County, Michigan described as:

A parcel of land in the NW1/4 of Section 7, T22N, R10W, described as beginning on the North line of said section at a point 200 feet East of the West line of said section, running thence East along said North section line 450 feet, thence South parallel with said West section line 350 feet, thence West parallel with said North section line 450 feet, thence North parallel with said West section line 350 feet to the place of beginning.

SECTION 13. The Company is a transmitting utility under Section 9401(5) of the Michigan Uniform Commercial Code (M.C.L. 440.9401(5)) as defined in M.C.L. 440.9105(n).

IN WITNESS WHEREOF, said Consumers Energy Company has caused this Supplemental Indenture to be executed in its corporate name by its Chairman of the Board, President, a Vice President or its Treasurer and its corporate seal to be hereunto affixed and to be attested by its Secretary or an Assistant Secretary, and said The Chase Manhattan Bank, as Trustee as aforesaid, to evidence its acceptance hereof,

has caused this Supplemental Indenture to be executed in its corporate name by a Vice President and its corporate seal to be hereunto affixed and to be attested by a Trust Officer, in several counterparts, all as of the day and year first above written.

CONSUMERS ENERGY COMPANY

(SEAL)

By /s/ A. M. Wright  
-----  
Alan M. Wright  
Senior Vice President and  
Chief Financial Officer

Attest:

/s/ Joyce H. Norkey  
-----  
Joyce H. Norkey  
Assistant Secretary

Signed, sealed and delivered  
by CONSUMERS ENERGY COMPANY  
in the presence of

/s/ Kimberly C. Wilson  
-----  
Kimberly C. Wilson

/s/ Sammie B. Dalton  
-----  
Sammie B. Dalton

STATE OF MICHIGAN            )  
                                  ss.  
COUNTY OF JACKSON         )

The foregoing instrument was acknowledged before me this 1st  
day of October, 1999, by Alan M. Wright, Senior Vice President and Chief  
Financial Officer of CONSUMERS ENERGY COMPANY, a Michigan corporation, on behalf  
of the corporation.

/s/ Margaret Hillman  
-----  
Margaret Hillman, Notary Public  
Jackson County, Michigan  
My Commission Expires: June 14, 2000

[Seal]

THE CHASE MANHATTAN BANK, AS TRUSTEE

(SEAL)

By /s/ James Freeman  
-----  
Vice President

Attest:

/s/ Eric Butler  
-----  
Trust Officer

Signed, sealed and delivered  
by THE CHASE MANHATTAN BANK  
in the presence of

/s/ N. Rodriguez  
-----

/s/ William G. Keenan  
-----

STATE OF NEW YORK            )  
  ss.  
COUNTY OF NEW YORK        )

The foregoing instrument was acknowledged before me this 1st  
day of October, 1999, by James Freeman, a Vice President of THE CHASE MANHATTAN  
BANK, a New York corporation, on behalf of the corporation.

/s/ Emily Fayan  
-----  
Notary Public  
New York County, New York  
My Commission Expires:

[Seal]

Prepared by:  
Kimberly C. Wilson  
212 West Michigan Avenue  
Jackson, MI 49201

When recorded, return to:  
Consumers Energy Company  
General Services Real Estate Department  
Attn: Nancy P. Fisher, P-21-410B  
1945 W. Parnall Road  
Jackson, MI 49201

SEVENTY-SIXTH SUPPLEMENTAL INDENTURE

Providing among other things for  
FIRST MORTGAGE BONDS,  
Series 1990A Ambac Bonds due September 1, 2000

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Dated as of October 4, 1999

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CONSUMERS ENERGY COMPANY

TO

THE CHASE MANHATTAN BANK,  
TRUSTEE

Counterpart \_\_\_\_\_ of 80  
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SEVENTY-SIXTH SUPPLEMENTAL INDENTURE, dated as of October 4, 1999 (herein sometimes referred to as "this Supplemental Indenture"), made and entered into by and between CONSUMERS ENERGY COMPANY, a corporation organized and existing under the laws of the State of Michigan, with its principal executive office and place of business at 212 West Michigan Avenue, in Jackson, Jackson County, Michigan 49201, formerly known as Consumers Power Company, (hereinafter sometimes referred to as the "Company"), and THE CHASE MANHATTAN BANK, a corporation organized and existing under the laws of the State of New York, with its corporate trust offices at 450 W. 33rd Street, in the Borough of Manhattan, The City of New York, New York 10001 (hereinafter sometimes referred to as the "Trustee"), as Trustee under the Indenture dated as of September 1, 1945 between Consumers Power Company, a Maine corporation (hereinafter sometimes referred to as the "Maine corporation"), and City Bank Farmers Trust Company (Citibank, N.A., successor, hereinafter sometimes referred to as the "Predecessor Trustee"), securing bonds issued and to be issued as provided therein (hereinafter sometimes referred to as the "Indenture"),

WHEREAS at the close of business on January 30, 1959, City Bank Farmers Trust Company was converted into a national banking association under the title "First National City Trust Company"; and

WHEREAS at the close of business on January 15, 1963, First National City Trust Company was merged into First National City Bank; and

WHEREAS at the close of business on October 31, 1968, First National City Bank was merged into The City Bank of New York, National Association, the name of which was thereupon changed to First National City Bank; and

WHEREAS effective March 1, 1976, the name of First National City Bank was changed to Citibank, N.A.; and

WHEREAS effective July 16, 1984, Manufacturers Hanover Trust Company succeeded Citibank, N.A. as Trustee under the Indenture; and

WHEREAS effective June 19, 1992, Chemical Bank succeeded by merger to Manufacturers Hanover Trust Company as Trustee under the Indenture; and

WHEREAS effective July 15, 1996, The Chase Manhattan Bank (National Association), merged with and into Chemical Bank which thereafter was renamed The Chase Manhattan Bank as Trustee under the Indenture; and

WHEREAS the Indenture was executed and delivered for the purpose of securing such bonds as may from time to time be issued under and in accordance with the terms of the Indenture, the aggregate principal amount of bonds to be secured thereby being limited to \$5,000,000,000 at any one time outstanding (except as provided in Section 2.01 of the Indenture), and the Indenture describes and sets forth the property conveyed thereby and is filed in the Office of the Secretary of State of the State of Michigan and is of record in the Office of the Register of Deeds of each county in the State of Michigan in which this Supplemental Indenture is to be recorded; and

WHEREAS the Indenture has been supplemented and amended by various indentures supplemental thereto, each of which is filed in the Office of the Secretary of State of the State of Michigan and is of record in the Office of the Register of Deeds of each county in the State of Michigan in which this Supplemental Indenture is to be recorded; and

WHEREAS the Company and the Maine corporation entered into an Agreement of Merger and Consolidation, dated as of February 14, 1968, which provided for the Maine corporation to merge into the Company; and

WHEREAS the effective date of such Agreement of Merger and Consolidation was June 6, 1968, upon which date the Maine corporation was merged into the Company and the name of the Company was changed from "Consumers Power Company of Michigan" to "Consumers Power Company"; and

WHEREAS the Company and the Predecessor Trustee entered into a Sixteenth Supplemental Indenture, dated as of June 4, 1968, which provided, among other things, for the assumption of the Indenture by the Company; and

WHEREAS said Sixteenth Supplemental Indenture became effective on the effective date of such Agreement of Merger and Consolidation; and

WHEREAS the Company has succeeded to and has been substituted for the Maine corporation under the Indenture with the same effect as if it had been named therein as the mortgagor corporation; and

WHEREAS effective March 11, 1997, the name of Consumers Power Company was changed to Consumers Energy Company; and

WHEREAS, pursuant to a Trust Indenture, dated as of September 1, 1990 (the "MSF Trust Indenture") by and between the Michigan Strategic Fund, (the "Issuer") and Chase Manhattan Trust Company, National Association, (the "MSF Trust Indenture Trustee") the Issuer has issued \$5,250,000 in aggregate principal amount of its Variable Rate Demand Pollution Control Revenue Refunding Bonds (Consumers Power Company Project) Series 1990A (hereinafter sometimes called the "MSF Bonds"); and

WHEREAS, the MSF Trust Indenture has been amended as set forth in the Amended and Restated Trust Indenture dated as of October 4, 1999 (the "Amended MSF Trust Indenture") to provide, among other things, for substitute credit enhancement on the MSF Bonds; and

WHEREAS, Ambac Assurance Corporation, a Wisconsin-domiciled stock insurance company ("Ambac") has provided such substitute credit enhancement on the MSF Bonds through the issuance of its Municipal Bond Insurance Policy (the "Policy") which insures certain payments of principal of and interest on the MSF Bonds, as specified therein; and

WHEREAS, the Company has entered into an Insurance Agreement, dated as of October 4, 1999 with Ambac (the "Insurance Agreement") in connection with the Policy and pursuant to the Insurance Agreement the Company has agreed to issue a new series of bonds under the Indenture in order to secure its obligations under the Insurance Agreement; and

WHEREAS, for such purposes the Company desires to issue a new series of bonds, to be designated First Mortgage Bonds, Series 1990A Ambac Bonds due September 1, 2000, each of which bonds shall also bear the descriptive title "First Mortgage Bond" (hereinafter provided for and hereinafter sometimes referred to as the "Series 1990A Ambac Bonds"), the bonds of which series are to be issued as registered bonds without coupons and are to bear interest at the rate per annum specified herein and are to mature September 1, 2000; and

WHEREAS, the Series 1990A Ambac Bonds shall be issued to Ambac in connection with the issuance of the Policy; and

WHEREAS each of the registered bonds without coupons of the Series 1990A Ambac Bonds and the Trustee's Authentication Certificate thereon are to be substantially in the following forms, to wit:

[FORM OF REGISTERED BOND OF THE SERIES 1990A AMBAC BONDS]

[FACE]

NOTWITHSTANDING ANY PROVISIONS HEREOF OR IN THE INDENTURE, THIS BOND IS NOT ASSIGNABLE OR TRANSFERABLE.

CONSUMERS ENERGY COMPANY

FIRST MORTGAGE BOND, SERIES 1990A AMBAC BONDS  
DUE SEPTEMBER 1, 2000

No. \$

CONSUMERS ENERGY COMPANY, a Michigan corporation (hereinafter called the "Company"), for value received, hereby promises to pay to Ambac Assurance Corporation ("Ambac"), or registered assigns, the principal sum of Five Million Two Hundred Fifty Thousand Dollars on September 1, 2000, and to pay to the registered holder hereof interest on said sum payable at the rate and in the manner as set forth in the MSF Bonds, defined below. In the event that one or more MSF Bonds shall have different interest rates from other MSF Bonds, the interest rate of each allocable portion of the Series 1990A Ambac Bonds shall be deemed to correspond to the interest rate of each such MSF Bonds (as defined below).

Under a Trust Indenture dated as of September 1, 1990 between the Michigan Strategic Fund, as issuer (the "Issuer") and Chase Manhattan Trust Company, National Association, as trustee (the "MSF Trust Indenture Trustee"), which has been amended and restated pursuant to the Amended and Restated Trust Indenture dated as of October 4, 1999 between the Issuer and the MSF Trust Indenture Trustee and acknowledged and agreed to by the Company (as so amended and restated, the "MSF Trust Indenture"). MSF has issued Variable Rate Demand Pollution Control Revenue Refunding Bonds (Consumers Power Company Project) Series 1990A (hereinafter sometimes called the "MSF Bonds"). Payments of principal of, premiums, if any, or interest on, the MSF Bonds shall constitute payments on this bond as further provided herein and in the supplemental indenture pursuant to which this bond has been issued; provided that payments of principal and interest made on the MSF Bonds by Ambac pursuant to its municipal bond insurance policy (the "Policy") issued with respect of the MSF Bonds shall not constitute payments on this bond unless all amounts in respect thereof owed to Ambac pursuant to Section 2.01(a) of the Insurance Agreement dated October 4, 1999 between Ambac, the Company and the MSF Trust Indenture Trustee (the "Insurance Agreement") shall have been paid in full.

The provisions of this bond are continued on the reverse hereof and such continued provisions shall for all purposes have the same effect as though fully set forth at this place.

This bond shall not be valid or become obligatory for any purpose unless and until it shall have been authenticated by the execution by the Trustee or its successor in trust under the indenture of the certificate hereon.

IN WITNESS WHEREOF, Consumers Energy Company has caused this bond to be executed in its name by its Chairman of the Board, its President or one of its Vice Presidents by his or her signature or a facsimile thereof, and its corporate seal or a facsimile thereof to be affixed hereto or imprinted

hereon and attested by its Secretary or one of its Assistant Secretaries by his or her signature or a facsimile thereof.

CONSUMERS ENERGY COMPANY,

Dated: By \_\_\_\_\_  
Its \_\_\_\_\_

Attest: \_\_\_\_\_  
Secretary

[FORM OF TRUSTEE'S AUTHENTICATION CERTIFICATE]

TRUSTEE'S AUTHENTICATION CERTIFICATE

This is one of the bonds, of the series designated therein, described in the within-mentioned Indenture.

THE CHASE MANHATTAN BANK, Trustee

By \_\_\_\_\_  
Authorized Officer

[REVERSE]

CONSUMERS ENERGY COMPANY

FIRST MORTGAGE BOND, SERIES 1990A AMBAC BONDS  
DUE SEPTEMBER 1, 2000

The interest payable on any date as specified in the MSF Bonds (each "Interest Payment Date") will, subject to certain exceptions provided in the Indenture hereinafter mentioned, be paid to the person in whose name this bond is registered at the close of business on the record date as specified in the MSF Bonds. The principal of and the premium, if any, and the interest on this bond shall be payable at the office or agency of the Company in the City of Jackson, Michigan designated for that purpose, in any coin or currency of the United States of America which at the time of payment is legal tender for public and private debts.

Upon any payment of the principal of, premium, if any, or interest on, all or any portion of the MSF Bonds (other than payments of principal or interest made thereon by Ambac pursuant to the Policy which are not reimbursed to Ambac when due in accordance with Section 2.01(a) of the Insurance Agreement), whether at maturity or prior to maturity by redemption or otherwise, Series 1990A Ambac Bonds in a principal amount equal to the principal amount of such MSF Bonds shall, to the extent of such payment of principal, premium, if any, and interest or reimbursements to Ambac, be deemed fully paid and

the obligation of the Company thereunder to make such payment shall be discharged to such extent and, in the case of the payment of principal (and premium, if any) such bonds of Series 1990A Ambac Bonds shall be surrendered to the Company for cancellation as provided in Section 3.01(a) of the Insurance Agreement. The Trustee may at anytime and all times conclusively assume that the obligation of the Company to make payments with respect to the principal of, and premium, if any, and interest on the Series 1990A Ambac Bonds and the obligation of the Company to make payments with respect to Section 2.01(a) of the Insurance Agreement, so far as such payments at the time have become due, have been fully satisfied and discharged pursuant to the foregoing sentence unless and until the Trustee shall have received a written notice from Ambac signed by one of its officers stating (i) that a claim or claims have been made under the Policy, (ii) that the Company is in arrears as to the payments required to be made by it to Ambac pursuant to the Insurance Agreement, and (iii) the amount of the arrearage.

In the event that there is an Event of Default (as defined in the MSF Trust Indenture) under the MSF Bonds that results in an acceleration of all outstanding amounts of principal, premium if any, and interest of the MSF Bonds and there is an Event of Default (as defined in the Insurance Agreement) with respect to non-payment of the Company's obligations under Section 2.01(a) of the Insurance Agreement, then Ambac shall give written notice thereof to the Trustee and such events shall constitute a default under this bond and the remedies set forth in the Indenture shall be applicable as provided in the Indenture.

This bond is one of the bonds issued and to be issued from time to time under and in accordance with and all secured by an Indenture dated as of September 1, 1945, given by the Company (or its predecessor, Consumers Power Company, a Maine corporation) to City Bank Farmers Trust Company (The Chase Manhattan Bank, successor) (hereinafter sometimes referred to as the "Trustee"), and indentures supplemental thereto, heretofore or hereafter executed, to which indenture and indentures supplemental thereto (hereinafter referred to collectively as the "Indenture") reference is hereby made for a description of the property mortgaged and pledged, the nature and extent of the security and the rights, duties and immunities thereunder of the Trustee and the rights of the holders of said bonds and of the Trustee and of the Company in respect of such security, and the limitations on such rights. By the terms of the Indenture, the bonds to be secured thereby are issuable in series which may vary as to date, amount, date of maturity, rate of interest and in other respects as provided in the Indenture.

The Indenture contains provisions permitting the Company and the Trustee, with the consent of the holders of not less than seventy-five per centum in principal amount of the bonds (exclusive of bonds disqualified by reason of the Company's interest therein) at the time outstanding, including, if more than one series of bonds shall be at the time outstanding, not less than sixty per centum in principal amount of each series affected, to effect, by an indenture supplemental to the Indenture, modifications or alterations of the Indenture and of the rights and obligations of the Company and the rights of the holders of the bonds and coupons; provided, however, that no such modification or alteration shall be made without the written approval or consent of the holder hereof which will (a) extend the maturity of this bond or reduce the rate or extend the time of payment of interest hereon or reduce the amount of the principal hereof, or (b) permit the creation of any lien, not otherwise permitted, prior to or on a parity with the lien of the Indenture, or (c) reduce the percentage of the principal amount of the bonds the holders of which are required to approve any such supplemental indenture.

The Company reserves the right, without any consent, vote or other action by holders of bonds of this series or any other series created after the Sixty-eighth Supplemental Indenture to amend the Indenture to reduce the percentage of the principal amount of bonds the holders of which are required to approve any supplemental indenture (other than any supplemental indenture which is subject to the proviso contained in the immediately preceding sentence) (a) from not less than seventy-five per centum (including sixty per centum of each series affected) to not less than a majority in principal amount of the bonds at the time outstanding or (b) in case fewer than all series are affected, not less than a majority in principal amount of the bonds of all affected series, voting together.

This bond is not redeemable by the operation of the improvement fund or the maintenance and replacement provisions of the Indenture or with the proceeds of released property.

This bond is redeemable on the respective dates and in the respective principal amounts which correspond to the redemption dates for, and the principal amounts to be redeemed of, the MSF Bonds (provided that this bond may not be redeemed where any portion of the principal or interest on the MSF Bonds is paid by Ambac pursuant to the Policy in connection with the redemption of the MSF Bonds and Ambac has not been paid as provided in Section 2.01(a) of the Insurance Agreement). In addition, this bond is redeemable at the option of the Company in connection with a call for purchase of the MSF Bonds, as set forth in Article IV of the MSF Trust Indenture.

This bond shall not be assignable or transferable.

As provided in Section 3.01(b) of the Insurance Agreement, from and after the Release Date (as defined in the Insurance Agreement), the obligations of the Company with respect to this bond shall be deemed to be satisfied and discharged, this bond shall cease to secure in any manner any obligation outstanding under the Insurance Agreement, and, pursuant to Section 3.01(a) of the Insurance Agreement, provided that all amounts owed to Ambac pursuant to Section 2.01(a) of the Insurance Agreement shall be indefeasibly paid in full, Ambac shall forthwith deliver this bond to the Company for cancellation.

In case of certain defaults as specified in the Indenture, the principal of this bond may be declared or may become due and payable on the conditions, at the time, in the manner and with the effect provided in the Indenture.

No recourse shall be had for the payment of the principal of or premium, if any, or interest on this bond, or for any claim based hereon, or otherwise in respect hereof or of the Indenture, to or against any incorporator, stockholder, director or officer, past, present or future, as such, of the Company, or of any predecessor or successor company, either directly or through the Company, or such predecessor or successor company, or otherwise, under any constitution or statute or rule of law, or by the enforcement of any assessment or penalty, or otherwise, all such liability of incorporators, stockholders, directors and officers, as such, being waived and released by the holder and owner hereof by the acceptance of this bond and being likewise waived and released by the terms of the Indenture.

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AND WHEREAS all acts and things necessary to make the bonds of the Series 1990A Ambac Bonds, when duly executed by the Company and authenticated by the Trustee or its agent and issued as prescribed in the Indenture, as heretofore supplemented and amended, and this Supplemental Indenture provided, the valid, binding and legal obligations of the Company, and to constitute the Indenture, as supplemented and amended as aforesaid, as well as by this Supplemental Indenture, a valid, binding and legal instrument for the security thereof, have been done and performed, and the creation, execution and delivery of this Supplemental Indenture and the creation, execution and issuance of bonds subject to the terms hereof and of the Indenture, as so supplemented and amended, have in all respects been duly authorized;

NOW, THEREFORE, in consideration of the premises, of the acceptance and purchase by the holders thereof of the bonds issued and to be issued under the Indenture, as supplemented and amended as above set forth, and of the sum of One Dollar duly paid by the Trustee to the Company, and of other good and valuable considerations, the receipt whereof is hereby acknowledged, and for the purpose of securing the due and punctual payment of the principal of and premium, if any, and interest on all bonds now outstanding under the Indenture and the \$5,250,000 principal amount of Series 1990A Ambac Bonds

proposed to be issued initially and all other bonds which shall be issued under the Indenture, as supplemented and amended from time to time, and for the purpose of securing the faithful performance and observance of all covenants and conditions therein, and in any indenture supplemental thereto, set forth, the Company has given, granted, bargained, sold, released, transferred, assigned, hypothecated, pledged, mortgaged, confirmed, set over, warranted, alienated and conveyed and by these presents does give, grant, bargain, sell, release, transfer, assign, hypothecate, pledge, mortgage, confirm, set over, warrant, alien and convey unto The Chase Manhattan Bank, as Trustee, as provided in the Indenture, and its successor or successors in the trust thereby and hereby created and to its or their assigns forever, all the right, title and interest of the Company in and to all the property, described in Section 12 hereof, together (subject to the provisions of Article X of the Indenture) with the tolls, rents, revenues, issues, earnings, income, products and profits thereof, excepting, however, the property, interests and rights specifically excepted from the lien of the Indenture as set forth in the Indenture.

TOGETHER WITH all and singular the tenements, hereditaments and appurtenances belonging or in any wise appertaining to the premises, property, franchises and rights, or any thereof, referred to in the foregoing granting clause, with the reversion and reversions, remainder and remainders and (subject to the provisions of Article X of the Indenture) the tolls, rents, revenues, issues, earnings, income, products and profits thereof, and all the estate, right, title and interest and claim whatsoever, at law as well as in equity, which the Company now has or may hereafter acquire in and to the aforesaid premises, property, franchises and rights and every part and parcel thereof.

SUBJECT, HOWEVER, with respect to such premises, property, franchises and rights, to excepted encumbrances as said term is defined in Section 1.02 of the Indenture, and subject also to all defects and limitations of title and to all encumbrances existing at the time of acquisition.

TO HAVE AND TO HOLD all said premises, property, franchises and rights hereby conveyed, assigned, pledged or mortgaged, or intended so to be, unto the Trustee, its successor or successors in trust and their assigns forever;

BUT IN TRUST, NEVERTHELESS, with power of sale for the equal and proportionate benefit and security of the holders of all bonds now or hereafter authenticated and delivered under and secured by the Indenture and interest coupons appurtenant thereto, pursuant to the provisions of the Indenture and of any supplemental indenture, and for the enforcement of the payment of said bonds and coupons when payable and the performance of and compliance with the covenants and conditions of the Indenture and of any supplemental indenture, without any preference, distinction or priority as to lien or otherwise of any bond or bonds over others by reason of the difference in time of the actual authentication, delivery, issue, sale or negotiation thereof or for any other reason whatsoever, except as otherwise expressly provided in the Indenture; and so that each and every bond now or hereafter authenticated and delivered thereunder shall have the same lien, and so that the principal of and premium, if any, and interest on every such bond shall, subject to the terms thereof, be equally and proportionately secured, as if it had been made, executed, authenticated, delivered, sold and negotiated simultaneously with the execution and delivery thereof.

AND IT IS EXPRESSLY DECLARED by the Company that all bonds authenticated and delivered under and secured by the Indenture, as supplemented and amended as above set forth, are to be issued, authenticated and delivered, and all said premises, property, franchises and rights hereby and by the Indenture and indentures supplemental thereto conveyed, assigned, pledged or mortgaged, or intended so to be, are to be dealt with and disposed of under, upon and subject to the terms, conditions, stipulations, covenants, agreements, trusts, uses and purposes expressed in the Indenture, as supplemented and amended as above set forth, and the parties hereto mutually agree as follows:

SECTION 1. There is hereby created one series of bonds (the "Series 1990A Ambac Bonds") designated as hereinabove provided, which shall also bear the descriptive title "First Mortgage

Bond", and the form thereof shall be substantially as hereinbefore set forth. Series 1990A Ambac Bonds shall be issued in the aggregate principal amount of \$5,250,000, shall mature on September 1, 2000 and shall be issued only as registered bonds without coupons in denominations of \$1,000 and any multiple thereof. The serial numbers of bonds of the Series 1990A Ambac Bonds shall be such as may be approved by any officer of the Company, the execution thereof by any such officer either manually or by facsimile signature to be conclusive evidence of such approval. Series 1990A Ambac Bonds shall bear interest at the rate per annum, until the principal thereof shall be paid in full at the times and in the manner as specified in the MSF Bonds to the holder of the 1990A Ambac Bonds. The principal of, and the premium, if any, and the interest on said bonds shall be payable in any coin or currency of the United States of America which at the time of payment is legal tender for public and private debts, at the office or agency of the Company in the City of Jackson, Michigan designated for that purpose.

Upon any payment of the principal of, premium, if any, and interest on, all or any portion of the MSF Bonds (other than payments of principal or interest made thereon by Ambac pursuant to the Policy which have not been reimbursed in accordance with Section 2.01(a)), whether at maturity or prior to maturity by redemption or otherwise, Series 1990A Ambac Bonds in a principal amount equal to the principal amount of such MSF Bonds shall, to the extent of such payment of principal, premium, if any, and interest, or reimbursements to Ambac, provided that all amounts owed to Ambac under Section 2.01(a) of the Insurance Agreement shall be paid in full to Ambac, be deemed fully paid and the obligation of the Company thereunder to make such payment shall be discharged to such extent and, in the case of the payment of principal (and premium, if any) such bonds of Series 1990A Ambac Bonds shall be surrendered to the Company for cancellation as provided in Section 3.01(a) of the Insurance Agreement. The Trustee may at anytime and all times conclusively assume that the obligation of the Company to make payments with respect to the principal of, and premium, if any, and interest on the Series 1990A Ambac Bonds and the obligation of the Company to make payments with respect to Section 2.01(a) of the Insurance Agreement, so far as such payments at the time have become due, have been fully satisfied and discharged pursuant to the foregoing sentence unless and until the Trustee shall have received a written notice from Ambac as set forth in Section 3 herein.

Each Series 1990A Ambac Bond is to be issued to and registered in the name of Ambac to secure any and all obligations of the Company under the Insurance Agreement.

The Series 1990A Ambac Bonds shall not be assignable or transferable.

SECTION 2. Series 1990A Ambac Bonds shall not be redeemable except on the respective dates, in the respective principal amounts and for the respective redemption prices which correspond to the redemption dates for, the principal amounts to be redeemed of, and the redemption prices for, the MSF Bonds.

In the event the Company elects to or is required to redeem or is required to purchase any MSF Bonds prior to maturity in accordance with the provisions of the MSF Indenture, Ambac shall on the same date deliver to the Company the Series 1990A Ambac Bonds in principal amounts corresponding to the MSF Bonds so redeemed or purchased, as provided in Section 3.01(a) of the Insurance Agreement; provided that Ambac has not made any payments pursuant to the Policy in connection with any such redemption or purchase of the MSF Bonds which have not been reimbursed to Ambac in accordance with Section 2.01(a) of the Insurance Agreement. The Company agrees to give the Trustee and Ambac notice of any such redemption or purchase of the MSF Bonds on or before the date fixed for any such redemption or purchase.

Series 1990A Ambac Bonds are not redeemable by the operation of the improvement fund or the maintenance and replacement provisions of this Indenture or with the proceeds of released property.

SECTION 3. In the event that there is an Event of Default (as defined in the MSF Trust Indenture) under the MSF Bonds that results in an acceleration of all outstanding amounts of principal, premium if any, and interest on the MSF Bonds and there is an Event of Default (as defined in the Insurance Agreement) with respect to non-payment of the Company's obligations under Section 2.01(a) of the Insurance Agreement, then Ambac shall give written notice thereof to the Trustee and such events shall constitute an Event of Default under this bond and the remedies set forth in the Indenture shall be applicable as provided in the Indenture.

SECTION 4. As provided in Section 3.01(b) of the Insurance Agreement and provided that all amounts owing to Ambac under Section 2.01(a) of the Insurance Agreement shall have been paid in full, from and after the Release Date (as defined therein), the obligations of the Company with respect to the Series 1990A Ambac Bonds (the "Bonds") shall be deemed to be satisfied and discharged, the Bonds shall cease to secure in any manner any obligations outstanding under the Insurance Agreement, and, pursuant to Section 3.01(a) of the Insurance Agreement, Ambac shall forthwith deliver the Bonds to the Company for cancellation.

SECTION 5. The Company reserves the right, without any consent, vote or other action by the holder of the Series 1990A Ambac Bonds or of any subsequent series of bonds issued under the Indenture, to make such amendments to the Indenture, as supplemented, as shall be necessary in order to amend Section 17.02 to read as follows:

SECTION 17.02. With the consent of the holders of not less than a majority in principal amount of the bonds at the time outstanding or their attorneys-in-fact duly authorized, or, if fewer than all series are affected, not less than a majority in principal amount of the bonds at the time outstanding of each series the rights of the holders of which are affected, voting together, the Company, when authorized by a resolution, and the Trustee may from time to time and at any time enter into an indenture or indentures supplemental hereto for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of this Indenture or of any supplemental indenture or modifying the rights and obligations of the Company and the rights of the holders of any of the bonds and coupons; provided, however, that no such supplemental indenture shall (1) extend the maturity of any of the bonds or reduce the rate or extend the time of payment of interest thereon, or reduce the amount of the principal thereof, or reduce any premium payable on the redemption thereof, without the consent of the holder of each bond so affected, or (2) permit the creation of any lien, not otherwise permitted, prior to or on a parity with the lien of this Indenture, without the consent of the holders of all the bonds then outstanding, or (3) reduce the aforesaid percentage of the principal amount of bonds the holders of which are required to approve any such supplemental indenture, without the consent of the holders of all the bonds then outstanding. For the purposes of this Section, bonds shall be deemed to be affected by a supplemental indenture if such supplemental indenture adversely affects or diminishes the rights of holders thereof against the Company or against its property. The Trustee may in its discretion determine whether or not, in accordance with the foregoing, bonds of any particular series would be affected by any supplemental indenture and any such determination shall be conclusive upon the holders of bonds of such series and all other series. Subject to the provisions of Sections 16.02 and 16.03 hereof, the Trustee shall not be liable for any determination made in good faith in connection herewith.

Upon the written request of the Company, accompanied by a resolution authorizing the execution of any such supplemental indenture, and upon the filing with the Trustee of evidence of the consent of bondholders as aforesaid (the instrument or instruments evidencing such consent to be dated within one year of such request), the Trustee shall join with the Company in the execution of such supplemental indenture unless such supplemental indenture affects the Trustee's own rights, duties or immunities under this Indenture or otherwise, in which case the Trustee may in its discretion but shall not be obligated to enter into such supplemental indenture.

It shall not be necessary for the consent of the bondholders under this Section to approve the particular form of any proposed supplemental indenture, but it shall be sufficient if such consent shall approve the substance thereof.

The Company and the Trustee, if they so elect, and either before or after such consent has been obtained, may require the holder of any bond consenting to the execution of any such supplemental indenture to submit his bond to the Trustee or to ask such bank, banker or trust company as may be designated by the Trustee for the purpose, for the notation thereon of the fact that the holder of such bond has consented to the execution of such supplemental indenture, and in such case such notation, in form satisfactory to the Trustee, shall be made upon all bonds so submitted, and such bonds bearing such notation shall forthwith be returned to the persons entitled thereto.

Prior to the execution by the Company and the Trustee of any supplemental indenture pursuant to the provisions of this Section, the Company shall publish a notice, setting forth in general terms the substance of such supplemental indenture, at least once in one daily newspaper of general circulation in each city in which the principal of any of the bonds shall be payable, or, if all bonds outstanding shall be registered bonds without coupons or coupon bonds registered as to principal, such notice shall be sufficiently given if mailed, first class, postage prepaid, and registered if the Company so elects, to each registered holder of bonds at the last address of such holder appearing on the registry books, such publication or mailing, as the case may be, to be made not less than thirty days prior to such execution. Any failure of the Company to give such notice, or any defect therein, shall not, however, in any way impair or affect the validity of any such supplemental indenture.

SECTION 6. As supplemented and amended as above set forth, the Indenture is in all respects ratified and confirmed, and the Indenture and all indentures supplemental thereto shall be read, taken and construed as one and the same instrument.

SECTION 7. Nothing contained in this Supplemental Indenture shall, or shall be construed to, confer upon any person other than a holder of bonds issued under the Indenture, as supplemented and amended as above set forth, the Company, the Trustee and Ambac any right or interest to avail himself of any benefit under any provision of the Indenture, as so supplemented and amended.

SECTION 8. The Trustee assumes no responsibility for or in respect of the validity or sufficiency of this Supplemental Indenture or of the Indenture as hereby supplemented or the due execution hereof by the Company or for or in respect of the recitals and statements contained herein (other than those contained in the sixth and seventh recitals hereof), all of which recitals and statements are made solely by the Company.

SECTION 9. This Supplemental Indenture may be simultaneously executed in several counterparts and all such counterparts executed and delivered, each as an original, shall constitute but one and the same instrument.

SECTION 10. In the event the date of any notice required or permitted hereunder or the date of maturity of interest on or principal of the Series 1990A Ambac Bonds or the date fixed for redemption or repayment of the Series 1990A Ambac Bonds shall not be a Business Day, then (notwithstanding any other provision of the Indenture or of any supplemental indenture thereto) such notice or such payment of such interest or principal need not be made on such date, but may be made on the next succeeding Business Day with the same force and effect as if made on the date fixed for such notice or as if made on the date of maturity or the date fixed for redemption or repayment, and no interest shall accrue for the period from and after such date. "Business Day" means, with respect to this Section 10, a day of the year on which banks are not required or authorized to close in New York City or Detroit, Michigan.

SECTION 11. This Supplemental Indenture and the Series 1990A Ambac Bonds shall be governed by and deemed to be a contract under, and construed in accordance with, the laws of the State of Michigan, and for all purposes shall be construed in accordance with the laws of such state, except as may otherwise be required by mandatory provisions of law.

SECTION 12. Detailed Description of Property Mortgaged:

I.

ELECTRIC GENERATING PLANTS AND DAMS

All the electric generating plants and stations of the Company, constructed or otherwise acquired by it and not heretofore described in the Indenture or any supplement thereto and not heretofore released from the lien of the Indenture, including all powerhouses, buildings, reservoirs, dams, pipelines, flumes, structures and works and the land on which the same are situated and all water rights and all other lands and easements, rights of way, permits, privileges, towers, poles, wires, machinery, equipment, appliances, appurtenances and supplies and all other property, real or personal, forming a part of or appertaining to or used, occupied or enjoyed in connection with such plants and stations or any of them, or adjacent thereto.

II.

ELECTRIC TRANSMISSION LINES

All the electric transmission lines of the Company, constructed or otherwise acquired by it and not heretofore described in the Indenture or any supplement thereto and not heretofore released from the lien of the Indenture, including towers, poles, pole lines, wires, switches, switch racks, switchboards, insulators and other appliances and equipment, and all other property, real or personal, forming a part of or appertaining to or used, occupied or enjoyed in connection with such transmission lines or any of them or adjacent thereto; together with all real property, rights of way, easements, permits, privileges, franchises and

rights for or relating to the construction, maintenance or operation thereof, through, over, under or upon any private property or any public streets or highways, within as well as without the corporate limits of any municipal corporation. Also all the real property, rights of way, easements, permits, privileges and rights for or relating to the construction, maintenance or operation of certain transmission lines, the land and rights for which are owned by the Company, which are either not built or now being constructed.

### III.

#### ELECTRIC DISTRIBUTION SYSTEMS

All the electric distribution systems of the Company, constructed or otherwise acquired by it and not heretofore described in the Indenture or any supplement thereto and not heretofore released from the lien of the Indenture, including substations, transformers, switchboards, towers, poles, wires, insulators, subways, trenches, conduits, manholes, cables, meters and other appliances and equipment, and all other property, real or personal, forming a part of or appertaining to or used, occupied or enjoyed in connection with such distribution systems or any of them or adjacent thereto; together with all real property, rights of way, easements, permits, privileges, franchises, grants and rights, for or relating to the construction, maintenance or operation thereof, through, over, under or upon any private property or any public streets or highways within as well as without the corporate limits of any municipal corporation.

### IV.

#### ELECTRIC SUBSTATIONS, SWITCHING STATIONS AND SITES

All the substations, switching stations and sites of the Company, constructed or otherwise acquired by it and not heretofore described in the Indenture or any supplement thereto and not heretofore released from the lien of the Indenture, for transforming, regulating, converting or distributing or otherwise controlling electric current at any of its plants and elsewhere, together with all buildings, transformers, wires, insulators and other appliances and equipment, and all other property, real or personal, forming a part of or appertaining to or used, occupied or enjoyed in connection with any of such substations and switching stations, or adjacent thereto, with sites to be used for such purposes.

### V.

#### GAS COMPRESSOR STATIONS, GAS PROCESSING PLANTS, DESULPHURIZATION STATIONS, METERING STATIONS, ODORIZING STATIONS, REGULATORS AND SITES

All the compressor stations, processing plants, desulphurization stations, metering stations, odorizing stations, regulators and sites of the Company, constructed or otherwise acquired by it and not heretofore described in the Indenture or any supplement thereto and not heretofore released from the lien of the Indenture, for compressing, processing, desulphurizing, metering, odorizing and regulating manufactured or natural gas at any of its plants and elsewhere, together with all buildings, meters and other appliances and equipment, and all other property, real or personal, forming a part of or appertaining to or used, occupied or enjoyed in connection with any of such purposes, with sites to be used for such purposes.

## VI.

## GAS STORAGE FIELDS

The natural gas rights and interests of the Company, including wells and well lines (but not including natural gas, oil and minerals), the gas gathering system, the underground gas storage rights, the underground gas storage wells and injection and withdrawal system used in connection therewith, constructed or otherwise acquired by it and not heretofore described in the Indenture or any supplement thereto and not heretofore released from the lien of the Indenture: In the Overisel Gas Storage Field, located in the Township of Overisel, Allegan County, and in the Township of Zeeland, Ottawa County, Michigan; in the Northville Gas Storage Field located in the Township of Salem, Washtenaw County, Township of Lyon, Oakland County, and the Townships of Northville and Plymouth and City of Plymouth, Wayne County, Michigan; in the Salem Gas Storage Field, located in the Township of Salem, Allegan County, and in the Township of Jamestown, Ottawa County, Michigan; in the Ray Gas Storage Field, located in the Townships of Ray and Armada, Macomb County, Michigan; in the Lenox Gas Storage Field, located in the Townships of Lenox and Chesterfield, Macomb County, Michigan; in the Ira Gas Storage Field, located in the Township of Ira, St. Clair County, Michigan; in the Puttygut Gas Storage Field, located in the Township of Casco, St. Clair County, Michigan; in the Four Corners Gas Storage Field, located in the Townships of Casco, China, Cottrellville and Ira, St. Clair County, Michigan; in the Swan Creek Gas Storage Field, located in the Township of Casco and Ira, St. Clair County, Michigan; and in the Hessen Gas Storage Field, located in the Townships of Casco and Columbus, St. Clair, Michigan.

## VII.

## GAS TRANSMISSION LINES

All the gas transmission lines of the Company, constructed or otherwise acquired by it and not heretofore described in the Indenture or any supplement thereto and not heretofore released from the lien of the Indenture, including gas mains, pipes, pipelines, gates, valves, meters and other appliances and equipment, and all other property, real or personal, forming a part of or appertaining to or used, occupied or enjoyed in connection with such transmission lines or any of them or adjacent thereto; together with all real property, right of way, easements, permits, privileges, franchises and rights for or relating to the construction, maintenance or operation thereof, through, over, under or upon any private property or any public streets or highways, within as well as without the corporate limits of any municipal corporation.

## VIII.

## GAS DISTRIBUTION SYSTEMS

All the gas distribution systems of the Company, constructed or otherwise acquired by it and not heretofore described in the Indenture or any supplement thereto and not heretofore released from the lien of the Indenture, including tunnels, conduits, gas mains and pipes, service pipes, fittings, gates, valves, connections, meters and other appliances and equipment, and all other property, real or personal, forming a part of or appertaining to or used, occupied or enjoyed in connection with such distribution systems or any of them or adjacent thereto; together with all real property, rights of way, easements, permits, privileges, franchises, grants and rights, for or relating to the construction, maintenance or operation thereof, through, over, under or upon any private property or any public streets or highways within as well as without the corporate limits of any municipal corporation.

## IX.

OFFICE BUILDINGS,  
SERVICE BUILDINGS, GARAGES, ETC.

All office, garage, service and other buildings of the Company, wherever located, in the State of Michigan, constructed or otherwise acquired by it and not heretofore described in the Indenture or any supplement thereto and not heretofore released from the lien of the Indenture, together with the land on which the same are situated and all easements, rights of way and appurtenances to said lands, together with all furniture and fixtures located in said buildings.

## X.

TELEPHONE PROPERTIES AND  
RADIO COMMUNICATION EQUIPMENT

All telephone lines, switchboards, systems and equipment of the Company, constructed or otherwise acquired by it and not heretofore described in the Indenture or any supplement thereto and not heretofore released from the line of the Indenture, used or available for use in the operation of its properties, and all other property, real or personal, forming a part of or appertaining to or used, occupied or enjoyed in connection with such telephone properties or any of them or adjacent thereto; together with all real estate, rights of way, easements, permits, privileges, franchises, property, devices or rights related to the dispatch, transmission, reception or reproduction of messages, communications, intelligence, signals, light, vision or sound by electricity, wire or otherwise, including all telephone equipment installed in buildings used as general and regional offices, substations and generating stations and all telephone lines erected on towers and poles; and all radio communication equipment of the Company, together with all property, real or personal (except any in the Indenture expressly excepted), fixed stations, towers, auxiliary radio buildings and equipment, and all appurtenances used in connection therewith, wherever located, in the State of Michigan.

## XI.

## OTHER REAL PROPERTY

All other real property of the Company and all interests therein, of every nature and description (except any in the Indenture expressly excepted) wherever located, in the State of Michigan, acquired by it and not heretofore described in the Indenture or any supplement thereto and not heretofore released from the line of the Indenture. Such real property includes but is not limited to the following described property, such property is subject to any interests that were excepted or reserved in the conveyance to the Company:

## ALCONA COUNTY

Certain land in Caledonia Township, Alcona County, Michigan described as:

The East 330 feet of the South 660 feet of the SW 1/4 of the SW 1/4 of Section 8, T28N, R8E, except the West 264 feet of the South 330 feet thereof; said land being more particularly described as follows: To find the place of beginning of this description, commence at the Southwest corner of said section, run thence East along the South line of said section 1243

feet to the place of beginning of this description, thence continuing East along said South line of said section 66 feet to the West 1/8 line of said section, thence N 02(degree) 09' 30" E along the said West 1/8 line of said section 660 feet, thence West 330 feet, thence S 02(degree) 09' 30" W, 330 feet, thence East 264 feet, thence S 02(degree) 09' 30" W, 330 feet to the place of beginning.

#### ALLEGAN COUNTY

Certain land in Lee Township, Allegan County, Michigan described as:

The NE 1/4 of the NW 1/4 of Section 16, T1N, R15W.

#### ALPENA COUNTY

Certain land in Wilson and Green Townships, Alpena County, Michigan described as:

All that part of the S'ly 1/2 of the former Boyne City-Gaylord and Alpena Railroad right of way, being the Southerly 50 feet of a 100 foot strip of land formerly occupied by said Railroad, running from the East line of Section 31, T31N, R7E, Southwesterly across said Section 31 and Sections 5 and 6 of T30N, R7E and Sections 10, 11 and the E1/2 of Section 9, except the West 1646 feet thereof, all in T30N, R6E.

#### ANTRIM COUNTY

Certain land in Mancelona Township, Antrim County, Michigan described as:

The S 1/2 of the NE 1/4 of Section 33, T29N, R6W, excepting therefrom all mineral, coal, oil and gas and such other rights as were reserved unto the State of Michigan in that certain deed running from the State of Michigan to August W. Schack and Emma H. Schack, his wife, dated April 15, 1946 and recorded May 20, 1946 in Liber 97 of Deeds on page 682 of Antrim County Records.

#### ARENAC COUNTY

Certain land in Standish Township, Arenac County, Michigan described as:

A parcel of land in the SW 1/4 of the NW 1/4 of Section 12, T18N, R4E, described as follows: To find the place of beginning of said parcel of land, commence at the Northwest corner of Section 12, T18N, R4E; run thence South along the West line of said section, said West line of said section being also the center line of East City Limits Road 2642.15 feet to the W 1/4 post of said section and the place of beginning of said parcel of land; running thence N 88(degree) 26' 00" E along the East and West 1/4 line of said section, 660.0 feet; thence North parallel with the West line of said section, 310.0 feet; thence S 88(degree) 26' 00" W, 330.0 feet; thence South parallel with the West line of said section, 260.0 feet; thence S 88(degree) 26' 00" W, 330.0 feet to the West line of said section and the center line of East City Limits

Road; thence South along the said West line of said section, 50.0 feet to the place of beginning.

#### BARRY COUNTY

Certain land in Johnstown Township, Barry County, Michigan described as:

A strip of land 311 feet in width across the SW 1/4 of the NE 1/4 of Section 31, T1N, R8W, described as follows: To find the place of beginning of this description, commence at the E 1/4 post of said section; run thence N 00(degree) 55' 00" E along the East line of said section, 555.84 feet; thence N 59(degree) 36' 20" W, 1375.64 feet; thence N 88(degree) 30' 00" W, 130 feet to a point on the East 1/8 line of said section and the place of beginning of this description; thence continuing N 88(degree) 30' 00" W, 1327.46 feet to the North and South 1/4 line of said section; thence S 00(degree) 39' 35" W along said North and South 1/4 line of said section, 311.03 feet to a point, which said point is 952.72 feet distant N'ly from the East and West 1/4 line of said section as measured along said North and South 1/4 line of said section; thence S 88(degree) 30' 00" E, 1326.76 feet to the East 1/8 line of said section; thence N 00(degree) 47' 20" E along said East 1/8 line of said section, 311.02 feet to the place of beginning.

#### BAY COUNTY

Certain land in Frankenlust Township, Bay County, Michigan described as:

The South 250 feet of the N 1/2 of the W 1/2 of the W 1/2 of the SE 1/4 of Section 9, T13N, R4E.

#### BENZIE COUNTY

Certain land in Benzonia Township, Benzie County, Michigan described as:

A parcel of land in the Northeast 1/4 of Section 7, Township 26 North, Range 14 West, described as beginning at a point on the East line of said Section 7, said point being 320 feet North measured along the East line of said section from the East 1/4 post; running thence West 165 feet; thence North parallel with the East line of said section 165 feet; thence East 165 feet to the East line of said section; thence South 165 feet to the place of beginning.

#### BRANCH COUNTY

Certain land in Girard Township, Branch County, Michigan described as:

A parcel of land in the NE1/4 of Section 23 T5S, R6W, described as beginning at a point on the North and South quarter line of said section at a point 1278.27 feet distant South of the North quarter post of said section,

said distance being measured along the North and South quarter line of said section, running thence S89(degree)21'E 250 feet, thence North along a line parallel with the said North and South quarter line of said section 200 feet, thence N89(degree)21'W 250 feet to the North and South quarter line of said section, thence South along said North and South quarter line of said section 200 feet to the place of beginning.

#### CALHOUN COUNTY

Certain land in Convis Township, Calhoun County, Michigan described as:

A parcel of land in the SE 1/4 of the SE 1/4 of Section 32, T1S, R6W, described as follows: To find the place of beginning of this description, commence at the Southeast corner of said section; run thence North along the East line of said section 1034.32 feet to the place of beginning of this description; running thence N 89(degree) 39' 52" W, 333.0 feet; thence North 290.0 feet to the South 1/8 line of said section; thence S 89(degree) 39' 52" E along said South 1/8 line of said section 333.0 feet to the East line of said section; thence South along said East line of said section 290.0 feet to the place of beginning. (Bearings are based on the East line of Section 32, T1S, R6W, from the Southeast corner of said section to the Northeast corner of said section assumed as North.)

#### CASS COUNTY

Certain easement rights located across land in Marcellus Township, Cass County, Michigan described as:

The East 6 rods of the SW 1/4 of the SE 1/4 of Section 4, T5S, R13W.

#### CHARLEVOIX COUNTY

Certain land in South Arm Township, Charlevoix County, Michigan described as:

A parcel of land in the SW 1/4 of Section 29, T32N, R7W, described as follows: Beginning at the Southwest corner of said section and running thence North along the West line of said section 788.25 feet to a point which is 528 feet distant South of the South 1/8 line of said section as measured along the said West line of said section; thence N 89(degree) 30' 19" E, parallel with said South 1/8 line of said section 442.1 feet; thence South 788.15 feet to the South line of said section; thence S 89(degree) 29' 30" W, along said South line of said section 442.1 feet to the place of beginning.

## CHEBOYGAN COUNTY

Certain land in Inverness Township, Cheboygan County, Michigan described as:

A parcel of land in the SW fr1 1/4 of Section 31, T37N, R2W, described as beginning at the Northwest corner of the SW fr1 1/4, running thence East on the East and West quarter line of said Section, 40 rods, thence South parallel to the West line of said Section 40 rods, thence West 40 rods to the West line of said Section, thence North 40 rods to the place of beginning.

## CLARE COUNTY

Certain land in Frost Township, Clare County, Michigan described as:

The East 150 feet of the North 225 feet of the NW 1/4 of the NW 1/4 of Section 15, T20N, R4W.

## CLINTON COUNTY

Certain land in Watertown Township, Clinton County, Michigan described as:

The NE 1/4 of the NE 1/4 of the SE 1/4 of Section 22, and the North 165 feet of the NW 1/4 of the NE 1/4 of the SE 1/4 of Section 22, T5N, R3W.

## CRAWFORD COUNTY

Certain land in Lovells Township, Crawford County, Michigan described as:

A parcel of land in Section 1, T28N, R1W, described as: Commencing at NW corner said section; thence South 89(degree)53'30" East along North section line 105.78 feet to point of beginning; thence South 89(degree)53'30" East along North section line 649.64 feet; thence South 55(degree)42'30" East 340.24 feet; thence South 55(degree)44'37" East 5,061.81 feet to the East section line; thence South 00(degree)00'08" West along East section line 441.59 feet; thence North 55(degree)44'37" West 5,310.48 feet; thence North 55(degree)42'30" West 877.76 feet to point of beginning.

## EATON COUNTY

Certain land in Eaton Township, Eaton County, Michigan described as:

A parcel of land in the SW 1/4 of Section 6, T2N, R4W, described as follows: To find the place of beginning of this description commence at the Southwest corner of said section; run thence N 89(degree) 51' 30" E along the South line of said section 400 feet to the place of beginning of this description; thence continuing N 89(degree) 51' 30" E, 500 feet; thence N 00(degree) 50' 00" W, 600 feet; thence S 89(degree) 51' 30" W parallel with the South line of said section 500 feet; thence S 00(degree) 50' 00" E, 600 feet to the place of beginning.

## EMMET COUNTY

Certain land in Wawatam Township, Emmet County, Michigan described as:

The West 1/2 of the Northeast 1/4 of the Northeast 1/4 of Section 23, T39N, R4W.

## GENESEE COUNTY

Certain land in Argentine Township, Genesee County, Michigan described as:

A parcel of land of part of the SW 1/4 of Section 8, T5N, R5E, being more particularly described as follows:

Beginning at a point of the West line of Duffield Road, 100 feet wide, (as now established) distant 829.46 feet measured N01(degree)42'56"W and 50 feet measured S88(degree)14'04"W from the South quarter corner, Section 8, T5N, R5E; thence S88(degree)14'04"W a distance of 550 feet; thence N01(degree)42'56"W a distance of 500 feet to a point on the North line of the South half of the Southwest quarter of said Section 8; thence N88(degree)14'04"E along the North line of South half of the Southwest quarter of said Section 8 a distance 550 feet to a point on the West line of Duffield Road, 100 feet wide (as now established); thence S01(degree)42'56"E along the West line of said Duffield Road a distance of 500 feet to the point of beginning.

## GLADWIN COUNTY

Certain land in Secord Township, Gladwin County, Michigan described as:

The East 400 feet of the South 450 feet of Section 2, T19N, R1E.

## GRAND TRAVERSE COUNTY

Certain land in Mayfield Township, Grand Traverse County, Michigan described as:

A parcel of land in the Northwest 1/4 of Section 3, T25N, R11W, described as follows: Commencing at the Northwest corner of said section, running thence S 89(degree)19'15" E along the North line of said section and the center line of Clouss Road 225 feet, thence South 400 feet, thence N 89(degree)19'15" W 225 feet to the West line of said section and the center line of Hannah Road, thence North along the West line of said section and the center line of Hannah Road 400 feet to the place of beginning for this description.

## GRATIOT COUNTY

Certain land in Washington Township, Gratiot County, Michigan described as:

Commencing at the Northeast corner of Section 10, T9N, R2W, running thence West along the North line of said section a distance of 194.5 feet, thence S0(degree)07'10"W 200 feet to a point, thence East 194.5 feet to the East line of said Section 10, thence N0(degree)07'10"E along the East line of said section a distance of 200 feet to the point of beginning.

## HILLSDALE COUNTY

Certain land in Litchfield Village, Hillsdale County, Michigan described as:

Lots numbered three (3) and four (4) of Block three (3) of Harvey Smiths Southern Addition to the Village of Litchfield according to the recorded plat thereof as recorded in Liber AK of deeds, page 490.

## HURON COUNTY

Certain easement rights located across land in Sebewaing Township, Huron County, Michigan described as:

The North 1/2 of the Northwest 1/4 of Section 15, T15N, R9E.

## INGHAM COUNTY

Certain land in Vevay Township, Ingham County, Michigan described as:

A parcel of land 660 feet wide in the Southwest 1/4 of Section 7 lying South of the centerline of Sitts Road as extended to the North-South 1/4 line of said Section 7, T2N, R1W, more particularly described as follows: Commence at the Southwest corner of said Section 7, thence North along the West line of said Section 2502.71 feet to the centerline of Sitts Road; thence South 89(degree)54'45" East along said centerline 2282.38 feet to the place of beginning of this description; thence continuing South 89(degree)54'45" East along said centerline and said centerline extended 660.00 feet to the North-South 1/4 line of said section; thence South 00(degree)07'20" West 1461.71 feet; thence North 89(degree)34'58" West 660.00 feet; thence North 00(degree)07'20" East 1457.91 feet to the centerline of Sitts Road and the place of beginning.

## IONIA COUNTY

Certain land in Sebewa Township, Ionia County, Michigan described as:

A strip of land 280 feet wide across that part of the SW 1/4 of the NE 1/4 of Section 15, T5N, R6W, described as follows: To find the place of beginning of this description commence at the E 1/4 corner of said section;

run thence N 00(degree) 05' 38" W along the East line of said section, 1218.43 feet; thence S 67(degree) 18' 24" W, 1424.45 feet to the East 1/8 line of said section and the place of beginning of this description; thence continuing S 67(degree) 18' 24" W, 1426.28 feet to the North and South 1/4 line of said section at a point which said point is 105.82 feet distant N'ly of the center of said section as measured along said North and South 1/4 line of said section; thence N 00(degree) 04' 47" E along said North and South 1/4 line of said section, 303.67 feet; thence N 67(degree) 18' 24" E, 1425.78 feet to the East 1/8 line of said section; thence S 00(degree) 00' 26" E along said East 1/8 line of said section, 303.48 feet to the place of beginning. (Bearings are based on the East line of Section 15, T5N, R6W, from the E 1/4 corner of said section to the Northeast corner of said section assumed as N 00(degree) 05' 38" W.)

IOSCO COUNTY

Certain land in Alabaster Township, Iosco County, Michigan described as:

A parcel of land in the NW 1/4 of Section 34, T21N, R7E, described as follows: To find the place of beginning of this description commence at the N 1/4 post of said section; run thence South along the North and South 1/4 line of said section, 1354.40 feet to the place of beginning of this description; thence continuing South along the said North and South 1/4 line of said section, 165.00 feet to a point on the said North and South 1/4 line of said section which said point is 1089.00 feet distant North of the center of said section; thence West 440.00 feet; thence North 165.00 feet; thence East 440.00 feet to the said North and South 1/4 line of said section and the place of beginning.

ISABELLA COUNTY

Certain land in Chippewa Township, Isabella County, Michigan described as:

The North 8 rods of the NE 1/4 of the SE 1/4 of Section 29, T14N, R3W.

JACKSON COUNTY

Certain land in Waterloo Township, Jackson County, Michigan described as:

A parcel of land in the North fractional part of the N fractional 1/2 of Section 2, T1S, R2E, described as follows: To find the place of beginning of this description commence at the E 1/4 post of said section; run thence N 01(degree) 03' 40" E along the East line of said section 1,335.45 feet to the North 1/8 line of said section and the place of beginning of this description; thence N 89(degree) 32' 00" W, 2677.7 feet to the North and South 1/4 line of said section; thence S 00(degree) 59' 25" W along the North and South 1/4 line of said section 22.38 feet to the North 1/8 line of said section; thence S 89(degree) 59' 10" W along the North 1/8 line of said section 653.65 feet; thence North 22 feet; thence S 89(degree) 59' 10" W, 1601.19 feet to the center line of State

Trunkline Highway M-52; thence N 53(degree) 46' 00" W along the center line of said highway to the West line of said section; thence N 00(degree) 55' 10" E along the West line of said section 74.35 feet; thence S 89(degree) 32' 00" E, 5356.02 feet to the East line of said section; thence S 01(degree) 03' 40" W along the East line of said section 250 feet to the place of beginning.

#### KALAMAZOO COUNTY

Certain land in Alamo Township, Kalamazoo County, Michigan described as:

The South 350 feet of the NW 1/4 of the NW 1/4 of Section 16, T1S, R12W, being more particularly described as follows: To find the place of beginning of this description, commence at the Northwest corner of said section; run thence S 00(degree) 36' 55" W along the West line of said section 971.02 feet to the place of beginning of this description; thence continuing S 00(degree) 36' 55" W along said West line of said section 350.18 feet to the North 1/8 line of said section; thence S 87(degree) 33' 40" E along the said North 1/8 line of said section 1325.1 feet to the West 1/8 line of said section; thence N 00(degree) 38' 25" E along the said West 1/8 line of said section 350.17 feet; thence N 87(degree) 33' 40" W, 1325.25 feet to the place of beginning.

#### KALKASKA COUNTY

Certain land in Kalkaska Township, Kalkaska County, Michigan described as:

The NW 1/4 of the SW 1/4 of Section 4, T27N, R7W, excepting therefrom all mineral, coal, oil and gas and such other rights as were reserved unto the State of Michigan in that certain deed running from the Department of Conservation for the State of Michigan to George Welker and Mary Welker, his wife, dated October 9, 1934 and recorded December 28, 1934 in Liber 39 on page 291 of Kalkaska County Records, and subject to easement for pipeline purposes as granted to Michigan Consolidated Gas Company by first party herein on April 4, 1963 and recorded June 21, 1963 in Liber 91 on page 631 of Kalkaska County Records.

#### KENT COUNTY

Certain land in Caledonia Township, Kent County, Michigan described as:

A parcel of land in the Northwest fractional 1/4 of Section 15, T5N, R10W, described as follows: To find the place of beginning of this description commence at the North 1/4 corner of said section, run thence S 0(degree) 59' 26" E along the North and South 1/4 line of said section 2046.25 feet to the place of beginning of this description, thence continuing S 0(degree) 59' 26" E along said North and South 1/4 line of said section 332.88 feet, thence S 88(degree) 58' 30" W 2510.90 feet to a point herein designated "Point A" on the East bank of the Thornapple River, thence continuing S 88(degree) 53' 30" W to the center thread of the Thornapple River, thence NW'ly along the center thread of said Thornapple River to a point which said point is S 88(degree) 58'

30" W of a point on the East bank of the Thornapple River herein designated "Point B", said "Point B" being N 23(degree) 41' 35" W 360.75 feet from said above-described "Point A", thence N 88(degree) 58' 30" E to said "Point B", thence continuing N 88(degree) 58' 30" E 2650.13 feet to the place of beginning. (Bearings are based on the East line of Section 15, T5N, R10W between the East 1/4 corner of said section and the Northeast corner of said section assumed as N 0(degree) 59' 55" W.)

LAKE COUNTY

Certain land in Pinora and Cherry Valley Townships, Lake County, Michigan described as:

A strip of land 50 feet wide East and West along and adjoining the West line of highway on the East side of the North 1/2 of Section 13 T18N, R12W. Also a strip of land 100 feet wide East and West along and adjoining the East line of the highway on the West side of following described land: The South 1/2 of NW 1/4, and the South 1/2 of the NW 1/4 of the SW 1/4, all in Section 6, T18N, R11W.

LAPEER COUNTY

Certain land in Hadley Township, Lapeer County, Michigan described as:

The South 825 feet of the W 1/2 of the SW 1/4 of Section 24, T6N, R9E, except the West 1064 feet thereof.

LEELANAU COUNTY

Certain land in Cleveland Township, Leelanau County, Michigan described as:

The North 200 feet of the West 180 feet of the SW 1/4 of the SE 1/4 of Section 35, T29N, R13W.

LENAWEE COUNTY

Certain land in Madison Township, Lenawee County, Michigan described as:

A strip of land 165 feet wide off the West side of the following described premises: The E1/2 of the SE1/4 of Section 12. The E1/2 of the NE1/4 and the NE1/4 of the SE1/4 of Section 13, being all in T7S, R3E, excepting therefrom a parcel of land in the E1/2 of the SE1/4 of Section 12, T7S, R3E, beginning at the Northwest corner of said E1/2 of the SE1/4 of Section 12, running thence East 4 rods, thence South 6 rods, thence West 4 rods, thence North 6 rods to the place of beginning.

## LIVINGSTON COUNTY

Certain land in Cohoctah Township, Livingston County, Michigan described as:

## Parcel 1

The East 390 feet of the East 50 rods of the SW 1/4 of Section 30, T4N, R4E.

## Parcel 2

A parcel of land in the NW 1/4 of Section 31, T4N, R4E, described as follows: To find the place of beginning of this description commence at the N 1/4 post of said section; run thence N 89(degree) 13' 06" W along the North line of said section, 330 feet to the place of beginning of this description; running thence S 00(degree) 52' 49" W, 2167.87 feet; thence N 88(degree) 59' 49" W, 60 feet; thence N 00(degree) 52' 49" E, 2167.66 feet to the North line of said section; thence S 89(degree) 13' 06" E along said North line of said section, 60 feet to the place of beginning.

## MACKINAC COUNTY

Certain easement rights located across land in Moran Township, Mackinac County, Michigan described as:

A 20 foot wide strip of land, 10 feet on each side of the hereinafter described center line, through Lots 16, 17 and 21, Block 12 of Partition Plat of Private Claim No. 1, Section 23, Township 40 North, Range 4 West: Said center line being described as beginning at Edison Sault Electric Company's existing 35 foot service pole located 200 feet, more or less, Northerly of the shoreline of the Straits of Mackinac, running thence Easterly to a point approximately 20 feet Westerly of the center line of Lakehead Pipeline Company's existing 20 inch pipeline, thence Northerly and Easterly along and approximately 20 feet Westerly and Northerly of the center line of said 20 inch existing pipeline to a certain Michigan Bell Telephone Company's existing pole located Easterly of the Westerly line of Lot 22, Block 12 of Partition Plat of Private Claim No. 1 in said Section 23.

## MACOMB COUNTY

Certain land in Macomb Township, Macomb County, Michigan described as:

A parcel of land commencing on the West line of the E 1/2 of the NW 1/4 of fractional Section 6, 20 chains South of the NW corner of said E 1/2 of the NW 1/4 of Section 6; thence South on said West line and the East line of A. Henry Kotner's Hayes Road Subdivision #15, according to the recorded plat thereof, as recorded in Liber 24 of Plats, on page 7, 24.36 chains to the East and West 1/4 line of said Section 6; thence East on said East and West 1/4 line 8.93 chains; thence North parallel with the said

West line of the E 1/2 of the NW 1/4 of Section 6, 24.36 chains; thence West 8.93 chains to the place of beginning, all in T3N, R13E.

MANISTEE COUNTY

Certain land in Manistee Township, Manistee County, Michigan described as:

A parcel of land in the SW 1/4 of Section 20, T22N, R16W, described as follows: To find the place of beginning of this description, commence at the Southwest corner of said section; run thence East along the South line of said section 832.2 feet to the place of beginning of this description; thence continuing East along said South line of said section 132 feet; thence North 198 feet; thence West 132 feet; thence South 198 feet to the place of beginning, excepting therefrom the South 2 rods thereof which was conveyed to Manistee Township for highway purposes by a Quitclaim Deed dated June 13, 1919 and recorded July 11, 1919 in Liber 88 of Deeds on page 638 of Manistee County Records.

MASON COUNTY

Certain land in Riverton Township, Mason County, Michigan described as:

Parcel 1

The South 10 acres of the West 20 acres of the S 1/2 of the NE 1/4 of Section 22, T17N, R17W.

Parcel 2

A parcel of land containing 4 acres of the West side of highway, said parcel of land being described as commencing 16 rods South of the Northwest corner of the NW 1/4 of the SW 1/4 of Section 22, T17N, R17W, running thence South 64 rods, thence NE'ly and N'ly and NW'ly along the W'ly line of said highway to the place of beginning, together with any and all right, title, and interest of Howard C. Wicklund and Katherine E. Wicklund in and to that portion of the hereinbefore mentioned highway lying adjacent to the E'ly line of said above described land.

MECOSTA COUNTY

Certain land in Wheatland Township, Mecosta County, Michigan described as:

A parcel of land in the SW1/4 of the SW1/4 of Section 16, T14N, R7W, described as beginning at the Southwest corner of said section; thence East along the South line of Section 133 feet; thence North parallel to the West section line 133 feet; thence West 133 feet to the West line of said Section; thence South 133 feet to the place of beginning.

## MIDLAND COUNTY

Certain land in Ingersoll Township, Midland County, Michigan described as:

The West 200 feet of the W 1/2 of the NE 1/4 of Section 4, T13N, R2E.

## MISSAUKEE COUNTY

Certain land in Norwich Township, Missaukee County, Michigan described as:

A parcel of land in the NW 1/4 of the NW 1/4 of Section 16, T24N, R6W, described as follows: Commencing at the Northwest corner of said section, running thence N 89(degree) 01' 45" E along the North line of said section 233.00 feet; thence South 233.00 feet; thence S 89(degree) 01' 45" W, 233.00 feet to the West line of said section; thence North along said West line of said section 233.00 feet to the place of beginning. (Bearings are based on the West line of Section 16, T24N, R6W, between the Southwest and Northwest corners of said section assumed as North.)

## MONROE COUNTY

Certain land in LaSalle Township, Monroe County, Michigan described as:

A strip of land 150 feet in width across part of the S 1/2 of the SE 1/4 of Section 35, T7S, R8E, described as follows: To find the place of beginning of this description commence at the S 1/4 post of said section; run thence N 89(degree) 30' 20" E along the South line of said section 2118.39 feet to the place of beginning of this description; thence continuing N 89(degree) 30' 20" E along said South line of said section 198.56 feet to the NW'ly right-of-way line of Highway I-75, so called; thence N 40(degree) 26' 30" E along the NW'ly line of said highway 477.72 feet to the East line of said section; thence N 00(degree) 25' 15" W along the East line of said section 229.27 feet; thence S 40(degree) 26' 30" W, 781.21 feet to the place of beginning.

## MONTCALM COUNTY

Certain land in Crystal Township, Montcalm County, Michigan described as:

The N 1/2 of the S 1/2 of the SE 1/4 of Section 35, T10N, R5W.

## MONTMORENCY COUNTY

Certain land in the Village of Hillman, Montmorency County, Michigan described as:

Lot 14 of Hillman Industrial Park, being a subdivision in the South 1/2 of the Northwest 1/4 of Section 24, T31N, R4E, according to the plat thereof recorded in Liber 4 of Plats on Pages 32-34, Montmorency County Records.

## MUSKEGON COUNTY

Certain land in Casnovia Township, Muskegon County, Michigan described as:

The West 433 feet of the North 180 feet of the South 425 feet of the SW 1/4 of Section 3, T10N, R13W.

## NEWAYGO COUNTY

Certain land in Ashland Township, Newaygo County, Michigan described as:

The West 250 feet of the NE 1/4 of Section 23, T11N, R13W.

## OAKLAND COUNTY

Certain land in Wixcom City, Oakland County, Michigan described as:

The E 75 feet of the N 160 feet of the N 330 feet of the W 526.84 feet of the NW 1/4 of the NW 1/4 of Section 8, T1N, R8E, more particularly described as follows: Commence at the NW corner of said Section 8, thence N 87(degree) 14' 29" E along the North line of said Section 8 a distance of 451.84 feet to the place of beginning for this description; thence continuing N 87(degree) 14' 29" E along said North section line a distance of 75.0 feet to the East line of the West 526.84 feet of the NW 1/4 of the NW 1/4 of said Section 8; thence S 02(degree) 37' 09" E along said East line a distance of 160.0 feet; thence S 87(degree) 14' 29" W a distance of 75.0 feet; thence N 02(degree) 37' 09" W a distance of 160.0 feet to the place of beginning.

## OCEANA COUNTY

Certain land in Crystal Township, Oceana County, Michigan described as:

The East 290 feet of the SE 1/4 of the NW 1/4 and the East 290 feet of the NE 1/4 of the SW 1/4, all in Section 20, T16N, R16W.

## OGEMAW COUNTY

Certain land in West Branch Township, Ogemaw County, Michigan described as:

The South 660 feet of the East 660 feet of the NE 1/4 of the NE 1/4 of Section 33, T22N, R2E.

## OSCEOLA COUNTY

Certain land in Hersey Township, Osceola County, Michigan described as:

A parcel of land in the North 1/2 of the Northeast 1/4 of Section 13, T17N, R9W, described as commencing at the Northeast corner of said Section; thence West along the North Section line 999 feet to the point of beginning of this description; thence S 01(degree) 54' 20" E 1327.12 feet to the North 1/8 line; thence S 89(degree) 17' 05" W along the North 1/8 line 330.89 feet; thence N 01(degree) 54' 20" W 1331.26 feet to the North Section line; thence East along the North Section line 331 feet to the point of beginning.

## OSCODA COUNTY

Certain land in Comins Township, Oscoda County, Michigan described as:

The East 400 feet of the South 580 feet of the W 1/2 of the SW 1/4 of Section 15, T27N, R3E.

## OTSEGO COUNTY

Certain land in Corwith Township, Otsego County, Michigan described as:

Part of the NW 1/4 of the NE 1/4 of Section 28, T32N, R3W, described as: Beginning at the N 1/4 corner of said section; running thence S 89(degree) 04' 06" E along the North line of said section, 330.00 feet; thence S 00(degree) 28' 43" E, 400.00 feet; thence N 89(degree) 04' 06" W, 330.00 feet to the North and South 1/4 line of said section; thence N 00(degree) 28' 43" W along the said North and South 1/4 line of said section, 400.00 feet to the point of beginning; subject to the use of the N'ly 33.00 feet thereof for highway purposes.

## OTTAWA COUNTY

Certain land in Robinson Township, Ottawa County, Michigan described as:

The North 660 feet of the West 660 feet of the NE 1/4 of the NW 1/4 of Section 26, T7N, R15W.

## PRESQUE ISLE COUNTY

Certain land in Belknap and Pulawski Townships, Presque Isle County, Michigan described as:

Part of the South half of the Northeast quarter, Section 24, T34N, R5E, and part of the Northwest quarter, Section 19, T34N, R6E, more fully described as: Commencing at the East 1/4 corner of said Section 24; thence N 00(degree)15'47" E, 507.42 feet, along the East line of said Section 24 to the point of beginning; thence S 88(degree)15'36" W, 400.00 feet, parallel with the

North 1/8 line of said Section 24; thence N 00(degrees)15'47" E, 800.00 feet, parallel with said East line of Section 24; thence N 88(degrees)15'36"E, 800.00 feet, along said North 1/8 line of Section 24 and said line extended; thence S 00(degrees)15'47" W, 800.00 feet, parallel with said East line of Section 24; thence S 88(degrees)15'36" W, 400.00 feet, parallel with said North 1/8 line of Section 24 to the point of beginning.

Together with a 33 foot easement along the West 33 feet of the Northwest quarter lying North of the North 1/8 line of Section 24, Belknap Township, extended, in Section 19, T34N, R6E.

#### ROSCOMMON COUNTY

Certain land in Backus Township, Roscommon County, Michigan described as:

A parcel of land the NW 1/4 of the NE 1/4 of the NE 1/4 of Section 18, T22N, R2W described as commencing at the North quarter corner thereof; thence North 89(degrees)00'56" East along the North Section line 208 feet to the point of beginning; thence continue East along the North line of said Section 245 feet; thence South 00(degrees)59'03" East 233 feet; thence South 89(degrees)00'57" West 245 feet; thence North 00(degrees)59'03" West 233 feet to the point of beginning.

#### SAGINAW COUNTY

Certain land in Chapin Township, Saginaw County, Michigan described as:

A parcel of land in the SW 1/4 of Section 13, T9N, R1E, described as follows: To find the place of beginning of this description commence at the Southwest corner of said section; run thence North along the West line of said section 1581.4 feet to the place of beginning of this description; thence continuing North along said West line of said section 230 feet to the center line of a creek; thence S 70(degrees) 07' 00" E along said center line of said creek 196.78 feet; thence South 163.13 feet; thence West 185 feet to the West line of said section and the place of beginning.

#### SANILAC COUNTY

Certain easement rights located across land in Minden Township, Sanilac County, Michigan described as:

The Southeast 1/4 of the Southeast 1/4 of Section 1, T14N, R14E, excepting therefrom the South 83 feet of the East 83 feet thereof.

## SHIAWASSEE COUNTY

Certain land in Burns Township, Shiawassee County, Michigan described as:

The South 330 feet of the E 1/2 of the NE 1/4 of Section 36, T5N, R4E.

## ST. CLAIR COUNTY

Certain land in Ira Township, St. Clair County, Michigan described as:

The N 1/2 of the NW 1/4 of the NE 1/4 of Section 6, T3N, R15E.

## ST. JOSEPH COUNTY

Certain land in Mendon Township, St. Joseph County, Michigan described as:

The North 660 feet of the West 660 feet of the NW 1/4 of SW 1/4, Section 35, T5S, R10W.

## TUSCOLA COUNTY

Certain land in Millington Township, Tuscola County, Michigan described as:

A strip of land 280 feet wide across the East 96 rods of the South 20 rods of the N 1/2 of the SE 1/4 of Section 34, T10N, R8E, more particularly described as commencing at the Northeast corner of Section 3, T9N, R8E, thence S 89(degree) 55' 35" W along the South line of said Section 34 a distance of 329.65 feet, thence N 18(degree) 11' 50" W a distance of 1398.67 feet to the South 1/8 line of said Section 34 and the place of beginning for this description; thence continuing N 18(degree) 11' 50" W a distance of 349.91 feet; thence N 89(degree) 57' 01" W a distance of 294.80 feet; thence S 18(degree) 11' 50" E a distance of 350.04 feet to the South 1/8 line of said Section 34; thence S 89(degree) 58' 29" E along the South 1/8 line of said section a distance of 294.76 feet to the place of beginning.

## VAN BUREN COUNTY

Certain land in Covert Township, Van Buren County, Michigan described as:

All that part of the West 20 acres of the N 1/2 of the NE fractional 1/4 of Section 1, T2S, R17W, except the West 17 rods of the North 80 rods, being more particularly described as follows: To find the place of beginning of this description commence at the N 1/4 post of said section; run thence N 89(degree) 29' 20" E along the North line of said section 280.5 feet to the place of beginning of this description; thence continuing N 89(degree) 29' 20" E along said North line of said section 288.29 feet; thence S 00(degree) 44' 00" E, 1531.92 feet; thence S 89(degree) 33' 30" W, 568.79 feet to the North and South 1/4 line of said section; thence N 00(degree) 44' 00" W along said North and South

1/4 line of said section 211.4 feet; thence N 89(degree) 29' 20" E, 280.5 feet; thence N 00(degree) 44' 00" W, 1320 feet to the North line of said section and the place of beginning.

WASHTENAW COUNTY

Certain land in Manchester Township, Washtenaw County, Michigan described as:

A parcel of land in the NE 1/4 of the NW 1/4 of Section 1, T4S, R3E, described as follows: To find the place of beginning of this description commence at the Northwest corner of said section; run thence East along the North line of said section 1355.07 feet to the West 1/8 line of said section; thence S 00(degree) 22' 20" E along said West 1/8 line of said section 927.66 feet to the place of beginning of this description; thence continuing S 00(degree) 22' 20" E along said West 1/8 line of said section 660 feet to the North 1/8 line of said section; thence N 86(degree) 36' 57" E along said North 1/8 line of said section 660.91 feet; thence N 00(degree)22' 20" W, 660 feet; thence S 86(degree) 36' 57" W, 660.91 feet to the place of beginning.

WAYNE COUNTY

Certain land in Livonia City, Wayne County, Michigan described as:

Commencing at the Southeast corner of Section 6, T1S, R9E; thence North along the East line of Section 6 a distance of 253 feet to the point of beginning; thence continuing North along the East line of Section 6 a distance of 50 feet; thence Westerly parallel to the South line of Section 6, a distance of 215 feet; thence Southerly parallel to the East line of Section 6 a distance of 50 feet; thence easterly parallel with the South line of Section 6 a distance of 215 feet to the point of beginning.

WEXFORD COUNTY

Certain land in Selma Township, Wexford County, Michigan described as:

A parcel of land in the NW1/4 of Section 7, T22N, R10W, described as beginning on the North line of said section at a point 200 feet East of the West line of said section, running thence East along said North section line 450 feet, thence South parallel with said West section line 350 feet, thence West parallel with said North section line 450 feet, thence North parallel with said West section line 350 feet to the place of beginning.

SECTION 13. The Company is a transmitting utility under Section 9401(5) of the Michigan Uniform Commercial Code (M.C.L. 440.9401(5)) as defined in M.C.L. 440.9105(n).

IN WITNESS WHEREOF, said Consumers Energy Company has caused this Supplemental Indenture to be executed in its corporate name by its Chairman of the Board, President, a Vice President or its Treasurer and its corporate seal to be hereunto affixed and to be attested by its Secretary or an Assistant Secretary, and said The Chase Manhattan Bank, as Trustee as aforesaid, to evidence its acceptance hereof,

has caused this Supplemental Indenture to be executed in its corporate name by a Vice President and its corporate seal to be hereunto affixed and to be attested by a Trust Officer, in several counterparts, all as of the day and year first above written.

CONSUMERS ENERGY COMPANY

(SEAL)

By /s/ A. M. Wright  
-----  
Alan M. Wright  
Senior Vice President and  
Chief Financial Officer

Attest:

/s/ Joyce H. Norkey  
-----  
Joyce H. Norkey  
Assistant Secretary

Signed, sealed and delivered  
by CONSUMERS ENERGY COMPANY  
in the presence of

/s/ Kimberly C. Wilson  
-----  
Kimberly C. Wilson

/s/ Sammie B. Dalton  
-----  
Sammie B. Dalton

STATE OF MICHIGAN            )  
                                  ) ss.  
COUNTY OF JACKSON         )

The foregoing instrument was acknowledged before me this  
4th day of October, 1999, by Alan M. Wright, Senior Vice President and Chief  
Financial Officer of CONSUMERS ENERGY COMPANY, a Michigan corporation, on behalf  
of the corporation.

/s/ Margaret Hillman  
-----  
Margaret Hillman, Notary Public  
Jackson County, Michigan  
My Commission Expires: June 14, 2000

[Seal]

THE CHASE MANHATTAN BANK, AS TRUSTEE

(SEAL)

By /s/ James Freeman  
-----  
Vice President

Attest:

/s/ Eric Butler  
-----  
Trust Officer

Signed, sealed and delivered  
by THE CHASE MANHATTAN BANK  
in the presence of

/s/ N. Rodriguez  
-----

/s/ William G. Keenan  
-----

STATE OF NEW YORK            )  
  ) ss.  
COUNTY OF NEW YORK        )

The foregoing instrument was acknowledged before me this 4th  
day of October, 1999, by James Freeman, a Vice President of THE CHASE MANHATTAN  
BANK, a New York corporation, on behalf of the corporation.

/s/ Emily Fayan  
-----  
Notary Public  
New York County, New York  
My Commission Expires:

[Seal]

Prepared by:  
Kimberly C. Wilson  
212 West Michigan Avenue  
Jackson, MI 49201

When recorded, return to:  
Consumers Energy Company  
General Services Real Estate Department  
Attn: Nancy P. Fisher, P-21-410B  
1945 W. Parnall Road  
Jackson, MI 49201

SEVENTY-SEVENTH SUPPLEMENTAL INDENTURE

Providing among other things for  
FIRST MORTGAGE BONDS,  
Series 1988A Ambac Bonds due April 15, 2018

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Dated as of October 1, 1999

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CONSUMERS ENERGY COMPANY

TO

THE CHASE MANHATTAN BANK,  
TRUSTEE

Counterpart \_\_\_\_\_ of 80

SEVENTY-SEVENTH SUPPLEMENTAL INDENTURE, dated as of October 1, 1999 (herein sometimes referred to as "this Supplemental Indenture"), made and entered into by and between CONSUMERS ENERGY COMPANY, a corporation organized and existing under the laws of the State of Michigan, with its principal executive office and place of business at 212 West Michigan Avenue, in Jackson, Jackson County, Michigan 49201, formerly known as Consumers Power Company, (hereinafter sometimes referred to as the "Company"), and THE CHASE MANHATTAN BANK, a corporation organized and existing under the laws of the State of New York, with its corporate trust offices at 450 W. 33rd Street, in the Borough of Manhattan, The City of New York, New York 10001 (hereinafter sometimes referred to as the "Trustee"), as Trustee under the Indenture dated as of September 1, 1945 between Consumers Power Company, a Maine corporation (hereinafter sometimes referred to as the "Maine corporation"), and City Bank Farmers Trust Company (Citibank, N.A., successor, hereinafter sometimes referred to as the "Predecessor Trustee"), securing bonds issued and to be issued as provided therein (hereinafter sometimes referred to as the "Indenture"),

WHEREAS at the close of business on January 30, 1959, City Bank Farmers Trust Company was converted into a national banking association under the title "First National City Trust Company"; and

WHEREAS at the close of business on January 15, 1963, First National City Trust Company was merged into First National City Bank; and

WHEREAS at the close of business on October 31, 1968, First National City Bank was merged into The City Bank of New York, National Association, the name of which was thereupon changed to First National City Bank; and

WHEREAS effective March 1, 1976, the name of First National City Bank was changed to Citibank, N.A.; and

WHEREAS effective July 16, 1984, Manufacturers Hanover Trust Company succeeded Citibank, N.A. as Trustee under the Indenture; and

WHEREAS effective June 19, 1992, Chemical Bank succeeded by merger to Manufacturers Hanover Trust Company as Trustee under the Indenture; and

WHEREAS effective July 15, 1996, The Chase Manhattan Bank (National Association), merged with and into Chemical Bank which thereafter was renamed The Chase Manhattan Bank as Trustee under the Indenture; and

WHEREAS the Indenture was executed and delivered for the purpose of securing such bonds as may from time to time be issued under and in accordance with the terms of the Indenture, the aggregate principal amount of bonds to be secured thereby being limited to \$5,000,000,000 at any one time outstanding (except as provided in Section 2.01 of the Indenture), and the Indenture describes and sets forth the property conveyed thereby and is filed in the Office of the Secretary of State of the State of Michigan and is of record in the Office of the Register of Deeds of each county in the State of Michigan in which this Supplemental Indenture is to be recorded; and

WHEREAS the Indenture has been supplemented and amended by various indentures supplemental thereto, each of which is filed in the Office of the Secretary of State of the State of Michigan and is of record in the Office of the Register of Deeds of each county in the State of Michigan in which this Supplemental Indenture is to be recorded; and

WHEREAS the Company and the Maine corporation entered into an Agreement of Merger and Consolidation, dated as of February 14, 1968, which provided for the Maine corporation to merge into the Company; and

WHEREAS the effective date of such Agreement of Merger and Consolidation was June 6, 1968, upon which date the Maine corporation was merged into the Company and the name of the Company was changed from "Consumers Power Company of Michigan" to "Consumers Power Company"; and

WHEREAS the Company and the Predecessor Trustee entered into a Sixteenth Supplemental Indenture, dated as of June 4, 1968, which provided, among other things, for the assumption of the Indenture by the Company; and

WHEREAS said Sixteenth Supplemental Indenture became effective on the effective date of such Agreement of Merger and Consolidation; and

WHEREAS the Company has succeeded to and has been substituted for the Maine corporation under the Indenture with the same effect as if it had been named therein as the mortgagor corporation; and

WHEREAS effective March 11, 1997, the name of Consumers Power Company was changed to Consumers Energy Company; and

WHEREAS, pursuant to an Indenture of Trust, dated as of April 15, 1988 (the "MSF Trust Indenture") by and between the Michigan Strategic Fund, (the "Issuer") and Bankers Trust Company, (the "MSF Trust Indenture Trustee") the Issuer has issued \$67,700,000 in aggregate principal amount of its Variable Rate Demand Pollution Control Revenue Refunding Bonds (Consumers Power Company Project) Series 1988A (hereinafter sometimes called the "MSF Bonds"); and

WHEREAS, the MSF Trust Indenture has been amended as set forth in the Amended and Restated Indenture of Trust dated as of October 1, 1999 (the "Amended MSF Trust Indenture") to provide, among other things, for substitute credit enhancement on the MSF Bonds; and

WHEREAS, Ambac Assurance Corporation, a Wisconsin-domiciled stock insurance company ("Ambac") has provided such substitute credit enhancement on the MSF Bonds through the issuance of its Municipal Bond Insurance Policy (the "Policy") which insures certain payments of principal of and interest on the MSF Bonds, as specified therein; and

WHEREAS, the Company has entered into an Insurance Agreement, dated as of October 1, 1999 with Ambac (the "Insurance Agreement") in connection with the Policy and pursuant to the Insurance Agreement the Company has agreed to issue a new series of bonds under the Indenture in order to secure its obligations under the Insurance Agreement; and

WHEREAS, for such purposes the Company desires to issue a new series of bonds, to be designated First Mortgage Bonds, Series 1988A Ambac Bonds due April 15, 2018, each of which bonds shall also bear the descriptive title "First Mortgage Bond" (hereinafter provided for and hereinafter sometimes referred to as the "Series 1988A Ambac Bonds"), the bonds of which series are to be issued as registered bonds without coupons and are to bear interest at the rate per annum specified herein and are to mature April 15, 2018; and

WHEREAS, the Series 1988A Ambac Bonds shall be issued to Ambac in connection with the issuance of the Policy; and

WHEREAS each of the registered bonds without coupons of the Series 1988A Ambac Bonds and the Trustee's Authentication Certificate thereon are to be substantially in the following forms, to wit:

[FORM OF REGISTERED BOND OF THE SERIES 1988A AMBAC BONDS]

[FACE]

NOTWITHSTANDING ANY PROVISIONS HEREOF OR IN THE INDENTURE, THIS BOND IS NOT ASSIGNABLE OR TRANSFERABLE.

CONSUMERS ENERGY COMPANY

FIRST MORTGAGE BOND, SERIES 1988A AMBAC BONDS  
DUE APRIL 15, 2018

No. \$

CONSUMERS ENERGY COMPANY, a Michigan corporation (hereinafter called the "Company"), for value received, hereby promises to pay to Ambac Assurance Corporation ("Ambac"), or registered assigns, the principal sum of Sixty-Seven Million Seven Hundred Thousand Dollars on April 15, 2018, and to pay to the registered holder hereof interest on said sum payable at the rate and in the manner as set forth in the MSF Bonds, defined below. In the event that one or more MSF Bonds shall have different interest rates from other MSF Bonds, the interest rate of each allocable portion of the Series 1988A Ambac Bonds shall be deemed to correspond to the interest rate of each such MSF Bonds (as defined below).

Under an Indenture of Trust dated as of April 15, 1988 between the Michigan Strategic Fund, as issuer (the "Issuer") and Bankers Trust Company, as trustee (the "MSF Trust Indenture Trustee"), which has been amended and restated pursuant to the Amended and Restated Indenture of Trust dated as of October 1, 1999 between the Issuer and the MSF Trust Indenture Trustee and acknowledged and agreed to by the Company (as so amended and restated, the "MSF Trust Indenture"). MSF has issued Variable Rate Demand Pollution Control Revenue Refunding Bonds (Consumers Power Company Project) Series 1988A (hereinafter sometimes called the "MSF Bonds"). Payments of principal of, premiums, if any, or interest on, the MSF Bonds shall constitute payments on this bond as further provided herein and in the supplemental indenture pursuant to which this bond has been issued; provided that payments of principal and interest made on the MSF Bonds by Ambac pursuant to its municipal bond insurance policy (the "Policy") issued with respect of the MSF Bonds shall not constitute payments on this bond unless all amounts in respect thereof owed to Ambac pursuant to Section 2.01(a) of the Insurance Agreement dated October 1, 1999 between Ambac, the Company and the MSF Trust Indenture Trustee (the "Insurance Agreement") shall have been paid in full.

The provisions of this bond are continued on the reverse hereof and such continued provisions shall for all purposes have the same effect as though fully set forth at this place.

This bond shall not be valid or become obligatory for any purpose unless and until it shall have been authenticated by the execution by the Trustee or its successor in trust under the Indenture of the certificate hereon.

IN WITNESS WHEREOF, Consumers Energy Company has caused this bond to be executed in its name by its Chairman of the Board, its President or one of its Vice Presidents by his or her signature or a facsimile thereof, and its corporate seal or a facsimile thereof to be affixed hereto or imprinted

hereon and attested by its Secretary or one of its Assistant Secretaries by his or her signature or a facsimile thereof.

CONSUMERS ENERGY COMPANY,

Dated: By \_\_\_\_\_  
Its \_\_\_\_\_

Attest: \_\_\_\_\_  
Secretary

[FORM OF TRUSTEE'S AUTHENTICATION CERTIFICATE]

TRUSTEE'S AUTHENTICATION CERTIFICATE

This is one of the bonds, of the series designated therein, described in the within-mentioned Indenture.

THE CHASE MANHATTAN BANK,  
Trustee

By \_\_\_\_\_  
Authorized Officer

[REVERSE]

CONSUMERS ENERGY COMPANY

FIRST MORTGAGE BOND, SERIES 1988A AMBAC BONDS  
DUE APRIL 15, 2018

The interest payable on any date as specified in the MSF Bonds (each "Interest Payment Date") will, subject to certain exceptions provided in the Indenture hereinafter mentioned, be paid to the person in whose name this bond is registered at the close of business on the record date as specified in the MSF Bonds. The principal of and the premium, if any, and the interest on this bond shall be payable at the office or agency of the Company in the City of Jackson, Michigan designated for that purpose, in any coin or currency of the United States of America which at the time of payment is legal tender for public and private debts.

Upon any payment of the principal of, premium, if any, or interest on, all or any portion of the MSF Bonds (other than payments of principal or interest made thereon by Ambac pursuant to the Policy which are not reimbursed to Ambac when due in accordance with Section 2.01(a) of the Insurance Agreement), whether at maturity or prior to maturity by redemption or otherwise, Series 1988A Ambac Bonds in a principal amount equal to the principal amount of such MSF Bonds shall, to the extent of such payment of principal, premium, if any, and interest or reimbursements to Ambac, be deemed fully paid and

the obligation of the Company thereunder to make such payment shall be discharged to such extent and, in the case of the payment of principal (and premium, if any) such bonds of Series 1988A Ambac Bonds shall be surrendered to the Company for cancellation as provided in Section 3.01(a) of the Insurance Agreement. The Trustee may at anytime and all times conclusively assume that the obligation of the Company to make payments with respect to the principal of, and premium, if any, and interest on the Series 1988A Ambac Bonds and the obligation of the Company to make payments with respect to Section 2.01(a) of the Insurance Agreement, so far as such payments at the time have become due, have been fully satisfied and discharged pursuant to the foregoing sentence unless and until the Trustee shall have received a written notice from Ambac signed by one of its officers stating (i) that a claim or claims have been made under the Policy, (ii) that the Company is in arrears as to the payments required to be made by it to Ambac pursuant to the Insurance Agreement, and (iii) the amount of the arrearage.

In the event that there is an Event of Default (as defined in the MSF Indenture) under the MSF Bonds that results in an acceleration of all outstanding amounts of principal, premium if any, and interest of the MSF Bonds and there is an Event of Default (as defined in the Insurance Agreement) with respect to non-payment of the Company's obligations under Section 2.01(a) of the Insurance Agreement, then Ambac shall give written notice thereof to the Trustee and such events shall constitute a default under this bond and the remedies set forth in the Indenture shall be applicable as provided in the Indenture.

This bond is one of the bonds issued and to be issued from time to time under and in accordance with and all secured by an Indenture dated as of September 1, 1945, given by the Company (or its predecessor, Consumers Power Company, a Maine corporation) to City Bank Farmers Trust Company (The Chase Manhattan Bank, successor) (hereinafter sometimes referred to as the "Trustee"), and indentures supplemental thereto, heretofore or hereafter executed, to which indenture and indentures supplemental thereto (hereinafter referred to collectively as the "Indenture") reference is hereby made for a description of the property mortgaged and pledged, the nature and extent of the security and the rights, duties and immunities thereunder of the Trustee and the rights of the holders of said bonds and of the Trustee and of the Company in respect of such security, and the limitations on such rights. By the terms of the Indenture, the bonds to be secured thereby are issuable in series which may vary as to date, amount, date of maturity, rate of interest and in other respects as provided in the Indenture.

The Indenture contains provisions permitting the Company and the Trustee, with the consent of the holders of not less than seventy-five per centum in principal amount of the bonds (exclusive of bonds disqualified by reason of the Company's interest therein) at the time outstanding, including, if more than one series of bonds shall be at the time outstanding, not less than sixty per centum in principal amount of each series affected, to effect, by an indenture supplemental to the Indenture, modifications or alterations of the Indenture and of the rights and obligations of the Company and the rights of the holders of the bonds and coupons; provided, however, that no such modification or alteration shall be made without the written approval or consent of the holder hereof which will (a) extend the maturity of this bond or reduce the rate or extend the time of payment of interest hereon or reduce the amount of the principal hereof, or (b) permit the creation of any lien, not otherwise permitted, prior to or on a parity with the lien of the Indenture, or (c) reduce the percentage of the principal amount of the bonds the holders of which are required to approve any such supplemental indenture.

The Company reserves the right, without any consent, vote or other action by holders of bonds of this series or any other series created after the Sixty-eighth Supplemental Indenture to amend the Indenture to reduce the percentage of the principal amount of bonds the holders of which are required to approve any supplemental indenture (other than any supplemental indenture which is subject to the proviso contained in the immediately preceding sentence) (a) from not less than seventy-five per centum (including sixty per centum of each series affected) to not less than a majority in principal amount of the bonds at the time outstanding or (b) in case fewer than all series are affected, not less than a majority in principal amount of the bonds of all affected series, voting together.

This bond is not redeemable by the operation of the improvement fund or the maintenance and replacement provisions of the Indenture or with the proceeds of released property.

This bond is redeemable on the respective dates and in the respective principal amounts which correspond to the redemption dates for, and the principal amounts to be redeemed of, the MSF Bonds (provided that this bond may not be redeemed where any portion of the principal or interest on the MSF Bonds is paid by Ambac pursuant to the Policy in connection with the redemption of the MSF Bonds and Ambac has not been paid as provided in Section 2.01(a) of the Insurance Agreement). In addition, this bond is redeemable at the option of the Company in connection with a call for purchase of the MSF Bonds, as set forth in Article III of the Amended MSF Trust Indenture.

This bond shall not be assignable or transferable.

As provided in Section 3.01(b) of the Insurance Agreement, from and after the Release Date (as defined in the Insurance Agreement), the obligations of the Company with respect to this bond shall be deemed to be satisfied and discharged, this bond shall cease to secure in any manner any obligation outstanding under the Insurance Agreement, and, pursuant to Section 3.01(a) of the Insurance Agreement, provided that all amounts owed to Ambac pursuant to Section 2.01(a) of the Insurance Agreement shall be indefeasibly paid in full, Ambac shall forthwith deliver this bond to the Company for cancellation.

In case of certain defaults as specified in the Indenture, the principal of this bond may be declared or may become due and payable on the conditions, at the time, in the manner and with the effect provided in the Indenture.

No recourse shall be had for the payment of the principal of or premium, if any, or interest on this bond, or for any claim based hereon, or otherwise in respect hereof or of the Indenture, to or against any incorporator, stockholder, director or officer, past, present or future, as such, of the Company, or of any predecessor or successor company, either directly or through the Company, or such predecessor or successor company, or otherwise, under any constitution or statute or rule of law, or by the enforcement of any assessment or penalty, or otherwise, all such liability of incorporators, stockholders, directors and officers, as such, being waived and released by the holder and owner hereof by the acceptance of this bond and being likewise waived and released by the terms of the Indenture.

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AND WHEREAS all acts and things necessary to make the bonds of the Series 1988A Ambac Bonds, when duly executed by the Company and authenticated by the Trustee or its agent and issued as prescribed in the Indenture, as heretofore supplemented and amended, and this Supplemental Indenture provided, the valid, binding and legal obligations of the Company, and to constitute the Indenture, as supplemented and amended as aforesaid, as well as by this Supplemental Indenture, a valid, binding and legal instrument for the security thereof, have been done and performed, and the creation, execution and delivery of this Supplemental Indenture and the creation, execution and issuance of bonds subject to the terms hereof and of the Indenture, as so supplemented and amended, have in all respects been duly authorized;

NOW, THEREFORE, in consideration of the premises, of the acceptance and purchase by the holders thereof of the bonds issued and to be issued under the Indenture, as supplemented and amended as above set forth, and of the sum of One Dollar duly paid by the Trustee to the Company, and of other good and valuable considerations, the receipt whereof is hereby acknowledged, and for the purpose of securing the due and punctual payment of the principal of and premium, if any, and interest on all bonds now outstanding under the Indenture and the \$67,700,000 principal amount of Series 1988A Ambac Bonds

proposed to be issued initially and all other bonds which shall be issued under the Indenture, as supplemented and amended from time to time, and for the purpose of securing the faithful performance and observance of all covenants and conditions therein, and in any indenture supplemental thereto, set forth, the Company has given, granted, bargained, sold, released, transferred, assigned, hypothecated, pledged, mortgaged, confirmed, set over, warranted, alienated and conveyed and by these presents does give, grant, bargain, sell, release, transfer, assign, hypothecate, pledge, mortgage, confirm, set over, warrant, alien and convey unto The Chase Manhattan Bank, as Trustee, as provided in the Indenture, and its successor or successors in the trust thereby and hereby created and to its or their assigns forever, all the right, title and interest of the Company in and to all the property, described in Section 12 hereof, together (subject to the provisions of Article X of the Indenture) with the tolls, rents, revenues, issues, earnings, income, products and profits thereof, excepting, however, the property, interests and rights specifically excepted from the lien of the Indenture as set forth in the Indenture.

TOGETHER WITH all and singular the tenements, hereditaments and appurtenances belonging or in any wise appertaining to the premises, property, franchises and rights, or any thereof, referred to in the foregoing granting clause, with the reversion and reversions, remainder and remainders and (subject to the provisions of Article X of the Indenture) the tolls, rents, revenues, issues, earnings, income, products and profits thereof, and all the estate, right, title and interest and claim whatsoever, at law as well as in equity, which the Company now has or may hereafter acquire in and to the aforesaid premises, property, franchises and rights and every part and parcel thereof.

SUBJECT, HOWEVER, with respect to such premises, property, franchises and rights, to excepted encumbrances as said term is defined in Section 1.02 of the Indenture, and subject also to all defects and limitations of title and to all encumbrances existing at the time of acquisition.

TO HAVE AND TO HOLD all said premises, property, franchises and rights hereby conveyed, assigned, pledged or mortgaged, or intended so to be, unto the Trustee, its successor or successors in trust and their assigns forever;

BUT IN TRUST, NEVERTHELESS, with power of sale for the equal and proportionate benefit and security of the holders of all bonds now or hereafter authenticated and delivered under and secured by the Indenture and interest coupons appurtenant thereto, pursuant to the provisions of the Indenture and of any supplemental indenture, and for the enforcement of the payment of said bonds and coupons when payable and the performance of and compliance with the covenants and conditions of the Indenture and of any supplemental indenture, without any preference, distinction or priority as to lien or otherwise of any bond or bonds over others by reason of the difference in time of the actual authentication, delivery, issue, sale or negotiation thereof or for any other reason whatsoever, except as otherwise expressly provided in the Indenture; and so that each and every bond now or hereafter authenticated and delivered thereunder shall have the same lien, and so that the principal of and premium, if any, and interest on every such bond shall, subject to the terms thereof, be equally and proportionately secured, as if it had been made, executed, authenticated, delivered, sold and negotiated simultaneously with the execution and delivery thereof.

AND IT IS EXPRESSLY DECLARED by the Company that all bonds authenticated and delivered under and secured by the Indenture, as supplemented and amended as above set forth, are to be issued, authenticated and delivered, and all said premises, property, franchises and rights hereby and by the Indenture and indentures supplemental thereto conveyed, assigned, pledged or mortgaged, or intended so to be, are to be dealt with and disposed of under, upon and subject to the terms, conditions, stipulations, covenants, agreements, trusts, uses and purposes expressed in the Indenture, as supplemented and amended as above set forth, and the parties hereto mutually agree as follows:

SECTION 1. There is hereby created one series of bonds (the "Series 1988A Ambac Bonds") designated as hereinabove provided, which shall also bear the descriptive title "First Mortgage

Bond", and the form thereof shall be substantially as hereinbefore set forth. Series 1988A Ambac Bonds shall be issued in the aggregate principal amount of \$67,700,000, shall mature on April 15, 2018 and shall be issued only as registered bonds without coupons in denominations of \$1,000 and any multiple thereof. The serial numbers of bonds of the Series 1988A Ambac Bonds shall be such as may be approved by any officer of the Company, the execution thereof by any such officer either manually or by facsimile signature to be conclusive evidence of such approval. Series 1988A Ambac Bonds shall bear interest at the rate per annum, until the principal thereof shall be paid in full at the times and in the manner as specified in the MSF Bonds to the holder of the 1988A Ambac Bonds. The principal of, and the premium, if any, and the interest on said bonds shall be payable in any coin or currency of the United States of America which at the time of payment is legal tender for public and private debts, at the office or agency of the Company in the City of Jackson, Michigan designated for that purpose.

Upon any payment of the principal of, premium, if any, and interest on, all or any portion of the MSF Bonds (other than payments of principal or interest made thereon by Ambac pursuant to the Policy which have not been reimbursed in accordance with Section 2.01(a)), whether at maturity or prior to maturity by redemption or otherwise, Series 1988A Ambac Bonds in a principal amount equal to the principal amount of such MSF Bonds shall, to the extent of such payment of principal, premium, if any, and interest, or reimbursements to Ambac, provided that all amounts owed to Ambac under Section 2.01(a) of the Insurance Agreement shall be paid in full to Ambac, be deemed fully paid and the obligation of the Company thereunder to make such payment shall be discharged to such extent and, in the case of the payment of principal (and premium, if any) such bonds of Series 1988A Ambac Bonds shall be surrendered to the Company for cancellation as provided in Section 3.01(a) of the Insurance Agreement. The Trustee may at anytime and all times conclusively assume that the obligation of the Company to make payments with respect to the principal of, and premium, if any, and interest on the Series 1988A Ambac Bonds and the obligation of the Company to make payments with respect to Section 2.01(a) of the Insurance Agreement, so far as such payments at the time have become due, have been fully satisfied and discharged pursuant to the foregoing sentence unless and until the Trustee shall have received a written notice from Ambac as set forth in Section 3 herein.

Each Series 1988A Ambac Bond is to be issued to and registered in the name of Ambac to secure any and all obligations of the Company under the Insurance Agreement.

The Series 1988A Ambac Bonds shall not be assignable or transferable.

SECTION 2. Series 1988A Ambac Bonds shall not be redeemable except on the respective dates, in the respective principal amounts and for the respective redemption prices which correspond to the redemption dates for, the principal amounts to be redeemed of, and the redemption prices for, the MSF Bonds.

In the event the Company elects to or is required to redeem or is required to purchase any MSF Bonds prior to maturity in accordance with the provisions of the MSF Indenture, Ambac shall on the same date deliver to the Company the Series 1988A Ambac Bonds in principal amounts corresponding to the MSF Bonds so redeemed or purchased, as provided in Section 3.01(a) of the Insurance Agreement; provided that Ambac has not made any payments pursuant to the Policy in connection with any such redemption or purchase of the MSF Bonds which have not been reimbursed to Ambac in accordance with Section 2.01(a) of the Insurance Agreement. The Company agrees to give the Trustee and Ambac notice of any such redemption or purchase of the MSF Bonds on or before the date fixed for any such redemption or purchase.

Series 1988A Ambac Bonds are not redeemable by the operation of the improvement fund or the maintenance and replacement provisions of this Indenture or with the proceeds of released property.

SECTION 3. In the event that there is an Event of Default (as defined under the MSF Trust Indenture) under the MSF Bonds that results in an acceleration of all outstanding amounts of principal, premium if any, and interest on the MSF Bonds and there is an Event of Default (as defined under the Insurance Agreement) with respect to non-payment of the Company's obligations under Section 2.01(a) of the Insurance Agreement, then Ambac shall give written notice thereof to the Trustee and such events shall constitute an Event of Default and the remedies set forth in the Indenture shall be applicable as provided in the Indenture.

SECTION 4. As provided in Section 3.01(b) of the Insurance Agreement and provided that all amounts owing to Ambac under Section 2.01(a) of the Insurance Agreement shall have been paid in full, from and after the Release Date (as defined therein), the obligations of the Company with respect to the Series 1988A Ambac Bonds (the "Bonds") shall be deemed to be satisfied and discharged, the Bonds shall cease to secure in any manner any obligations outstanding under the Insurance Agreement, and, pursuant to Section 3.01(a) of the Insurance Agreement, Ambac shall forthwith deliver the Bonds to the Company for cancellation.

SECTION 5. The Company reserves the right, without any consent, vote or other action by the holder of the Series 1988A Ambac Bonds or of any subsequent series of bonds issued under the Indenture, to make such amendments to the Indenture, as supplemented, as shall be necessary in order to amend Section 17.02 to read as follows:

SECTION 17.02. With the consent of the holders of not less than a majority in principal amount of the bonds at the time outstanding or their attorneys-in-fact duly authorized, or, if fewer than all series are affected, not less than a majority in principal amount of the bonds at the time outstanding of each series the rights of the holders of which are affected, voting together, the Company, when authorized by a resolution, and the Trustee may from time to time and at any time enter into an indenture or indentures supplemental hereto for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of this Indenture or of any supplemental indenture or modifying the rights and obligations of the Company and the rights of the holders of any of the bonds and coupons; provided, however, that no such supplemental indenture shall (1) extend the maturity of any of the bonds or reduce the rate or extend the time of payment of interest thereon, or reduce the amount of the principal thereof, or reduce any premium payable on the redemption thereof, without the consent of the holder of each bond so affected, or (2) permit the creation of any lien, not otherwise permitted, prior to or on a parity with the lien of this Indenture, without the consent of the holders of all the bonds then outstanding, or (3) reduce the aforesaid percentage of the principal amount of bonds the holders of which are required to approve any such supplemental indenture, without the consent of the holders of all the bonds then outstanding. For the purposes of this Section, bonds shall be deemed to be affected by a supplemental indenture if such supplemental indenture adversely affects or diminishes the rights of holders thereof against the Company or against its property. The Trustee may in its discretion determine whether or not, in accordance with the foregoing, bonds of any particular series would be affected by any supplemental indenture and any such determination shall be conclusive upon the holders of bonds of such series and all other series. Subject to the provisions of Sections 16.02 and 16.03 hereof, the Trustee shall not be liable for any determination made in good faith in connection herewith.

Upon the written request of the Company, accompanied by a resolution authorizing the execution of any such supplemental indenture, and upon the filing with the Trustee of evidence of the consent of bondholders as aforesaid (the instrument or instruments evidencing such consent to be dated within one year of such request), the Trustee shall join with the Company in the execution of such supplemental indenture unless such supplemental indenture affects the Trustee's own rights, duties or immunities under this Indenture or otherwise, in which case the Trustee may in its discretion but shall not be obligated to enter into such supplemental indenture.

It shall not be necessary for the consent of the bondholders under this Section to approve the particular form of any proposed supplemental indenture, but it shall be sufficient if such consent shall approve the substance thereof.

The Company and the Trustee, if they so elect, and either before or after such consent has been obtained, may require the holder of any bond consenting to the execution of any such supplemental indenture to submit his bond to the Trustee or to ask such bank, banker or trust company as may be designated by the Trustee for the purpose, for the notation thereon of the fact that the holder of such bond has consented to the execution of such supplemental indenture, and in such case such notation, in form satisfactory to the Trustee, shall be made upon all bonds so submitted, and such bonds bearing such notation shall forthwith be returned to the persons entitled thereto.

Prior to the execution by the Company and the Trustee of any supplemental indenture pursuant to the provisions of this Section, the Company shall publish a notice, setting forth in general terms the substance of such supplemental indenture, at least once in one daily newspaper of general circulation in each city in which the principal of any of the bonds shall be payable, or, if all bonds outstanding shall be registered bonds without coupons or coupon bonds registered as to principal, such notice shall be sufficiently given if mailed, first class, postage prepaid, and registered if the Company so elects, to each registered holder of bonds at the last address of such holder appearing on the registry books, such publication or mailing, as the case may be, to be made not less than thirty days prior to such execution. Any failure of the Company to give such notice, or any defect therein, shall not, however, in any way impair or affect the validity of any such supplemental indenture.

SECTION 6. As supplemented and amended as above set forth, the Indenture is in all respects ratified and confirmed, and the Indenture and all indentures supplemental thereto shall be read, taken and construed as one and the same instrument.

SECTION 7. Nothing contained in this Supplemental Indenture shall, or shall be construed to, confer upon any person other than a holder of bonds issued under the Indenture, as supplemented and amended as above set forth, the Company, the Trustee and Ambac any right or interest to avail himself of any benefit under any provision of the Indenture, as so supplemented and amended.

SECTION 8. The Trustee assumes no responsibility for or in respect of the validity or sufficiency of this Supplemental Indenture or of the Indenture as hereby supplemented or the due execution hereof by the Company or for or in respect of the recitals and statements contained herein (other than those contained in the sixth and seventh recitals hereof), all of which recitals and statements are made solely by the Company.

SECTION 9. This Supplemental Indenture may be simultaneously executed in several counterparts and all such counterparts executed and delivered, each as an original, shall constitute but one and the same instrument.

SECTION 10. In the event the date of any notice required or permitted hereunder or the date of maturity of interest on or principal of the Series 1988A Ambac Bonds or the date fixed for redemption or repayment of the Series 1988A Ambac Bonds shall not be a Business Day, then (notwithstanding any other provision of the Indenture or of any supplemental indenture thereto) such notice or such payment of such interest or principal need not be made on such date, but may be made on the next succeeding Business Day with the same force and effect as if made on the date fixed for such notice or as if made on the date of maturity or the date fixed for redemption or repayment, and no interest shall accrue for the period from and after such date. "Business Day" means, with respect to this Section 10, a day of the year on which banks are not required or authorized to close in New York City or Detroit, Michigan.

SECTION 11. This Supplemental Indenture and the Series 1988A Ambac Bonds shall be governed by and deemed to be a contract under, and construed in accordance with, the laws of the State of Michigan, and for all purposes shall be construed in accordance with the laws of such state, except as may otherwise be required by mandatory provisions of law.

SECTION 12. Detailed Description of Property Mortgaged:

I.

ELECTRIC GENERATING PLANTS AND DAMS

All the electric generating plants and stations of the Company, constructed or otherwise acquired by it and not heretofore described in the Indenture or any supplement thereto and not heretofore released from the lien of the Indenture, including all powerhouses, buildings, reservoirs, dams, pipelines, flumes, structures and works and the land on which the same are situated and all water rights and all other lands and easements, rights of way, permits, privileges, towers, poles, wires, machinery, equipment, appliances, appurtenances and supplies and all other property, real or personal, forming a part of or appertaining to or used, occupied or enjoyed in connection with such plants and stations or any of them, or adjacent thereto.

II.

ELECTRIC TRANSMISSION LINES

All the electric transmission lines of the Company, constructed or otherwise acquired by it and not heretofore described in the Indenture or any supplement thereto and not heretofore released from the lien of the Indenture, including towers, poles, pole lines, wires, switches, switch racks, switchboards, insulators and other appliances and equipment, and all other property, real or personal, forming a part of or appertaining to or used, occupied or enjoyed in connection with such transmission lines or any of them or adjacent thereto; together with all real property, rights of way, easements, permits, privileges, franchises and

rights for or relating to the construction, maintenance or operation thereof, through, over, under or upon any private property or any public streets or highways, within as well as without the corporate limits of any municipal corporation. Also all the real property, rights of way, easements, permits, privileges and rights for or relating to the construction, maintenance or operation of certain transmission lines, the land and rights for which are owned by the Company, which are either not built or now being constructed.

### III.

#### ELECTRIC DISTRIBUTION SYSTEMS

All the electric distribution systems of the Company, constructed or otherwise acquired by it and not heretofore described in the Indenture or any supplement thereto and not heretofore released from the lien of the Indenture, including substations, transformers, switchboards, towers, poles, wires, insulators, subways, trenches, conduits, manholes, cables, meters and other appliances and equipment, and all other property, real or personal, forming a part of or appertaining to or used, occupied or enjoyed in connection with such distribution systems or any of them or adjacent thereto; together with all real property, rights of way, easements, permits, privileges, franchises, grants and rights, for or relating to the construction, maintenance or operation thereof, through, over, under or upon any private property or any public streets or highways within as well as without the corporate limits of any municipal corporation.

### IV.

#### ELECTRIC SUBSTATIONS, SWITCHING STATIONS AND SITES

All the substations, switching stations and sites of the Company, constructed or otherwise acquired by it and not heretofore described in the Indenture or any supplement thereto and not heretofore released from the lien of the Indenture, for transforming, regulating, converting or distributing or otherwise controlling electric current at any of its plants and elsewhere, together with all buildings, transformers, wires, insulators and other appliances and equipment, and all other property, real or personal, forming a part of or appertaining to or used, occupied or enjoyed in connection with any of such substations and switching stations, or adjacent thereto, with sites to be used for such purposes.

### V.

#### GAS COMPRESSOR STATIONS, GAS PROCESSING PLANTS, DESULPHURIZATION STATIONS, METERING STATIONS, ODORIZING STATIONS, REGULATORS AND SITES

All the compressor stations, processing plants, desulphurization stations, metering stations, odorizing stations, regulators and sites of the Company, constructed or otherwise acquired by it and not heretofore described in the Indenture or any supplement thereto and not heretofore released from the lien of the Indenture, for compressing, processing, desulphurizing, metering, odorizing and regulating manufactured or natural gas at any of its plants and elsewhere, together with all buildings, meters and other appliances and equipment, and all other property, real or personal, forming a part of or appertaining to or used, occupied or enjoyed in connection with any of such purposes, with sites to be used for such purposes.

## VI.

## GAS STORAGE FIELDS

The natural gas rights and interests of the Company, including wells and well lines (but not including natural gas, oil and minerals), the gas gathering system, the underground gas storage rights, the underground gas storage wells and injection and withdrawal system used in connection therewith, constructed or otherwise acquired by it and not heretofore described in the Indenture or any supplement thereto and not heretofore released from the lien of the Indenture: In the Overisel Gas Storage Field, located in the Township of Overisel, Allegan County, and in the Township of Zeeland, Ottawa County, Michigan; in the Northville Gas Storage Field located in the Township of Salem, Washtenaw County, Township of Lyon, Oakland County, and the Townships of Northville and Plymouth and City of Plymouth, Wayne County, Michigan; in the Salem Gas Storage Field, located in the Township of Salem, Allegan County, and in the Township of Jamestown, Ottawa County, Michigan; in the Ray Gas Storage Field, located in the Townships of Ray and Armada, Macomb County, Michigan; in the Lenox Gas Storage Field, located in the Townships of Lenox and Chesterfield, Macomb County, Michigan; in the Ira Gas Storage Field, located in the Township of Ira, St. Clair County, Michigan; in the Puttygut Gas Storage Field, located in the Township of Casco, St. Clair County, Michigan; in the Four Corners Gas Storage Field, located in the Townships of Casco, China, Cottrellville and Ira, St. Clair County, Michigan; in the Swan Creek Gas Storage Field, located in the Township of Casco and Ira, St. Clair County, Michigan; and in the Hessen Gas Storage Field, located in the Townships of Casco and Columbus, St. Clair, Michigan.

## VII.

## GAS TRANSMISSION LINES

All the gas transmission lines of the Company, constructed or otherwise acquired by it and not heretofore described in the Indenture or any supplement thereto and not heretofore released from the lien of the Indenture, including gas mains, pipes, pipelines, gates, valves, meters and other appliances and equipment, and all other property, real or personal, forming a part of or appertaining to or used, occupied or enjoyed in connection with such transmission lines or any of them or adjacent thereto; together with all real property, right of way, easements, permits, privileges, franchises and rights for or relating to the construction, maintenance or operation thereof, through, over, under or upon any private property or any public streets or highways, within as well as without the corporate limits of any municipal corporation.

## VIII.

## GAS DISTRIBUTION SYSTEMS

All the gas distribution systems of the Company, constructed or otherwise acquired by it and not heretofore described in the Indenture or any supplement thereto and not heretofore released from the lien of the Indenture, including tunnels, conduits, gas mains and pipes, service pipes, fittings, gates, valves, connections, meters and other appliances and equipment, and all other property, real or personal, forming a part of or appertaining to or used, occupied or enjoyed in connection with such distribution systems or any of them or adjacent thereto; together with all real property, rights of way, easements, permits, privileges, franchises, grants and rights, for or relating to the construction, maintenance or operation thereof, through, over, under or upon any private property or any public streets or highways within as well as without the corporate limits of any municipal corporation.

## IX.

OFFICE BUILDINGS,  
SERVICE BUILDINGS, GARAGES, ETC.

All office, garage, service and other buildings of the Company, wherever located, in the State of Michigan, constructed or otherwise acquired by it and not heretofore described in the Indenture or any supplement thereto and not heretofore released from the lien of the Indenture, together with the land on which the same are situated and all easements, rights of way and appurtenances to said lands, together with all furniture and fixtures located in said buildings.

## X.

TELEPHONE PROPERTIES AND  
RADIO COMMUNICATION EQUIPMENT

All telephone lines, switchboards, systems and equipment of the Company, constructed or otherwise acquired by it and not heretofore described in the Indenture or any supplement thereto and not heretofore released from the line of the Indenture, used or available for use in the operation of its properties, and all other property, real or personal, forming a part of or appertaining to or used, occupied or enjoyed in connection with such telephone properties or any of them or adjacent thereto; together with all real estate, rights of way, easements, permits, privileges, franchises, property, devices or rights related to the dispatch, transmission, reception or reproduction of messages, communications, intelligence, signals, light, vision or sound by electricity, wire or otherwise, including all telephone equipment installed in buildings used as general and regional offices, substations and generating stations and all telephone lines erected on towers and poles; and all radio communication equipment of the Company, together with all property, real or personal (except any in the Indenture expressly excepted), fixed stations, towers, auxiliary radio buildings and equipment, and all appurtenances used in connection therewith, wherever located, in the State of Michigan.

## XI.

## OTHER REAL PROPERTY

All other real property of the Company and all interests therein, of every nature and description (except any in the Indenture expressly excepted) wherever located, in the State of Michigan, acquired by it and not heretofore described in the Indenture or any supplement thereto and not heretofore released from the line of the Indenture. Such real property includes but is not limited to the following described property, such property is subject to any interests that were excepted or reserved in the conveyance to the Company:

## ALCONA COUNTY

Certain land in Caledonia Township, Alcona County, Michigan described as:

The East 330 feet of the South 660 feet of the SW 1/4 of the SW 1/4 of Section 8, T28N, R8E, except the West 264 feet of the South 330 feet thereof; said land being more particularly described as follows: To find the place of beginning of this description, commence at the Southwest corner of said section, run thence East along the South line of said section 1243

feet to the place of beginning of this description, thence continuing East along said South line of said section 66 feet to the West 1/8 line of said section, thence N 02(degree) 09' 30" E along the said West 1/8 line of said section 660 feet, thence West 330 feet, thence S 02(degree) 09' 30" W, 330 feet, thence East 264 feet, thence S 02(degree) 09' 30" W, 330 feet to the place of beginning.

#### ALLEGAN COUNTY

Certain land in Lee Township, Allegan County, Michigan described as:

The NE 1/4 of the NW 1/4 of Section 16, T1N, R15W.

#### ALPENA COUNTY

Certain land in Wilson and Green Townships, Alpena County, Michigan described as:

All that part of the S'ly 1/2 of the former Boyne City-Gaylord and Alpena Railroad right of way, being the Southerly 50 feet of a 100 foot strip of land formerly occupied by said Railroad, running from the East line of Section 31, T31N, R7E, Southwesterly across said Section 31 and Sections 5 and 6 of T30N, R7E and Sections 10, 11 and the E1/2 of Section 9, except the West 1646 feet thereof, all in T30N, R6E.

#### ANTRIM COUNTY

Certain land in Mancelona Township, Antrim County, Michigan described as:

The S 1/2 of the NE 1/4 of Section 33, T29N, R6W, excepting therefrom all mineral, coal, oil and gas and such other rights as were reserved unto the State of Michigan in that certain deed running from the State of Michigan to August W. Schack and Emma H. Schack, his wife, dated April 15, 1946 and recorded May 20, 1946 in Liber 97 of Deeds on page 682 of Antrim County Records.

#### ARENAC COUNTY

Certain land in Standish Township, Arenac County, Michigan described as:

A parcel of land in the SW 1/4 of the NW 1/4 of Section 12, T18N, R4E, described as follows: To find the place of beginning of said parcel of land, commence at the Northwest corner of Section 12, T18N, R4E; run thence South along the West line of said section, said West line of said section being also the center line of East City Limits Road 2642.15 feet to the W 1/4 post of said section and the place of beginning of said parcel of land; running thence N 88(degree) 26' 00" E along the East and West 1/4 line of said section, 660.0 feet; thence North parallel with the West line of said section, 310.0 feet; thence S 88(degree) 26' 00" W, 330.0 feet; thence South parallel with the West line of said section, 260.0 feet; thence S 88(degree) 26' 00" W, 330.0 feet to the West line of said section and the center line of East City Limits

Road; thence South along the said West line of said section, 50.0 feet to the place of beginning.

BARRY COUNTY

Certain land in Johnstown Township, Barry County, Michigan described as:

A strip of land 311 feet in width across the SW 1/4 of the NE 1/4 of Section 31, T1N, R8W, described as follows: To find the place of beginning of this description, commence at the E 1/4 post of said section; run thence N 00(degree) 55' 00" E along the East line of said section, 555.84 feet; thence N 59(degree) 36' 20" W, 1375.64 feet; thence N 88(degree) 30' 00" W, 130 feet to a point on the East 1/8 line of said section and the place of beginning of this description; thence continuing N 88(degree) 30' 00" W, 1327.46 feet to the North and South 1/4 line of said section; thence S 00(degree) 39' 35" W along said North and South 1/4 line of said section, 311.03 feet to a point, which said point is 952.72 feet distant N'ly from the East and West 1/4 line of said section as measured along said North and South 1/4 line of said section; thence S 88(degree) 30' 00" E, 1326.76 feet to the East 1/8 line of said section; thence N 00(degree) 47' 20" E along said East 1/8 line of said section, 311.02 feet to the place of beginning.

BAY COUNTY

Certain land in Frankenlust Township, Bay County, Michigan described as:

The South 250 feet of the N 1/2 of the W 1/2 of the W 1/2 of the SE 1/4 of Section 9, T13N, R4E.

BENZIE COUNTY

Certain land in Benzonia Township, Benzie County, Michigan described as:

A parcel of land in the Northeast 1/4 of Section 7, Township 26 North, Range 14 West, described as beginning at a point on the East line of said Section 7, said point being 320 feet North measured along the East line of said section from the East 1/4 post; running thence West 165 feet; thence North parallel with the East line of said section 165 feet; thence East 165 feet to the East line of said section; thence South 165 feet to the place of beginning.

BRANCH COUNTY

Certain land in Girard Township, Branch County, Michigan described as:

A parcel of land in the NE1/4 of Section 23 T5S, R6W, described as beginning at a point on the North and South quarter line of said section at a point 1278.27 feet distant South of the North quarter post of said section,

said distance being measured along the North and South quarter line of said section, running thence S89(degree)21'E 250 feet, thence North along a line parallel with the said North and South quarter line of said section 200 feet, thence N89(degree) 21'W 250 feet to the North and South quarter line of said section, thence South along said North and South quarter line of said section 200 feet to the place of beginning.

#### CALHOUN COUNTY

Certain land in Convis Township, Calhoun County, Michigan described as:

A parcel of land in the SE 1/4 of the SE 1/4 of Section 32, T1S, R6W, described as follows: To find the place of beginning of this description, commence at the Southeast corner of said section; run thence North along the East line of said section 1034.32 feet to the place of beginning of this description; running thence N 89(degree) 39' 52" W, 333.0 feet; thence North 290.0 feet to the South 1/8 line of said section; thence S 89(degree) 39' 52" E along said South 1/8 line of said section 333.0 feet to the East line of said section; thence South along said East line of said section 290.0 feet to the place of beginning. (Bearings are based on the East line of Section 32, T1S, R6W, from the Southeast corner of said section to the Northeast corner of said section assumed as North.)

#### CASS COUNTY

Certain easement rights located across land in Marcellus Township, Cass County, Michigan described as:

The East 6 rods of the SW 1/4 of the SE 1/4 of Section 4, T5S, R13W.

#### CHARLEVOIX COUNTY

Certain land in South Arm Township, Charlevoix County, Michigan described as:

A parcel of land in the SW 1/4 of Section 29, T32N, R7W, described as follows: Beginning at the Southwest corner of said section and running thence North along the West line of said section 788.25 feet to a point which is 528 feet distant South of the South 1/8 line of said section as measured along the said West line of said section; thence N 89(degree) 30' 19" E, parallel with said South 1/8 line of said section 442.1 feet; thence South 788.15 feet to the South line of said section; thence S 89(degree) 29' 30" W, along said South line of said section 442.1 feet to the place of beginning.

## CHEBOYGAN COUNTY

Certain land in Inverness Township, Cheboygan County, Michigan described as:

A parcel of land in the SW frl 1/4 of Section 31, T37N, R2W, described as beginning at the Northwest corner of the SW frl 1/4, running thence East on the East and West quarter line of said Section, 40 rods, thence South parallel to the West line of said Section 40 rods, thence West 40 rods to the West line of said Section, thence North 40 rods to the place of beginning.

## CLARE COUNTY

Certain land in Frost Township, Clare County, Michigan described as:

The East 150 feet of the North 225 feet of the NW 1/4 of the NW 1/4 of Section 15, T20N, R4W.

## CLINTON COUNTY

Certain land in Watertown Township, Clinton County, Michigan described as:

The NE 1/4 of the NE 1/4 of the SE 1/4 of Section 22, and the North 165 feet of the NW 1/4 of the NE 1/4 of the SE 1/4 of Section 22, T5N, R3W.

## CRAWFORD COUNTY

Certain land in Lovells Township, Crawford County, Michigan described as:

A parcel of land in Section 1, T28N, R1W, described as: Commencing at NW corner said section; thence South 89(degree) 53'30" East along North section line 105.78 feet to point of beginning; thence South 89(degree) 53'30" East along North section line 649.64 feet; thence South 55(degree) 42'30" East 340.24 feet; thence South 55(degree) 44'37" East 5,061.81 feet to the East section line; thence South 00(degree) 00'08" West along East section line 441.59 feet; thence North 55(degree) 44'37" West 5,310.48 feet; thence North 55(degree) 42'30" West 877.76 feet to point of beginning.

## EATON COUNTY

Certain land in Eaton Township, Eaton County, Michigan described as:

A parcel of land in the SW 1/4 of Section 6, T2N, R4W, described as follows: To find the place of beginning of this description commence at the Southwest corner of said section; run thence N 89(degree) 51' 30" E along the South line of said section 400 feet to the place of beginning of this description; thence continuing N 89(degree) 51' 30" E, 500 feet; thence N 00(degree) 50' 00" W, 600 feet; thence S 89(degree) 51' 30" W parallel with the South line of said section 500 feet; thence S 00(degree) 50' 00" E, 600 feet to the place of beginning.

## EMMET COUNTY

Certain land in Wawatam Township, Emmet County, Michigan described as:

The West 1/2 of the Northeast 1/4 of the Northeast 1/4 of Section 23, T39N, R4W.

## GENESEE COUNTY

Certain land in Argentine Township, Genesee County, Michigan described as:

A parcel of land of part of the SW 1/4 of Section 8, T5N, R5E, being more particularly described as follows:

Beginning at a point of the West line of Duffield Road, 100 feet wide, (as now established) distant 829.46 feet measured N01(degree) 42'56"W and 50 feet measured S88(degree) 14'04"W from the South quarter corner, Section 8, T5N, R5E; thence S88(degree) 14'04"W a distance of 550 feet; thence N01(degree) 42'56"W a distance of 500 feet to a point on the North line of the South half of the Southwest quarter of said Section 8; thence N88(degree) 14'04"E along the North line of South half of the Southwest quarter of said Section 8 a distance 550 feet to a point on the West line of Duffield Road, 100 feet wide (as now established); thence S01(degree) 42'56"E along the West line of said Duffield Road a distance of 500 feet to the point of beginning.

## GLADWIN COUNTY

Certain land in Secord Township, Gladwin County, Michigan described as:

The East 400 feet of the South 450 feet of Section 2, T19N, R1E.

## GRAND TRAVERSE COUNTY

Certain land in Mayfield Township, Grand Traverse County, Michigan described as:

A parcel of land in the Northwest 1/4 of Section 3, T25N, R11W, described as follows: Commencing at the Northwest corner of said section, running thence S 89(degree) 19'15" E along the North line of said section and the center line of Clouss Road 225 feet, thence South 400 feet, thence N 89(degree)19'15" W 225 feet to the West line of said section and the center line of Hannah Road, thence North along the West line of said section and the center line of Hannah Road 400 feet to the place of beginning for this description.

## GRATIOT COUNTY

Certain land in Washington Township, Gratiot County, Michigan described as:

Commencing at the Northeast corner of Section 10, T9N, R2W, running thence West along the North line of said section a distance of 194.5 feet, thence S0(degree) 07'10"W 200 feet to a point, thence East 194.5 feet to the East line of said Section 10, thence N0(degree) 07'10"E along the East line of said section a distance of 200 feet to the point of beginning.

## HILLSDALE COUNTY

Certain land in Litchfield Village, Hillsdale County, Michigan described as:

Lots numbered three (3) and four (4) of Block three (3) of Harvey Smiths Southern Addition to the Village of Litchfield according to the recorded plat thereof as recorded in Liber AK of deeds, page 490.

## HURON COUNTY

Certain easement rights located across land in Sebewaing Township, Huron County, Michigan described as:

The North 1/2 of the Northwest 1/4 of Section 15, T15N, R9E.

## INGHAM COUNTY

Certain land in Vevay Township, Ingham County, Michigan described as:

A parcel of land 660 feet wide in the Southwest 1/4 of Section 7 lying South of the centerline of Sitts Road as extended to the North-South 1/4 line of said Section 7, T2N, R1W, more particularly described as follows: Commence at the Southwest corner of said Section 7, thence North along the West line of said Section 2502.71 feet to the centerline of Sitts Road; thence South 89(degree) 54'45" East along said centerline 2282.38 feet to the place of beginning of this description; thence continuing South 89(degree) 54'45" East along said centerline and said centerline extended 660.00 feet to the North- South 1/4 line of said section; thence South 00(degree) 07'20" West 1461.71 feet; thence North 89(degree) 34'58" West 660.00 feet; thence North 00(degree) 07'20" East 1457.91 feet to the centerline of Sitts Road and the place of beginning.

## IONIA COUNTY

Certain land in Sebewa Township, Ionia County, Michigan described as:

A strip of land 280 feet wide across that part of the SW 1/4 of the NE 1/4 of Section 15, T5N, R6W, described as follows: To find the place of beginning of this description commence at the E 1/4 corner of said section;

run thence N 00(degree) 05' 38" W along the East line of said section, 1218.43 feet; thence S 67(degree) 18' 24" W, 1424.45 feet to the East 1/8 line of said section and the place of beginning of this description; thence continuing S 67(degree) 18' 24" W, 1426.28 feet to the North and South 1/4 line of said section at a point which said point is 105.82 feet distant N'ly of the center of said section as measured along said North and South 1/4 line of said section; thence N 00(degree) 04' 47" E along said North and South 1/4 line of said section, 303.67 feet; thence N 67(degree) 18' 24" E, 1425.78 feet to the East 1/8 line of said section; thence S 00(degree) 00' 26" E along said East 1/8 line of said section, 303.48 feet to the place of beginning. (Bearings are based on the East line of Section 15, T5N, R6W, from the E 1/4 corner of said section to the Northeast corner of said section assumed as N 00(degree) 05' 38" W.)

#### IOSCO COUNTY

Certain land in Alabaster Township, Iosco County, Michigan described as:

A parcel of land in the NW 1/4 of Section 34, T21N, R7E, described as follows: To find the place of beginning of this description commence at the N 1/4 post of said section; run thence South along the North and South 1/4 line of said section, 1354.40 feet to the place of beginning of this description; thence continuing South along the said North and South 1/4 line of said section, 165.00 feet to a point on the said North and South 1/4 line of said section which said point is 1089.00 feet distant North of the center of said section; thence West 440.00 feet; thence North 165.00 feet; thence East 440.00 feet to the said North and South 1/4 line of said section and the place of beginning.

#### ISABELLA COUNTY

Certain land in Chippewa Township, Isabella County, Michigan described as:

The North 8 rods of the NE 1/4 of the SE 1/4 of Section 29, T14N, R3W.

#### JACKSON COUNTY

Certain land in Waterloo Township, Jackson County, Michigan described as:

A parcel of land in the North fractional part of the N fractional 1/2 of Section 2, T1S, R2E, described as follows: To find the place of beginning of this description commence at the E 1/4 post of said section; run thence N 01(degree) 03' 40" E along the East line of said section 1,335.45 feet to the North 1/8 line of said section and the place of beginning of this description; thence N 89(degree) 32' 00" W, 2677.7 feet to the North and South 1/4 line of said section; thence S 00(degree) 59' 25" W along the North and South 1/4 line of said section 22.38 feet to the North 1/8 line of said section; thence S 89(degree) 59' 10" W along the North 1/8 line of said section 653.65 feet; thence North 22 feet; thence S 89(degree) 59' 10" W, 1601.19 feet to the center line of State

Trunkline Highway M-52; thence N 53(degree) 46' 00" W along the center line of said highway to the West line of said section; thence N 00(degree) 55' 10" E along the West line of said section 74.35 feet; thence S 89(degree) 32' 00" E, 5356.02 feet to the East line of said section; thence S 01(degree) 03' 40" W along the East line of said section 250 feet to the place of beginning.

#### KALAMAZOO COUNTY

Certain land in Alamo Township, Kalamazoo County, Michigan described as:

The South 350 feet of the NW 1/4 of the NW 1/4 of Section 16, T1S, R12W, being more particularly described as follows: To find the place of beginning of this description, commence at the Northwest corner of said section; run thence S 00(degree) 36' 55" W along the West line of said section 971.02 feet to the place of beginning of this description; thence continuing S 00(degree) 36' 55" W along said West line of said section 350.18 feet to the North 1/8 line of said section; thence S 87(degree) 33' 40" E along the said North 1/8 line of said section 1325.1 feet to the West 1/8 line of said section; thence N 00(degree) 38' 25" E along the said West 1/8 line of said section 350.17 feet; thence N 87(degree) 33' 40" W, 1325.25 feet to the place of beginning.

#### KALKASKA COUNTY

Certain land in Kalkaska Township, Kalkaska County, Michigan described as:

The NW 1/4 of the SW 1/4 of Section 4, T27N, R7W, excepting therefrom all mineral, coal, oil and gas and such other rights as were reserved unto the State of Michigan in that certain deed running from the Department of Conservation for the State of Michigan to George Welker and Mary Welker, his wife, dated October 9, 1934 and recorded December 28, 1934 in Liber 39 on page 291 of Kalkaska County Records, and subject to easement for pipeline purposes as granted to Michigan Consolidated Gas Company by first party herein on April 4, 1963 and recorded June 21, 1963 in Liber 91 on page 631 of Kalkaska County Records.

#### KENT COUNTY

Certain land in Caledonia Township, Kent County, Michigan described as:

A parcel of land in the Northwest fractional 1/4 of Section 15, T5N, R10W, described as follows: To find the place of beginning of this description commence at the North 1/4 corner of said section, run thence S 0(degree) 59' 26" E along the North and South 1/4 line of said section 2046.25 feet to the place of beginning of this description, thence continuing S 0(degree) 59' 26" E along said North and South 1/4 line of said section 332.88 feet, thence S 88(degree) 58' 30" W 2510.90 feet to a point herein designated "Point A" on the East bank of the Thornapple River, thence continuing S 88(degree) 53' 30" W to the center thread of the Thornapple River, thence NW'ly along the center thread of said Thornapple River to a point which said point is S 88(degree) 58'

30" W of a point on the East bank of the Thornapple River herein designated "Point B", said "Point B" being N 23(degree) 41' 35" W 360.75 feet from said above-described "Point A", thence N 88(degree) 58' 30" E to said "Point B", thence continuing N 88(degree) 58' 30" E 2650.13 feet to the place of beginning. (Bearings are based on the East line of Section 15, T5N, R10W between the East 1/4 corner of said section and the Northeast corner of said section assumed as N 0(degree) 59' 55" W.)

LAKE COUNTY

Certain land in Pinora and Cherry Valley Townships, Lake County, Michigan described as:

A strip of land 50 feet wide East and West along and adjoining the West line of highway on the East side of the North 1/2 of Section 13 T18N, R12W. Also a strip of land 100 feet wide East and West along and adjoining the East line of the highway on the West side of following described land: The South 1/2 of NW 1/4, and the South 1/2 of the NW 1/4 of the SW 1/4, all in Section 6, T18N, R11W.

LAPEER COUNTY

Certain land in Hadley Township, Lapeer County, Michigan described as:

The South 825 feet of the W 1/2 of the SW 1/4 of Section 24, T6N, R9E, except the West 1064 feet thereof.

LEELANAU COUNTY

Certain land in Cleveland Township, Leelanau County, Michigan described as:

The North 200 feet of the West 180 feet of the SW 1/4 of the SE 1/4 of Section 35, T29N, R13W.

LENAWEE COUNTY

Certain land in Madison Township, Lenawee County, Michigan described as:

A strip of land 165 feet wide off the West side of the following described premises: The E1/2 of the SE1/4 of Section 12. The E1/2 of the NE1/4 and the NE1/4 of the SE1/4 of Section 13, being all in T7S, R3E, excepting therefrom a parcel of land in the E1/2 of the SE1/4 of Section 12, T7S, R3E, beginning at the Northwest corner of said E1/2 of the SE1/4 of Section 12, running thence East 4 rods, thence South 6 rods, thence West 4 rods, thence North 6 rods to the place of beginning.

## LIVINGSTON COUNTY

Certain land in Cohoctah Township, Livingston County, Michigan described as:

## Parcel 1

The East 390 feet of the East 50 rods of the SW 1/4 of Section 30, T4N, R4E.

## Parcel 2

A parcel of land in the NW 1/4 of Section 31, T4N, R4E, described as follows: To find the place of beginning of this description commence at the N 1/4 post of said section; run thence N 89(degree) 13' 06" W along the North line of said section, 330 feet to the place of beginning of this description; running thence S 00(degree) 52' 49" W, 2167.87 feet; thence N 88(degree) 59' 49" W, 60 feet; thence N 00(degree) 52' 49" E, 2167.66 feet to the North line of said section; thence S 89(degree) 13' 06" E along said North line of said section, 60 feet to the place of beginning.

## MACKINAC COUNTY

Certain easement rights located across land in Moran Township, Mackinac County, Michigan described as:

A 20 foot wide strip of land, 10 feet on each side of the hereinafter described center line, through Lots 16, 17 and 21, Block 12 of Partition Plat of Private Claim No. 1, Section 23, Township 40 North, Range 4 West: Said center line being described as beginning at Edison Sault Electric Company's existing 35 foot service pole located 200 feet, more or less, Northerly of the shoreline of the Straits of Mackinac, running thence Easterly to a point approximately 20 feet Westerly of the center line of Lakehead Pipeline Company's existing 20 inch pipeline, thence Northerly and Easterly along and approximately 20 feet Westerly and Northerly of the center line of said 20 inch existing pipeline to a certain Michigan Bell Telephone Company's existing pole located Easterly of the Westerly line of Lot 22, Block 12 of Partition Plat of Private Claim No. 1 in said Section 23.

## MACOMB COUNTY

Certain land in Macomb Township, Macomb County, Michigan described as:

A parcel of land commencing on the West line of the E 1/2 of the NW 1/4 of fractional Section 6, 20 chains South of the NW corner of said E 1/2 of the NW 1/4 of Section 6; thence South on said West line and the East line of A. Henry Kotner's Hayes Road Subdivision #15, according to the recorded plat thereof, as recorded in Liber 24 of Plats, on page 7, 24.36 chains to the East and West 1/4 line of said Section 6; thence East on said East and West 1/4 line 8.93 chains; thence North parallel with the said

West line of the E 1/2 of the NW 1/4 of Section 6, 24.36 chains; thence West 8.93 chains to the place of beginning, all in T3N, R13E.

MANISTEE COUNTY

Certain land in Manistee Township, Manistee County, Michigan described as:

A parcel of land in the SW 1/4 of Section 20, T22N, R16W, described as follows: To find the place of beginning of this description, commence at the Southwest corner of said section; run thence East along the South line of said section 832.2 feet to the place of beginning of this description; thence continuing East along said South line of said section 132 feet; thence North 198 feet; thence West 132 feet; thence South 198 feet to the place of beginning, excepting therefrom the South 2 rods thereof which was conveyed to Manistee Township for highway purposes by a Quitclaim Deed dated June 13, 1919 and recorded July 11, 1919 in Liber 88 of Deeds on page 638 of Manistee County Records.

MASON COUNTY

Certain land in Riverton Township, Mason County, Michigan described as:

Parcel 1

The South 10 acres of the West 20 acres of the S 1/2 of the NE 1/4 of Section 22, T17N, R17W.

Parcel 2

A parcel of land containing 4 acres of the West side of highway, said parcel of land being described as commencing 16 rods South of the Northwest corner of the NW 1/4 of the SW 1/4 of Section 22, T17N, R17W, running thence South 64 rods, thence NE'ly and N'ly and NW'ly along the W'ly line of said highway to the place of beginning, together with any and all right, title, and interest of Howard C. Wicklund and Katherine E. Wicklund in and to that portion of the hereinbefore mentioned highway lying adjacent to the E'ly line of said above described land.

MECOSTA COUNTY

Certain land in Wheatland Township, Mecosta County, Michigan described as:

A parcel of land in the SW1/4 of the SW1/4 of Section 16, T14N, R7W, described as beginning at the Southwest corner of said section; thence East along the South line of Section 133 feet; thence North parallel to the West section line 133 feet; thence West 133 feet to the West line of said Section; thence South 133 feet to the place of beginning.

## MIDLAND COUNTY

Certain land in Ingersoll Township, Midland County, Michigan described as:

The West 200 feet of the W 1/2 of the NE 1/4 of Section 4, T13N, R2E.

## MISSAUKEE COUNTY

Certain land in Norwich Township, Missaukee County, Michigan described as:

A parcel of land in the NW 1/4 of the NW 1/4 of Section 16, T24N, R6W, described as follows: Commencing at the Northwest corner of said section, running thence N 89(degree) 01' 45" E along the North line of said section 233.00 feet; thence South 233.00 feet; thence S 89(degree) 01' 45" W, 233.00 feet to the West line of said section; thence North along said West line of said section 233.00 feet to the place of beginning. (Bearings are based on the West line of Section 16, T24N, R6W, between the Southwest and Northwest corners of said section assumed as North.)

## MONROE COUNTY

Certain land in LaSalle Township, Monroe County, Michigan described as:

A strip of land 150 feet in width across part of the S 1/2 of the SE 1/4 of Section 35, T7S, R8E, described as follows: To find the place of beginning of this description commence at the S 1/4 post of said section; run thence N 89(degree) 30' 20" E along the South line of said section 2118.39 feet to the place of beginning of this description; thence continuing N 89(degree) 30' 20" E along said South line of said section 198.56 feet to the NW'ly right-of-way line of Highway I-75, so called; thence N 40(degree) 26' 30" E along the NW'ly line of said highway 477.72 feet to the East line of said section; thence N 00(degree) 25' 15" W along the East line of said section 229.27 feet; thence S 40(degree) 26' 30" W, 781.21 feet to the place of beginning.

## MONTCALM COUNTY

Certain land in Crystal Township, Montcalm County, Michigan described as:

The N 1/2 of the S 1/2 of the SE 1/4 of Section 35, T10N, R5W.

## MONTMORENCY COUNTY

Certain land in the Village of Hillman, Montmorency County, Michigan described as:

Lot 14 of Hillman Industrial Park, being a subdivision in the South 1/2 of the Northwest 1/4 of Section 24, T31N, R4E, according to the plat thereof recorded in Liber 4 of Plats on Pages 32-34, Montmorency County Records.

## MUSKEGON COUNTY

Certain land in Casnovia Township, Muskegon County, Michigan described as:

The West 433 feet of the North 180 feet of the South 425 feet of the SW 1/4 of Section 3, T10N, R13W.

## NEWAYGO COUNTY

Certain land in Ashland Township, Newaygo County, Michigan described as:

The West 250 feet of the NE 1/4 of Section 23, T11N, R13W.

## OAKLAND COUNTY

Certain land in Wixcom City, Oakland County, Michigan described as:

The E 75 feet of the N 160 feet of the N 330 feet of the W 526.84 feet of the NW 1/4 of the NW 1/4 of Section 8, T1N, R8E, more particularly described as follows: Commence at the NW corner of said Section 8, thence N 87(degree) 14' 29" E along the North line of said Section 8 a distance of 451.84 feet to the place of beginning for this description; thence continuing N 87(degree) 14' 29" E along said North section line a distance of 75.0 feet to the East line of the West 526.84 feet of the NW 1/4 of the NW 1/4 of said Section 8; thence S 02(degree) 37' 09" E along said East line a distance of 160.0 feet; thence S 87(degree) 14' 29" W a distance of 75.0 feet; thence N 02(degree) 37' 09" W a distance of 160.0 feet to the place of beginning.

## OCEANA COUNTY

Certain land in Crystal Township, Oceana County, Michigan described as:

The East 290 feet of the SE 1/4 of the NW 1/4 and the East 290 feet of the NE 1/4 of the SW 1/4, all in Section 20, T16N, R16W.

## OGEMAW COUNTY

Certain land in West Branch Township, Ogemaw County, Michigan described as:

The South 660 feet of the East 660 feet of the NE 1/4 of the NE 1/4 of Section 33, T22N, R2E.

## OSCEOLA COUNTY

Certain land in Hersey Township, Osceola County, Michigan described as:

A parcel of land in the North 1/2 of the Northeast 1/4 of Section 13, T17N, R9W, described as commencing at the Northeast corner of said Section; thence West along the North Section line 999 feet to the point of beginning of this description; thence S 01(degree) 54' 20" E 1327.12 feet to the North 1/8 line; thence S 89(degree) 17' 05" W along the North 1/8 line 330.89 feet; thence N 01(degree) 54' 20" W 1331.26 feet to the North Section line; thence East along the North Section line 331 feet to the point of beginning.

## OSCODA COUNTY

Certain land in Comins Township, Oscoda County, Michigan described as:

The East 400 feet of the South 580 feet of the W 1/2 of the SW 1/4 of Section 15, T27N, R3E.

## OTSEGO COUNTY

Certain land in Corwith Township, Otsego County, Michigan described as:

Part of the NW 1/4 of the NE 1/4 of Section 28, T32N, R3W, described as: Beginning at the N 1/4 corner of said section; running thence S 89(degree) 04' 06" E along the North line of said section, 330.00 feet; thence S 00(degree) 28' 43" E, 400.00 feet; thence N 89(degree) 04' 06" W, 330.00 feet to the North and South 1/4 line of said section; thence N 00(degree) 28' 43" W along the said North and South 1/4 line of said section, 400.00 feet to the point of beginning; subject to the use of the N'ly 33.00 feet thereof for highway purposes.

## OTTAWA COUNTY

Certain land in Robinson Township, Ottawa County, Michigan described as:

The North 660 feet of the West 660 feet of the NE 1/4 of the NW 1/4 of Section 26, T7N, R15W.

## PRESQUE ISLE COUNTY

Certain land in Belknap and Pulawski Townships, Presque Isle County, Michigan described as:

Part of the South half of the Northeast quarter, Section 24, T34N, R5E, and part of the Northwest quarter, Section 19, T34N, R6E, more fully described as: Commencing at the East 1/4 corner of said Section 24; thence N 00(degree) 15'47" E, 507.42 feet, along the East line of said Section 24 to the point of beginning; thence S 88(degree) 15'36" W, 400.00 feet, parallel with the

North 1/8 line of said Section 24; thence N 00(degree) 15'47" E, 800.00 feet, parallel with said East line of Section 24; thence N 88(degree) 15'36"E, 800.00 feet, along said North 1/8 line of Section 24 and said line extended; thence S 00(degree) 15'47" W, 800.00 feet, parallel with said East line of Section 24; thence S 88(degree) 15'36" W, 400.00 feet, parallel with said North 1/8 line of Section 24 to the point of beginning.

Together with a 33 foot easement along the West 33 feet of the Northwest quarter lying North of the North 1/8 line of Section 24, Belknap Township, extended, in Section 19, T34N, R6E.

#### ROSCOMMON COUNTY

Certain land in Backus Township, Roscommon County, Michigan described as:

A parcel of land the NW 1/4 of the NE 1/4 of the NE 1/4 of Section 18, T22N, R2W described as commencing at the North quarter corner thereof; thence North 89(degree) 00'56" East along the North Section line 208 feet to the point of beginning; thence continue East along the North line of said Section 245 feet; thence South 00(degree) 59'03" East 233 feet; thence South 89(degree) 00'57" West 245 feet; thence North 00(degree) 59'03" West 233 feet to the point of beginning.

#### SAGINAW COUNTY

Certain land in Chapin Township, Saginaw County, Michigan described as:

A parcel of land in the SW 1/4 of Section 13, T9N, R1E, described as follows: To find the place of beginning of this description commence at the Southwest corner of said section; run thence North along the West line of said section 1581.4 feet to the place of beginning of this description; thence continuing North along said West line of said section 230 feet to the center line of a creek; thence S 70(degree) 07' 00" E along said center line of said creek 196.78 feet; thence South 163.13 feet; thence West 185 feet to the West line of said section and the place of beginning.

#### SANILAC COUNTY

Certain easement rights located across land in Minden Township, Sanilac County, Michigan described as:

The Southeast 1/4 of the Southeast 1/4 of Section 1, T14N, R14E, excepting therefrom the South 83 feet of the East 83 feet thereof.

## SHIAWASSEE COUNTY

Certain land in Burns Township, Shiawassee County, Michigan described as:

The South 330 feet of the E 1/2 of the NE 1/4 of Section 36, T5N, R4E.

## ST. CLAIR COUNTY

Certain land in Ira Township, St. Clair County, Michigan described as:

The N 1/2 of the NW 1/4 of the NE 1/4 of Section 6, T3N, R15E.

## ST. JOSEPH COUNTY

Certain land in Mendon Township, St. Joseph County, Michigan described as:

The North 660 feet of the West 660 feet of the NW 1/4 of SW 1/4, Section 35, T5S, R10W.

## TUSCOLA COUNTY

Certain land in Millington Township, Tuscola County, Michigan described as:

A strip of land 280 feet wide across the East 96 rods of the South 20 rods of the N 1/2 of the SE 1/4 of Section 34, T10N, R8E, more particularly described as commencing at the Northeast corner of Section 3, T9N, R8E, thence S 89(degree) 55' 35" W along the South line of said Section 34 a distance of 329.65 feet, thence N 18(degree) 11' 50" W a distance of 1398.67 feet to the South 1/8 line of said Section 34 and the place of beginning for this description; thence continuing N 18(degree) 11' 50" W a distance of 349.91 feet; thence N 89(degree) 57' 01" W a distance of 294.80 feet; thence S 18(degree) 11' 50" E a distance of 350.04 feet to the South 1/8 line of said Section 34; thence S 89(degree) 58' 29" E along the South 1/8 line of said section a distance of 294.76 feet to the place of beginning.

## VAN BUREN COUNTY

Certain land in Covert Township, Van Buren County, Michigan described as:

All that part of the West 20 acres of the N 1/2 of the NE fractional 1/4 of Section 1, T2S, R17W, except the West 17 rods of the North 80 rods, being more particularly described as follows: To find the place of beginning of this description commence at the N 1/4 post of said section; run thence N 89(degree) 29' 20" E along the North line of said section 280.5 feet to the place of beginning of this description; thence continuing N 89(degree) 29' 20" E along said North line of said section 288.29 feet; thence S 00(degree) 44' 00" E, 1531.92 feet; thence S 89(degree) 33' 30" W, 568.79 feet to the North and South 1/4 line of said section; thence N 00(degree) 44' 00" W along said North and South

1/4 line of said section 211.4 feet; thence N 89(degree) 29' 20" E, 280.5 feet; thence N 00(degree) 44' 00" W, 1320 feet to the North line of said section and the place of beginning.

WASHTENAW COUNTY

Certain land in Manchester Township, Washtenaw County, Michigan described as:

A parcel of land in the NE 1/4 of the NW 1/4 of Section 1, T4S, R3E, described as follows: To find the place of beginning of this description commence at the Northwest corner of said section; run thence East along the North line of said section 1355.07 feet to the West 1/8 line of said section; thence S 00(degree) 22' 20" E along said West 1/8 line of said section 927.66 feet to the place of beginning of this description; thence continuing S 00(degree) 22' 20" E along said West 1/8 line of said section 660 feet to the North 1/8 line of said section; thence N 86(degree) 36' 57" E along said North 1/8 line of said section 660.91 feet; thence N 00(degree) 22' 20" W, 660 feet; thence S 86(degree) 36' 57" W, 660.91 feet to the place of beginning.

WAYNE COUNTY

Certain land in Livonia City, Wayne County, Michigan described as:

Commencing at the Southeast corner of Section 6, T1S, R9E; thence North along the East line of Section 6 a distance of 253 feet to the point of beginning; thence continuing North along the East line of Section 6 a distance of 50 feet; thence Westerly parallel to the South line of Section 6, a distance of 215 feet; thence Southerly parallel to the East line of Section 6 a distance of 50 feet; thence easterly parallel with the South line of Section 6 a distance of 215 feet to the point of beginning.

WEXFORD COUNTY

Certain land in Selma Township, Wexford County, Michigan described as:

A parcel of land in the NW1/4 of Section 7, T22N, R10W, described as beginning on the North line of said section at a point 200 feet East of the West line of said section, running thence East along said North section line 450 feet, thence South parallel with said West section line 350 feet, thence West parallel with said North section line 450 feet, thence North parallel with said West section line 350 feet to the place of beginning.

SECTION 13. The Company is a transmitting utility under Section 9401(5) of the Michigan Uniform Commercial Code (M.C.L. 440.9401(5)) as defined in M.C.L. 440.9105(n).

IN WITNESS WHEREOF, said Consumers Energy Company has caused this Supplemental Indenture to be executed in its corporate name by its Chairman of the Board, President, a Vice President or its Treasurer and its corporate seal to be hereunto affixed and to be attested by its Secretary or an Assistant Secretary, and said The Chase Manhattan Bank, as Trustee as aforesaid, to evidence its acceptance hereof,

has caused this Supplemental Indenture to be executed in its corporate name by a Vice President and its corporate seal to be hereunto affixed and to be attested by a Trust Officer, in several counterparts, all as of the day and year first above written.

CONSUMERS ENERGY COMPANY

(SEAL)

By /s/ A. M. Wright  
-----  
Alan M. Wright  
Senior Vice President and  
Chief Financial Officer

Attest:

/s/ Joyce H. Norkey  
-----  
Joyce H. Norkey  
Assistant Secretary

Signed, sealed and delivered  
by CONSUMERS ENERGY COMPANY  
in the presence of

/s/ Kimberly C. Wilson  
-----  
Kimberly C. Wilson

/s/ Sammie B. Dalton  
-----  
Sammie B. Dalton

STATE OF MICHIGAN            )  
                                  )            ss.  
COUNTY OF JACKSON         )

The foregoing instrument was acknowledged before me this  
1st day of October, 1999, by Alan M. Wright, Senior Vice President and Chief  
Financial Officer of CONSUMERS ENERGY COMPANY, a Michigan corporation, on behalf  
of the corporation.

/s/ Margaret Hillman  
-----  
Margaret Hillman, Notary Public  
Jackson County, Michigan  
My Commission Expires: June 14, 2000

[Seal]

THE CHASE MANHATTAN BANK, AS TRUSTEE

(SEAL)

By /s/ James Freeman  
-----  
Vice President

Attest:

/s/ Eric Butler  
-----  
Trust Officer

Signed, sealed and delivered  
by THE CHASE MANHATTAN BANK  
in the presence of

/s/ N. Rodriguez  
-----

/s/ William G. Keenan  
-----

STATE OF NEW YORK                    )  
  ) ss.  
COUNTY OF NEW YORK                )

The foregoing instrument was acknowledged before me this 1st  
day of October, 1999, by James Freeman, a Vice President of THE CHASE MANHATTAN  
BANK, a New York corporation, on behalf of the corporation.

/s/ Emily Fayan  
-----  
Notary Public

[Seal]                                New York County, New York  
My Commission Expires:

Prepared by:  
Kimberly C. Wilson  
212 West Michigan Avenue  
Jackson, MI 49201

When recorded, return to:  
Consumers Energy Company  
General Services Real Estate Department  
Attn: Nancy P. Fisher, P-21-410B  
1945 W. Parnall Road  
Jackson, MI 49201

[EACH EXECUTIVE OFFICER OF CMS ENERGY AND CONSUMERS ENTERS INTO AN  
EMPLOYMENT AGREEMENT IN SUBSTANTIALLY THE FORM ATTACHED]

EMPLOYMENT AGREEMENT

AGREEMENT between \_\_\_\_\_, a Michigan corporation  
(the "Company"), and \_\_\_\_\_ (the "Executive") dated this  
\_\_\_\_\_ day of December, 1999.

Whereas the Company considers the maintenance of a vital management  
essential to protecting and enhancing the best interests of the Company and its  
shareholders; whereas the Company has determined to encourage the continuing  
attention and dedication of the key members of its management without the  
distraction arising from the possibility of a change in control;

Therefore, the parties hereto agree as follows:

1. Change of Control. As used in this Agreement, a "Change of  
Control" shall occur upon the occurrence of one or more of the following events  
and "Change of Control Date" shall be the date of such occurrence:

- (a) A Change of Control of CMS Energy Corporation ("CMS") would be  
required to be reported in response to Item 1(a) of the  
Current Report on Form 8-K, as in effect on the date hereof,  
pursuant to Sections 13 or 15(d) of the Exchange Act, whether  
or not CMS is then subject to such reporting requirement.
- (b) Any "person" or "group" within the meaning of Sections 13(d)  
and 14(d)(2) of the Exchange Act becomes the "beneficial  
owner" as defined in Rule 13d-3 under the Exchange Act of more  
than 30% of the then outstanding voting securities of CMS.
- (c) During any period of twenty-four consecutive months the  
Present Directors and/or New Directors cease to constitute a  
majority of the Board of Directors of CMS. For purposes of  
this subsection (c), "Present Directors" shall mean  
individuals who at the beginning of such consecutive  
twenty-four month period were members of the Board and "New  
Directors" shall mean any director of CMS whose election by  
the Board or whose nomination for election by CMS'  
shareholders was approved by a vote of at least two-thirds of  
CMS' Directors then still in office who were Present Directors  
or New Directors.
- (d) There is a sale by CMS within a three-year period of assets of  
CMS with either a book value or market value of 50% or more of  
the assets of CMS on a book-value or market-value basis.
- (e) A bidder as defined in Rule 14D-1(b) under the Exchange Act  
files a Tender Offer Statement with the Securities and  
Exchange Commission and CMS.

2. Employment. The Company hereby agrees to continue to employ and engage the services of the Executive as \_\_\_\_\_ of the Company for the period beginning on the Change of Control Date and ending on the earlier of the third anniversary of such date or the "Normal Retirement Date" of the Executive under the Company's Pension Plan (hereinafter "Employment Period"). The Executive agrees to serve the Company in such position, unless an event such as described in Section 5 shall occur.

3. Duties. The Executive agrees during the Employment Period to devote his full business time to the business and affairs of the Company (except for (i) services on corporate, civic or charitable boards or committees, (ii) such reasonable time as shall be required for the investment of the Executive's assets, which do not significantly interfere with the performance of his responsibilities hereunder and (iii) periods of vacation and sick leave to which he is entitled) under the policies of the Company in effect on the Change of Control Date and to use his best efforts to promote the interests of the Company and to perform faithfully and efficiently the responsibilities assigned to the Executive on the Change of Control Date.

4. Compensation and Other Terms of Employment.

(a) Base Salary. The Executive shall receive an annual salary ("Base Salary") of not less than his annual salary immediately prior to the Change of Control Date from the Company (payable in equal semi-monthly installments).

The Base Salary shall be reviewed and may be increased at any time and from time to time in accordance with the Company's regular practices, and shall be reviewed at least annually by the Organization and Compensation Committee of the Board of Directors of CMS Energy Corporation.

(b) Incentive Compensation. As further compensation, the Executive will be eligible for awards ("Incentive Compensation") under the Company's Executive Incentive Compensation Plan or any comparable plan in which the Executive participated immediately prior to the Change of Control Date.

(c) Retirement and Other Benefit Plans. In addition to Base Salary and Incentive Compensation, the Executive shall be entitled to receive during the employment period, at the election of the Executive, either: (i) such retirement, supplemental retirement, health insurance, thrift plan, stock options, and other benefits as are afforded to executives of the same rank from time to time; or (ii) benefits of the type set forth in clause 4(c)(i) above available to the Executive under the Company's plans and programs on the Change of Control Date.

(d) Vacation and Employee Benefits.

(i) The Executive shall be entitled to paid vacation and other employee benefits and perquisites, at the election of the Executive, either: (a) in accordance with the policies of the Company in effect from time to time for executive officers; or (b) the vacation, employee benefits and perquisites to which he was entitled immediately prior to the Change of Control Date.

5. Termination by Death, Disability or After Change of Control.

(a) Death. This Agreement shall terminate automatically upon the Executive's death. In the event of such termination, the Company shall pay to the Executive's estate all benefits and compensation accrued hereunder to the date of death, including a pro rata portion of incentive compensation.

(b) Disability. In the event the Executive becomes unable by reason of physical or mental disability to render the services required hereunder and such disability continues for a continuous period of 9 months, the employment of the Executive hereunder shall terminate unless the employment is extended by agreement of the Company and the Executive. Commencing at the date of termination of employment for disability, the Executive shall receive annually a sum equal to 50% of his Base Salary at the time of termination of employment, in monthly installments until his "Normal Retirement Date," or his death if earlier. Disability payments hereunder shall be reduced by the amount of other Company-sponsored disability or early retirement benefits paid to the Executive through insurance or otherwise.

(c) Termination for Cause. The Executive's employment with the Company may be terminated for Cause. For purposes of this Agreement, "Cause" shall mean: (i) fraud, theft or misappropriation of property of the Company or CMS, (ii) gross negligence in the discharge of Executive's duties or (iii) violations by the Executive of the Company's or CMS Energy's policies regarding sexual harassment, racial or national origin harassment, accounting controls, foreign corrupt practices or confidentiality, and, in each case, the severity of the act or violation shall have been sufficient to warrant termination of employment as a disciplinary action, consistent with CMS Energy's previous disciplinary actions. If the Executive's employment is terminated for Cause, the Company shall pay the Executive his full accrued Base Salary through the date of such termination at the rate in effect at the time of such termination, and the Company shall have no further obligations to the Executive under this Agreement.

(d) Other Termination or Resignation of Executive.

(i) The Company may terminate the Executive's employment without Cause.

(ii) In the event that the Executive determines in his sole judgment that his position, authority, responsibilities or compensation have been diminished or rendered less desirable following a Change of Control, the Executive may terminate his employment with the Company upon written notice given not later than 12 months after the Change of Control Date.

(iii) In the event of a termination of employment under this subsection (d), the Executive shall receive a severance payment equal to three times his Base Salary at the time of termination of employment plus either three times the incentive compensation paid with respect to the last full calendar year prior to the termination of employment or, if no incentive compensation was awarded to the Executive with respect to the last full calendar year prior to the termination of employment, three times the standard incentive award, as defined in the Company's Executive Incentive Compensation Plan for the salary grade of the Executive for such year. The severance payment under this subsection 5(d)(iii) shall be paid in a lump sum payment, in cash, or as otherwise directed by the Executive not later than 15 days from termination of employment. In the event a severance payment is paid to the Executive and such payment, or a portion thereof, and distributions or payments made under any other executive compensation plan, including, but not limited to, the CMS Energy Performance Incentive Stock Plan, are subject to any excise taxes because such payments constitute a "parachute payment" as described in Section 280G of the Internal Revenue Code of 1986, as amended, the Company shall pay to the Executive an additional amount such that the net amount retained by the Executive after deduction of any excise taxes upon such payments and any Federal, state and local income tax and excise taxes (including FICA) upon the additional payment shall be equal to such parachute payment. Executive shall further be entitled to a continuation of all employee benefits to which an executive of Executive's salary grade at the Change of Control Date is entitled from time to time, including without

limitation all health, dental, life and disability insurance and allowances, but excluding only the entitlement to receive further awards of stock options, stock appreciation rights or restricted stock for periods after the termination of Executive's employment.

(iv) In addition to the rights of Executive set forth in the preceding paragraph 5(d)(iii), and whether or not Executive's employment has been terminated, upon a Change of Control shares of restricted stock awarded to Executive under the Performance Incentive Stock Plan of CMS Energy not yet vested at the date of the Change of Control shall thereupon vest and be distributed as provided in that plan.

6. Termination Prior to a Change of Control. If the employment of the Executive is terminated by the Company, other than for Cause, and there is no Change of Control, then the Executive shall receive, in 24 equal installments as if the Executive were an active employee, a severance payment equal to his Base Salary at the time of termination plus either an amount equal to the incentive compensation paid with respect to the last full calendar year prior to termination of employment or, if no incentive compensation was awarded to the Executive with respect to such year, an amount equal to the standard incentive compensation award, as defined in CMS Energy's Executive Incentive Compensation Plan, for the salary grade of the Executive, for such year. Any payment under this provision shall be contingent upon the Executive's execution of a waiver and release of all liability by the Company and its agents at the time of termination. In consideration of and as a condition to the benefit to Executive contained in this Section 6, Executive agrees for a period of one (1) year following termination hereunder, (i) that Executive shall not disclose to any person nor use for any purpose any Confidential Information which came into his possession of knowledge while employed by the Company. "Confidential Information" shall mean all information received by him in his capacity as an employee of the Company which is not at the time of disclosure in the public domain and (ii) that Executive will not personally participate in or assist any direct competition with the Company or any subsidiary of the Company. As used in clause (ii) of the foregoing sentence, the term "direct competition" shall not be construed to prohibit employment in the energy, electric, gas, or oil industries, but is intended to prohibit any effort to deprive CMS Energy of a specific business opportunity known by Executive to be sought by CMS Energy and to prohibit efforts by Executive to solicit customers doing business of any particular type with CMS Energy at the time of the termination.

7. No Obligation to Mitigate Damages. The Executive shall not be obligated to seek other employment in mitigation of amounts payable or arrangements made under the provisions of this Agreement and the obtaining of any such other employment shall in no event effect any reduction of the Company's obligations to make the payments and arrangements required to be made under this Agreement.

8. Indemnification. The Company shall cause the Executive to be insured under its Directors and Officers Liability Insurance policy, if any, during his Employment Period and for a period of not less than five years after the termination of the Executive's employment for any reason whatsoever. In addition to insurance and any other indemnification available to the Executive as an Officer, the Company shall indemnify, to the extent permitted by applicable law, the Executive for settlements, judgments and reasonable expenses in connection with activities arising from services rendered by the Executive as a Director or Officer of the Company or any affiliated company and shall, to the extent permitted by law, advance to the Executive all reasonable costs and expenses in defense of any claim or cause of action arising out of or pertaining to the Executive's employment with CMS or the Company.

9. Notices. Any notices, requests, demands and other communications provided for by this Agreement shall be sufficient if in writing and if sent by registered or certified mail to the Executive at the last address he has filed in writing with the Company or, in the case of the Company, Attn: Secretary, at its principal executive offices.

10. Non-Alienation. The Executive shall not have any right to pledge, hypothecate, anticipate or in any way create a lien or security interest upon any amounts provided under this Agreement; and no benefits payable hereunder shall be assignable in anticipation of payment either by voluntary or involuntary acts, or by operation of law, except by will or the laws of descent and distribution.

11. Tax Withholding. The Company may withhold from any cash amounts payable to the Executive under this Agreement to satisfy all applicable Federal, State, local or other income and employment withholding taxes. In the event the Company fails to withhold such sums for any reason, or withholding is required for any non-cash payments provided in connection with the Executive's termination of employment, the Company may require the Executive to promptly remit to the Company sufficient cash to satisfy all applicable income and employment withholding taxes.

12. Claims Procedure.

(a) The administrator for purposes of this Agreement shall be the Company whose address is c/o the Secretary, CMS Energy Corporation and whose telephone number is 517-788-1030. The "Named Fiduciary" as defined in Section 402(a)(2) of ERISA, also shall be the Company. The Company shall have the right to designate one or more Company employees as the Administrator and the Named Fiduciary at any time, and to change the address and telephone number of the same. The Company shall give the Executive written notice of any change in the Administrator and Named Fiduciary, or in the address or telephone number of the same.

(b) The Administrator shall make all determinations as to the right of any person to receive benefits under the Agreement. Any denial by the Administrator of a claim for benefits by the Executive ("the Claimant") shall be stated in writing by the Administrator and delivered or mailed to the Executive within ten (10) days after receipt of the claim, unless special circumstances require an extension of time for processing the claim. If such an extension is required, written notice of the extension shall be furnished to the Executive prior to the termination of the initial 10-day period. In no event shall such extension exceed a period of ten (10) days from the end of the initial period. Any notice of denial shall set forth the specific reasons for the denial, specific reference to pertinent provisions of this Agreement upon which the denial is based, a description of any additional material or information necessary for the Executive to perfect the claim, with an explanation of why such material or information is necessary, and any explanation of claim review procedures, written to the best of the Administrator's ability in a manner that may be understood without legal or actuarial counsel.

(c) A claimant whose claim for benefits has been wholly or partially denied by the Administrator may request, within ten (10) days following the date of such denial, in writing addressed to the Administrator, a review of such denial. The claimant shall be entitled to submit such issues or comments in writing or otherwise, as the claimant shall consider relevant to a determination of the claim, and the claimant may include a request for a hearing in person before the Administrator. Prior to submitting the request, the claimant shall be entitled to review such documents as the Administrator shall agree are pertinent to the claim. The claimant may, at all stages of review, be represented by counsel, legal or otherwise, of the claimant's choice. All requests for review shall be promptly resolved. The Administrator's decision with respect to any such review shall be set forth in writing and shall be mailed

to the claimant not later than ten (10) days following receipt by the Administrator of the claimant's request unless special circumstances, such as the need to hold a hearing, require an extension of time for processing, in which case the Administrator's decision shall be so mailed not later than twenty (20) days after receipt of such request.

(d) A claimant who has followed the procedure in paragraphs (b) and (c) of this section, but who has not obtained full relief on the claim for benefits, may, within sixty (60) days following the claimant's receipt of the Administrator's written decision on review, apply in writing to the Administrator for binding arbitration of the claim before an arbitrator mutually acceptable to both parties, the arbitration to be held in Jackson, Michigan, in accordance with the arbitration rules of the American Arbitration Association, as then in effect. If the parties are unable to mutually agree upon an arbitrator, then the arbitration proceedings shall be held before three arbitrators, one of which shall be designated by the Company, one of which shall be designated by the claimant and the third of which shall be designated mutually by the first two arbitrators in accordance with the arbitration rules referenced above. The arbitrator(s) sole authority shall be to interpret and apply the provisions of this Agreement; the arbitrator(s) shall not change, add to, or subtract from, any of the Agreement's provisions. The arbitrator(s) shall have the power to compel attendance of witnesses at the hearing. Any court having jurisdiction may enter a judgment based upon such arbitration. All decisions of the arbitrator(s) shall be final and binding on the claimant and the Company without appeal to any court. Upon execution of this Agreement, the Executive shall be deemed to have waived any right to commence litigation proceedings regarding this Agreement outside of arbitration without the express written consent of the Company.

13. ERISA. This agreement is an unfunded compensation arrangement for a member of a select group of the Company's management and any exceptions under ERISA, as applicable to such an arrangement, shall be applicable to this Agreement.

14. Reporting and Disclosure. The Company, from time to time, shall provide government agencies with such reports concerning this Agreement as may be required by law, and the Company shall provide the Executive with such disclosure concerning this Agreement as may be required by law or as the Company may deem appropriate.

15. Governing Law. To the extent not preempted by the Federal laws of the United States, the provisions of this Agreement shall be construed in accordance with the laws of the State of Michigan.

16. Amendment. This Agreement may be amended or canceled only by mutual agreement of the parties in writing and, so long as the Executive lives, no person, other than the parties hereto, shall have any rights under or interest in this Agreement or the subject matter hereof.

17. Successor to the Company. Except as may be otherwise provided herein, this Agreement shall be binding upon and inure to the benefit of the Company and any successor of the Company.

18. Severability. The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement.

19. Prior Agreements. This Agreement supersedes and cancels any previous Employment Agreement between the Company and the Executive.

IN WITNESS WHEREOF, the Company and the Executive have executed this Agreement as of the date first above written.

-----  
(name)

(company name in all caps)

By: -----  
(name)  
Chairman of the Board

CMS ENERGY CORPORATION  
PERFORMANCE INCENTIVE STOCK PLAN

The CMS Energy Performance Incentive Stock Plan, first effective February 3, 1988, is hereby set forth as amended and restated effective December 3, 1999 including amendments as of December 3, 1999.

ARTICLE I. PURPOSE

The CMS Energy Corporation Performance Incentive Stock Plan (hereinafter called the "Plan") is a Plan to provide incentive compensation to key employees of the Corporation, including its Subsidiaries, based upon such key employees' individual contributions to the long-term growth of and profitability of the Corporation, and in order to encourage such key employees to identify with shareholder concerns and their current and continuing interest in the development and financial success of the Corporation. Because it is expected that the efforts of the key employees selected for participation in the Plan will have a significant impact on the results of the Corporation's operations in future years, the Plan is intended to assist the Corporation in attracting and retaining as key employees individuals of superior ability and in motivating their activities on behalf of the Corporation.

ARTICLE II. DEFINITIONS

2.1 Definitions: When used in the Plan, the following words and phrases shall have the following meanings:

- a. "Beneficiary" means the beneficiary or beneficiaries designated in accordance with Article VII to receive the amount, if any, payable under the Plan upon the death of a Participant.
- b. "Board" means the Board of Directors of the Corporation.
- c. "Committee" means those members of the Organization and Compensation Committee of the Board who, at the time of any award or determination by the Committee hereunder, are not, and at all times within one year prior thereto shall not have been, eligible for selection as persons to whom incentive compensation may be awarded pursuant to the Plan, or to whom incentive or unqualified Stock Options may be granted pursuant to any other plan of the Corporation.
- d. "Common Stock" means all classes of Common Stock of the Corporation as that term is defined in its Articles of Incorporation at the time of an award or grant under this Plan.
- e. "Common Stock Outstanding" means the number of shares of Common Stock issued and outstanding on the first day of January of each year. In case of a reorganization, recapitalization, stock split, stock dividend, combination of shares, merger, consolidation, rights offering, or any other change in the capital structure of the

Corporation, the Committee shall make such adjustment, if any, as it may deem appropriate in the determination of Common Stock Outstanding.

- f. "Corporation" means CMS Energy Corporation, its successors and assigns, and each of its Subsidiaries, or any of them individually.
- g. "Eligible Employee" means an officer or other key executive who at the end of the fiscal year is a regular full-time salaried employee of the Corporation or a Subsidiary, or, to the extent the Committee may determine, a person whose services to the Corporation terminated before the end of the fiscal year, who, in the opinion of the Committee, made a significant contribution to the successful management of the Corporation or a Subsidiary. A Director of the Corporation or a Subsidiary is not an Eligible Employee unless he is also a regular full-time salaried employee of the Corporation or a Subsidiary.
- h. "Incentive Option" means an option to purchase Common Stock of the Corporation which meets the requirements set forth in the Plan and also meets the definition of an Incentive Stock Option set forth in Section 422 of the Internal Revenue Code of 1986, as amended (the "Code").
- i. "Nonqualified Option" means an option to purchase Common Stock of the Corporation which meets the requirements set forth in the Plan but does not meet the definition of an Incentive Stock Option set forth in Section 422 of the Code.
- j. "Optionee" means any person to whom an option or right has been granted or who becomes a holder of an option or right under Article VI of the Plan.
- k. "Participant" means a person to whom an award of Restricted Common Stock has been made which has not been paid, forfeited, or otherwise terminated or satisfied under the Plan.
- l. "Restricted Common Stock" means Common Stock delivered subject to the restrictions described in Article VII.
- m. "Shareholders" means the shareholders of the Corporation.
- n. "Stock Appreciation Right" shall mean a right, granted in conjunction with a Stock Option, to surrender the Stock Option and receive the appreciation in value of the optioned shares over the option price.
- o. "Stock Option" means an option to purchase shares of Common Stock, granted pursuant to this Plan.
- p. "Subsidiary" means a corporation, domestic or foreign, 80 percent or more of the voting stock of which is owned directly or indirectly by the Corporation.

ARTICLE III. EFFECTIVE DATE, DURATION, SCOPE AND ADMINISTRATION OF THE PLAN

- 3.1 This Plan shall be effective upon approval of the shareholders of the Corporation and shall continue until terminated by the Board as provided in Article VIII.
- 3.2 The Committee shall have full power and authority to construe, interpret and administer the Plan. All decisions, actions or interpretations of the Committee shall be final, conclusive and binding upon all parties. If any person objects to any such interpretation or action formally or informally, the expenses of the Committee and its agents and counsel shall be chargeable against any amounts otherwise payable under the Plan to or on account of the Participant or Optionee.
- 3.3 No member of the Committee shall be personally liable by reason of any contract or other instrument executed by him or on his behalf in his capacity as a member of the Committee nor for any mistake of judgment made in good faith, and the Corporation shall indemnify and hold harmless each member of the Committee and each other officer, employee or director of the Corporation to whom any duty or power relating to the administration or interpretation of the Plan may be allocated or delegated, against any cost or expense (including counsel fees) or liability (including any sum paid in settlement of a claim with the approval of the Board) arising out of any act or omission to act in connection with the Plan unless arising out of such person's own fraud or bad faith.

ARTICLE IV. PARTICIPATION, STOCK AWARDS AND OPTION GRANTS

- 4.1 Each year the Committee shall designate as Participants and/or Optionees in the Plan those Eligible Employees who, in the opinion of the Committee, have significantly contributed to the successful management of the Corporation.
- 4.2 Each year, the Committee may award shares of Common Stock, and/or may grant Stock Options which qualify as "Incentive Stock Options" within the meaning of Section 422 of the Code or Stock Options which do not qualify as Incentive Stock Options and/or Stock Appreciation Rights for use in connection with options to each Eligible Employee whom it has designated as an Optionee or Participant for such year. The Committee has full discretion to determine the class or classes of Common Stock to which grants or awards apply. Upon the approval by the Board of Directors of the Corporation of the individual awards and/or grants, if any, made to officers and of the total of all awards and grants made to all other Eligible Employees, the determination of the Committee as to each such award and grant shall become final.

ARTICLE V. SHARES RESERVED UNDER THE PLAN

- 5.1 There is hereby reserved for award under this Plan an aggregate number of whole shares of Common Stock equal as nearly as possible to, but not more than, 5% of the aggregate shares of each class of Common Stock Outstanding on the first day of January of each year, less the number of shares of each class of Restricted Common Stock awarded under the Plan and Common Stock subject to options, granted under this Plan during the immediately preceding four calendar year period, which have not been forfeited. Any shares or options which are

forfeited may thereafter again be awarded or made subject to grant under the Plan. Notwithstanding the above, the number of shares of each class of Common Stock awarded under Article VII of this Plan will not exceed 20% of the aggregate number of shares reserved pursuant to this Article V. The number of shares made available for option and sale under Article VI of this Plan, plus the number of shares awarded under Article VII of this Plan will not exceed, at any time, the number of shares of Common Stock reserved pursuant to this Article V.

5.2 If a dividend shall be declared upon the Common Stock payable in shares of Common Stock, the number of shares of Common Stock then subject to any such option and the number of shares reserved for issuance pursuant to the Plan but not yet covered by an option shall be adjusted by adding to each such option or share the number of shares which would be distributable thereon if such share had been outstanding on the date fixed for determining the shareholders entitled to receive such stock dividend. In the event that the outstanding shares of the Common Stock shall be changed into or exchanged for a different number or kind of shares of stock or other securities of CMS Energy Corporation or of another corporation, whether through reorganization, recapitalization, stock split-up, combination of shares, merger or consolidation or otherwise, then there shall be substituted for each share of Common Stock subject to any such option and for each share of Common Stock reserved for issuance pursuant to the Plan but not yet covered by an option, the number and kind of shares of stock or other securities into which each outstanding share of Common Stock shall be so changed or for which each such share shall be exchanged. In the event there shall be any change, other than as specified above in this Section 5.2, in the number or kind of outstanding shares of Common Stock of the Corporation or of any stock or other securities into which such Common Stock shall have been changed or for which it shall have been exchanged, then if the Committee shall in its sole discretion determine that such change equitably requires an adjustment in the number or kind of shares theretofore reserved for issuance pursuant to the Plan but not yet covered by an option and of the shares then subject to an option or options, such adjustment shall be made by the Committee and shall be effective and binding for all purposes of the Plan and each Stock Option agreement. In the case of any such substitution or adjustment as provided for in this paragraph, the option price in each Stock Option agreement for each share covered thereby prior to such substitution or adjustment will be the option price for all shares of stock or other securities which shall have been substituted for such share or to which such share shall have been adjusted pursuant to this section. No adjustment or substitution provided for in this Section 5.2 shall require the Corporation in any Stock Option agreement to sell a fractional share, and the total substitution or adjustment with respect to each Stock Option agreement shall be limited accordingly.

5.3 Individual Grant Limit: The maximum shares of Restricted Common Stock awarded under this Plan and Common Stock subject to Stock Options, including Stock Appreciation Rights granted in conjunction with Stock Options, granted under this Plan for any one Eligible Employee for any one year will not exceed 100,000 shares of each class of Corporation Common Stock.

#### ARTICLE VI. STOCK OPTIONS AND STOCK APPRECIATION RIGHTS

- 6.1 The Committee may from time to time provide for the option and sale of shares of Common Stock, which may consist in whole or in part of the authorized and unissued or reacquired Common Stock of the Corporation.
- 6.2 Optionees: The Committee shall determine and designate from time to time, in its discretion, those Eligible Employees of the Corporation to whom Stock Options and Stock Appreciation Rights are to be granted and who thereby become Optionees under the Plan.
- 6.3 Allotment of Shares: The Committee shall determine and fix the number of shares and classes of Common Stock subject to options to be offered to each Optionee.
- 6.4 Option Price: The Committee shall establish the option price at the time any option is granted at not less than 100% of the fair market value of the stock on the date on which such option is granted; provided, however, that with respect to an Incentive Option granted to an employee who at the time of the grant owns (after applying the attribution rules of Section 425(d) of the Code) more than 10% of the total combined voting stock of the Corporation or of any parent or Subsidiary, the option price shall not be less than 110% of the fair market value of the stock subject to the Incentive Option on the date such option is granted.
- 6.5 Stock Appreciation Rights: At the discretion of the Committee, any Stock Option granted under this Plan may, at the time of such grant, include a Stock Appreciation Right. A Stock Appreciation Right shall pertain to, and be granted only in conjunction with, a related underlying Stock Option, and shall be exercisable only at the time and to the extent the related underlying Stock Option is exercisable and only if the fair market value of the Common Stock of the Corporation exceeds the Stock Option price in the related underlying Stock Option. An Optionee who is granted a Stock Appreciation Right may elect to surrender the related underlying Stock Option with respect to all or part of the number of shares subject to the related underlying Stock Option and exercise in lieu thereof the Stock Appreciation Right with respect to the number of shares as to which the Stock Option is surrendered.
- The exercise of the underlying Stock Option shall terminate the related Stock Appreciation Right to the extent of the number of shares purchased upon exercise of the underlying Stock Option. The exercise of a Stock Appreciation Right shall terminate the related underlying Stock Option to the extent of the number of shares with respect to which the Stock Appreciation Right is exercised. Upon exercise of a Stock Appreciation Right, an Optionee shall be entitled to receive, without payment to the Company (except for applicable withholding taxes), an amount equal to the excess of (i) the then aggregate fair market value of the number of shares with respect to which the Optionee exercises the Stock Appreciation Right, over (ii) the aggregate Stock Option price per share for such number of shares. Such amount may be paid by the Corporation, at the election of the Optionee, in cash, Common Stock of the Corporation or any combination thereof; provided, however, that the Committee shall have sole discretion to approve or disapprove an election of an Optionee to receive cash upon exercise of a Stock Appreciation Right.
- 6.6 Granting and Exercise of Stock Options and Stock Appreciation Rights: The granting of Stock Options and Stock Appreciation Rights hereunder shall be effected in accordance with

determinations made by the Committee pursuant to the provisions of the Plan, by execution of instruments in writing in form approved by the Committee.

Each Stock Option and Stock Appreciation Right granted hereunder shall be exercisable at any such time or times or in any such installments as may be determined by the Committee at the time of the grant, subject to the limitation that for each Incentive Stock Option and related Stock Appreciation Right granted, a maximum of \$100,000 (based on the price at the date of exercise) may be exercised per year, plus any unused carry-over from a previous year(s). Except as provided in Section 6.10, Stock Options and Stock Appreciation Rights may be exercised only while the Optionee is an employee of the Corporation.

Successive Stock Options and Stock Appreciation Rights may be granted to the same Optionee, whether or not the Stock Option(s) and Stock Appreciation Right(s) previously granted to such Optionee remain unexercised. An Optionee may exercise a Nonqualified Option or related Stock Appreciation Right, if then exercisable, notwithstanding that Stock Options and Stock Appreciation Rights previously granted to such Optionee remain unexercised.

- 6.7 Payment of Stock Option Price: At the time of the exercise in whole or in part of any Stock Option granted hereunder, payment of the option price in full in cash or, with the consent of the Committee, in Common Stock of the Corporation, shall be made by the Optionee for all shares so purchased. No Optionee shall have any of the rights of a Shareholder of the Corporation under any such Stock Option until the actual issuance of shares to said Optionee, and prior to such issuance no adjustment shall be made for dividends, distributions or other rights in respect of such shares, except as provided in Section 5.2.
- 6.8 Nontransferability of Stock Options and Stock Appreciation Rights: No Stock Option or Stock Appreciation Right granted under the Plan to an Optionee shall be transferable by such Optionee otherwise than by will, or by the laws of descent and distribution, and such Stock Option and Stock Appreciation Right shall be exercisable, during the lifetime of the Optionee, only by the Optionee.
- 6.9 Term of Stock Options and Stock Appreciation Rights: If not sooner terminated, each Stock Option and Stock Appreciation Right granted hereunder shall expire not more than ten years (ten years and one month in the case of a Nonqualified Option and any related Stock Appreciation Right) from the date of the granting thereof; provided, that with respect to an Incentive Option and a related Stock Appreciation Right granted to an Optionee who, at the time of the grant, owns (after applying the attribution rules of Section 425(d) of the Code) more than 10% of the total combined voting stock of all classes of stock of the Corporation or of any parent or Subsidiary, such Stock Option and Stock Appreciation Right shall expire not more than five years after the date of granting thereof.
- 6.10 Termination of Employment: If the employment of an Optionee by the Corporation shall be terminated due to a reason other than the Optionee's death, the Committee may, in its discretion, permit the exercise of Stock Options and Stock Appreciation Rights granted to such Optionee for a period not to exceed one year following such termination of employment or three years following termination of employment upon retirement in accordance with a pension plan of the Corporation; provided, however, that no Incentive Option or related

Stock Appreciation Right may be exercised after three months following an Optionee's termination of employment, unless such termination of employment is due to the Optionee's death or disability. If the termination is due to the Optionee's disability, the Committee may permit the Incentive Option and related Stock Appreciation Right to be exercised for one year following the Optionee's termination of employment. If the employment of an Optionee by the Corporation shall be terminated due to the Optionee's death, any Stock Option, or related Stock Appreciation Right, transferred by will or the laws of descent and distribution, may be exercised for one year following the Optionee's death. In no event, however, shall a Stock Option or Stock Appreciation Right be exercisable subsequent to its expiration date and, furthermore, a Stock Option or Stock Appreciation Right may only be exercised after termination of an Optionee's employment to the extent exercisable on the date of termination of employment. Upon the termination of employment of an Optionee by the Corporation, every Stock Option and related Stock Appreciation Right shall terminate, except as otherwise specifically provided in this Plan. Further, no Stock Option or related Stock Appreciation Right may be exercised after such termination of employment, except within a time period provided in this Section 6.10.

- 6.11 Investment Purpose: Any shares of Common Stock subject to option under the Plan may be made subject to such other restrictions as the Committee deems advisable, including without limitation provisions to comply with Federal and state securities laws. In making determinations of legal requirements the Committee shall rely on an opinion of counsel for the Corporation.
- 6.12 Withholding Payments: If upon the exercise of a Nonqualified Option and/or a Stock Appreciation Right or as a result of a disqualifying disposition (within the meaning of Section 422 of the Code) of shares acquired upon exercise of an Incentive Option, there shall be payable by the Corporation any amount for income tax withholding, either the Corporation shall appropriately reduce the amount of stock or cash to be paid to the Optionee or the Optionee shall pay such amount to the Corporation to reimburse it for such income tax withholding.
- 6.13 Restrictions on Sale of Shares: If, at the time of exercise of any Stock Option or Stock Appreciation Right granted hereunder, the Corporation is precluded by any legal, regulatory or contractual restriction from selling and/or delivering shares pursuant to the terms of such Stock Option or Stock Appreciation Right, the sale and delivery of the shares may be delayed until the restrictions are resolved and only cash may be paid upon exercise of the Stock Appreciation Right. At any time during such delay, the Committee, in its discretion, may permit the Optionee to revoke a Stock Option exercise, in which event any corresponding Stock Appreciation Right shall be reinstated.
- 6.14 Compliance With Rule 16b-3: Notwithstanding any other provision of the Plan to the contrary, the administration of the Plan and the grant, exercise and terms of Stock Appreciation Rights hereunder shall comply with Rule 16b-3, or any successor rule, under the Securities Exchange Act of 1934, as amended (the "Exchange Act").

## ARTICLE VII. RESTRICTED COMMON STOCK

7.1 Awards: The Committee may from time to time award restricted shares of Common Stock to any Eligible Employee it has designated as a Participant for such year. Awards shall be made to Eligible Employees on the basis of their contributions to the successful management of the Corporation in accordance with such rules as the Committee may prescribe. The Committee may also award restricted shares of Common Stock conditioned on the attainment of a performance goal that relates to Shareholder return, measured by factors determined by the Committee as set forth in the award.

## 7.2 Restrictions:

- a. Any shares of Corporation Common Stock awarded or issued under the Plan may be made subject to such other restrictions as the Committee deems advisable, including without limitation provisions to comply with Federal and state securities laws. In making determinations of legal requirements the Committee shall rely on an opinion of counsel for the Corporation. The restrictions with respect to the Common Stock awarded will extend for such period, or periods, of at least twelve months from and after the date of the award, as may be determined for each award by the Committee (the award period), except that nonperformance based awards will vest only after twenty four months and then in annual installments equal to 25% of the award. Notwithstanding the foregoing, the restrictions shall terminate upon the death of the Participant or, within the discretion of the Committee, upon Participant's retirement pursuant to a pension plan of the Corporation on or after Participant's 62nd birthday, except as may otherwise be determined to be necessary or desirable in the opinion of the Committee, to comply with the law or to prevent Restricted Common Stock from being subject to Federal income tax prior to the termination of restrictions.
- b. Whenever shares of Common Stock are awarded to a Participant, such shares shall be outstanding, and stock certificates shall be issued in the name of the Participant, which certificates may bear a legend stating that the shares are issued subject to the restrictions set forth in the Plan. All certificates issued for shares of Common Stock awarded under the Plan shall be deposited for the benefit of the Participant with the Secretary of the Corporation as custodian until such time as the shares are vested and transferable.
- c. A Participant who is awarded shares of Common Stock under the Plan shall have full voting rights on such shares, whether or not the shares are vested or transferable.
- d. Shares of Common Stock awarded to a Participant under the Plan, whether or not vested or transferable, shall have full dividend rights with respect to dividends declared after the award, with such dividends being paid directly to the Participant, regardless of whether such dividends are paid in cash or in Common Stock. However, if shares or securities are issued as a result of a merger, consolidation or similar event, such shares shall be issued in the same manner, and subject to the same deposit requirements, vesting provisions and transferability restrictions as the shares of Common Stock which have been awarded.

- e. Deliveries of Restricted Common Stock by the Corporation may consist in whole or in part of the authorized and unissued or reacquired Common Stock of the Corporation (at such time or times and in such manner as it may determine). The Restricted Common Stock shall be paid and delivered as soon as practicable after the award period in accordance with Section 7.3.
- f. The shares may not be sold, exchanged, transferred, pledged, hypothecated, or otherwise disposed of by the Participant until their release. However, nothing herein shall preclude a Participant from making a gift of any shares of Restricted Common Stock to a spouse, child, stepchild, grandchild, parent or sibling, or legal dependent of the Participant or to a trust of which the beneficiary or beneficiaries of the corpus and the income shall be either such a person or the Participant; provided that, the Restricted Common Stock so given shall remain subject to the restrictions, obligations and conditions described in this Article VII.
- g. If a Participant has received an award pursuant to the provisions of the Plan, is employed by the Corporation at the end of the award period and the performance goals have been met, then the Participant shall be fully vested, at the end of the award period, in the shares of Common Stock awarded to the Participant for that award period.
- h. In the event of termination of employment of a Participant with the Corporation prior to the last day of an award period for any reason other than Participant's death, all rights to any shares of Restricted Common Stock held in a deposit account with respect to such award, including any additional shares delivered with respect to such shares as described in subsection 7.2d above shall be forfeited to the Corporation. However, the Committee may, if the Committee determines that the circumstances warrant such action, approve the distribution of all or any part of the Restricted Common Stock which would otherwise be forfeited. By way of illustration, but not limitation, circumstances which might warrant such action on the part of the Committee include retirement pursuant to a pension plan of the Corporation, or retirement pursuant to a pension plan of the Corporation by reason of disability.

### 7.3 Distribution of Restricted Common Stock

- a. **Distribution After Award Period:** Except as otherwise provided, distribution of vested awards of Common Stock shall be made as soon as practicable after the last day of the applicable award period in the form of full shares of Common Stock, with fractional shares, if any, being awarded in cash.
- b. **Distribution After Death of Participant:** Upon the death of the Participant, either before or after retirement, any shares of Restricted Common Stock then held shall, subject to this Article VII, be delivered within a reasonable time under the circumstances to Participant's Beneficiary or, in the absence of an appropriate Beneficiary designation to the Participant's estate, in such one or more installments as the Committee may then determine.

#### 7.4 Designation of Beneficiaries

If a Participant dies prior to the receipt in full of any award under the Plan to which the Participant is entitled, the award shall be distributed to the Participant's Beneficiary or, in the absence of a Beneficiary designation, to the Participant's estate. The designation of a Beneficiary shall be made in writing on a form prescribed by and filed with the Committee prior to the Participant's death. If the Committee is in doubt as to the right of any person to receive such amount, the Committee may retain such amount, without liability for any interest thereon, until the rights thereto are determined, or the Committee may pay such amount into any court of appropriate jurisdiction and such payment shall be a complete discharge of the liability of the Plan and the Corporation therefor.

7.5 Transferability: Subject to the provision of this Article VII, shares of Common Stock awarded to a Participant will become freely transferable by the Participant only at the end of the award period established with respect to such shares.

7.6 Distribution to Person Other Than Employee: If the Committee shall find that any person to whom any award is payable under this Article VII of the Plan is unable to care for such person's affairs because of illness or accident, or is a minor, or has died, then any payment due Participant or Participant's estate (unless a prior claim therefor has been made by a duly appointed legal representative), may, if the Committee so directs the Corporation, be paid to Participant's spouse, a child, a relative, an institution maintaining or having custody of such person, or any other person deemed by the Committee to be a proper recipient on behalf of such person otherwise entitled to payment. Any such payment shall be a complete discharge of the liability of the Committee and the Corporation therefor.

7.7 Restricted Common Stock is intended to constitute an unfunded deferred compensation arrangement for a select group of management or highly compensated personnel.

7.8 A forfeiture of shares of Common Stock pursuant to subsection 7.2h of the Plan shall effect a complete forfeiture of voting rights, dividend rights and all other rights relating to the award or grant as of the date of forfeiture.

7.9 Each distribution of Common Stock under this Article VII of the Plan shall be made subject to such federal, state and local tax withholding requirements as apply on the distribution date. For this purpose, the Committee may provide for the withholding of shares of Common Stock or allow a Participant to pay to the Corporation funds sufficient to satisfy such withholding requirements.

7.10 Notwithstanding any other provisions in the Plan, in the event of a Change in Control (as hereinafter defined), each Participant shall be fully vested in the number of shares of Common Stock awarded to such Participant for all award periods that, upon such event, have not yet ended. Distribution of all shares of Common Stock shall be made as soon as practicable within 7 days after the date of the Change in Control, as if the applicable award period or periods had ended on such date. In addition, the Corporation shall reimburse a participant for legal fees and expenses incurred by such Participant in successfully seeking to obtain or enforce any right to distribution under this Section 7.10. For purposes of this

Plan, a Change in Control shall occur upon the occurrence of one or more of the following events:

- (i) A Change in Control of the Corporation would be required to be reported in response to Item 1(a) of the Current Report on Form 8-K, as in effect on the date hereof, pursuant to Sections 13 or 15(d) of the Exchange Act, whether or not the Corporation is then subject to such reporting requirement;
- (ii) Any "person" or "group" within the meaning of Sections 13(d) and 14(d)(2) of the Exchange Act becomes the "beneficial owner" as defined in Rule 13d-3 under the Exchange Act of more than 30% of the then outstanding voting securities of the Corporation;
- (iii) During any period of twenty-four consecutive months (not including any period prior to the adoption of this Plan) Present Directors and/or New Directors cease for any reason to constitute a majority of the Board. For purposes of this subsection (iii), "Present Directors" shall mean individuals who at the beginning of such consecutive twenty-four month period were members of the Board and "New Directors" shall mean any director of the Corporation whose election by the Board or whose nomination for election by the Corporation's Shareholders was approved by a vote of at least two-thirds of the Corporation's Directors then still in office who were Present Directors or New Directors;
- (iv) There is a sale by the Corporation within a three-year period of assets of the Corporation with either a book value or market value of 50% or more of the assets of the Corporation;
- (v) A bidder as defined in Rule 14D-1(b) under the Exchange Act files a Tender Offer Statement with the Securities and Exchange Commission and the Corporation.

Notwithstanding any other provisions of the Plan, the provisions of this Section 7.10 may not be amended after the date a Change in Control occurs without the written consent of a majority in number of participants.

#### ARTICLE VIII. AMENDMENT OR TERMINATION OF THE PLAN

- 8.1 Right To Amend, Suspend or Terminate Plan: The Board reserves the right at any time to amend, suspend or terminate the Plan in whole or in part and for any reason and without the consent of any Optionee, Participant or Beneficiary; provided, that no such amendment shall:
- a. Change the Stock Option price or adversely affect any Stock Option or Stock Appreciation Right outstanding under the Plan on the effective date of such amendment or termination, or
  - b. Adversely affect any award or grant then in effect or rights to receive any amount to which Participants or Beneficiaries have become entitled prior to such amendment, or

c. Unless approved by the Shareholders of the Corporation, increase the aggregate number of shares of Common Stock reserved for award or grant under the Plan, change the group of Eligible Employees under the Plan or materially increase benefits to Eligible Employees under the Plan.

8.2 Periodic Review of Plan: In order to assure the continued realization of the purposes of the Plan, the Committee shall periodically review the Plan, and the Committee may suggest amendments to the Board as it may deem appropriate.

8.3 Amendments May Be Retroactive: Subject to Section 8.1 above, any amendment, modification, suspension or termination of any provisions of the Plan may be made retroactively.

ARTICLE IX. GENERAL PROVISIONS

9.1 Rights to Continued Employment, Award or Option: Nothing contained in the Plan or in any Stock Option, Stock Appreciation Right or Restricted Common Stock award shall give any employee the right to be retained in the employment of the Corporation or affect the right of the Corporation to terminate the employee's employment at any time. The adoption of the Plan shall not constitute a contract between the Corporation and any employee. No Eligible Employee shall receive any right to be granted an option, right or award hereunder nor shall any such option, right or award be considered as compensation under any employee benefit plan of the Corporation.

9.2 Governing Law: The provisions of this Plan and all rights thereunder shall be governed by and construed in accordance with the laws of the State of Michigan.

IN WITNESS WHEREOF, execution is hereby effected.

ATTEST: CMS ENERGY CORPORATION

By:

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Secretary

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Chairman and Chief Executive Officer

SUPPLEMENTAL EXECUTIVE RETIREMENT  
PLAN FOR EMPLOYEES OF  
CMS ENERGY / CONSUMERS ENERGY COMPANY

INTRODUCTION

The objective of the Supplemental Executive Retirement Plan (hereinafter referred to as the "Supplemental Plan") is to attract and motivate top level executives, including those recruited in mid- or late-career whose normal pension would result in inadequate compensation, by providing additional retirement income to supplement that provided by the Pension Plan of the Company.

The Supplemental Executive Retirement Plan became effective on January 1, 1982 and is applicable to all employees of the Company who are eligible in accordance with the provisions of this Supplemental Plan.

This instrument describes the Supplemental Plan for employees who retire, die or whose services are terminated on or after May 1, 1998. The rights of employees who, prior to May 1, 1998, retired, died or whose services were terminated are governed by the provisions of the instrument in effect at such time. This Supplemental Plan is an unfunded, unsecured promise to pay benefits at a later date. Subject to the provisions of this Supplemental Plan, Participants have no greater rights than the general creditors of the Company.

SECTION I. DEFINITIONS

Whenever used in this Supplemental Plan, the following terms shall have the respective meanings set forth below, unless the context clearly indicates otherwise. The definitions set forth in Section I of the Pension Plan are hereby adopted and made a part of this Supplemental Plan.

"ACCRUED SUPPLEMENTAL EXECUTIVE RETIREMENT INCOME" Means the Supplemental Executive Retirement Income beginning at Normal Retirement Date which would be payable to a Participant at the rates provided in subsection 1 of Section V, on the basis of his Accredited Service and Preference Service rendered to the date of computation.

"DISABILITY SERVICE PENSION SUPPLEMENT" Means the pension supplement, provision for which is made in Section V, subsection 9 of this Supplemental Executive Retirement Plan.

"EXECUTIVE INCENTIVE COMPENSATION" Means the applicable amount awarded to the Participant under an Executive Incentive Compensation Plan of the Company.

"FINAL EXECUTIVE PAY"	Means 1/12th of the average of the Earnings (without regard to any limitations imposed on the Pension Plan by the Internal Revenue Code or Regulations thereunder) plus Executive Incentive Compensation (if any) of a Participant, including any such amounts deferred, for his five years of highest totals of Earnings plus Executive Incentive Compensation (if any) during the period of his Accredited Service (or the average of his monthly total of Earnings plus Executive Incentive Compensation earned over his Accredited Service, including any such amounts deferred, if the Participant has fewer than five years of Accredited Service as a Participant).
	For a Participant with a Salary Grade E-5 or above and who, upon a Change in Control, receives a severance payment under an employment agreement, three of the five highest years of Earnings plus Executive Incentive Compensation shall be one-third of the severance payment paid to such Participant.
	For purposes of determining Final Executive Pay, Accredited Service shall include only the service provided while the Participant holds a position that qualifies for inclusion under this Supplemental Plan.
"PARTICIPANT"	Means an employee of the Company included in the Supplemental Plan pursuant to Section II.
"PLAN" OR "PENSION PLAN"	Means the Pension Plan for Employees of Consumers Energy Company, as amended.
"PREFERENCE SERVICE"	Means the period of service credited to a Participant pursuant to Section III.
"SERP RETIREMENT BOARD"	Means the managing board of the Plan as determined by the Board of Directors.
"SUPPLEMENTAL EXECUTIVE RETIREMENT INCOME"	Means the monthly retirement income provided for by this Supplemental Plan.
"SUPPLEMENTAL PLAN"	Means the Supplemental Executive Retirement Plan as it is described in this instrument.

The masculine pronoun wherever used herein shall mean or include the feminine pronoun.

#### SECTION II. ELIGIBILITY

1. EMPLOYEES INCLUDED ON JANUARY 1, 1982 BUT BEFORE MAY 1, 1995. Each officer or other executive of the Company in Salary Grades E-1 and above on January 1, 1982, who is eligible for inclusion in the Pension Plan on that date, will be included in the Supplemental Plan as of January 1, 1982.
2. EMPLOYEES INCLUDED AFTER JANUARY 1, 1982. Each officer or other executive of the Company who is eligible for inclusion in the Pension Plan and is appointed to a position at Salary Grade E-1 or above after January 1, 1982, will be included in the Supplemental Plan on the first day of the month after he assumes such a position. Effective May 1, 1995, an officer or executive of Consumers Energy who is eligible for

inclusion in the Pension Plan and is appointed to a position at Salary Grade F or above will be included in the Supplemental Plan on the first day of the month after he assumes such position.

#### SECTION III. DETERMINATION OF PREFERENCE SERVICE

1. PREFERENCE SERVICE. Each Participant with a Salary Grade E-3 or above and each Participant below Salary Grade E-3 included in this Plan as of April 30, 1998, shall be credited with one month of Preference Service for each month of Accredited Service credited to him under the Pension Plan until the sum of Accredited Service and Preference Service equals 20 years and, upon a Change in Control as defined in Section XII, each Participant with a Salary Grade E-5 or above and who receives a severance payment under an employment agreement shall be credited with an additional 36 months of Preference Service; provided, however, Preference Service will be reduced by the amount (if any) by which the total period of Preference Service when added to the total period of Accredited Service exceeds 35 years. Any Participant on May 1, 1998 who has been credited with more than 20 years of Accredited Service and Preference Service shall not have such Preference Service reduced until such time as the sum of Accredited Service and Preference Service exceeds 35 years. Each Participant below Salary Grade E-3 first included in this Supplemental Plan on or after May 1, 1998 shall not be credited with Preference Service.

2. TRANSFERS TO OR FROM AFFILIATED COMPANIES. In the case of the transfer of a Participant to any company now affiliated or associated with the Company which has at the time of transfer a pension plan with substantially the same terms as the Pension Plan, and a supplemental plan with substantially the same terms as this Supplemental Plan, such Participant, if and when he commences to receive retirement income under the pension plan of the company to which he transferred, should also receive supplemental executive retirement income from that company based upon the Earnings and Executive Incentive Compensation received from the Company as if such Earnings and Executive Incentive Compensation had been received from the company to which the Participant transferred.

In the case of the transfer to this Company of any participant employed by any company now affiliated or associated with the Company which has at the time of transfer a pension plan with substantially the same terms as the Pension Plan, and a supplemental plan with substantially the same terms as this Supplemental Plan, such Participant, if and when he commences to receive Retirement Income under the Pension Plan, will also receive Supplemental Executive Retirement Income from the Company based upon the earnings and executive incentive compensation received from the company from which he transferred as if such earnings and executive incentive compensation were Earnings and Executive Incentive Compensation received from the Company.

In the event of a transfer or transfers as set forth above, the right of the Participant to receive benefits under this Supplemental Plan or a supplemental plan with substantially the same terms maintained by an affiliated or associated Company will be suspended until such time as the Participant commences to receive supplemental executive retirement income under such other plan or the Participant commences to receive Supplemental Executive Retirement Income under this Supplemental Plan, at which time the Participant shall receive all supplemental executive retirement income and Supplemental Executive Retirement Income to which the Participant is entitled under this Supplemental Plan or a plan maintained by an affiliated or associated company.

#### SECTION IV. RETIREMENT

Retirement dates for the purposes of this Supplemental Plan shall be the same as set forth in the retirement provisions of the Pension Plan; provided, however, that a Participant must have five years of actual service after inclusion in this Supplemental Plan to be eligible for Supplemental Executive Retirement Income. Any Participant with less than five years of actual service under this Supplemental Plan and who has submitted a request for retirement on or before July 1, 1998, and whose request has been accepted by the SERP Retirement Board on or before May 1, 1998, may retire under this Supplemental Plan.

#### SECTION V. SUPPLEMENTAL EXECUTIVE RETIREMENT INCOME

While the Company hopes and expects to continue the Supplemental Plan indefinitely, it reserves the right to terminate or modify it at any time.

1. **NORMAL OR DEFERRED SUPPLEMENTAL EXECUTIVE RETIREMENT INCOME.** The monthly Supplemental Executive Retirement Income payable to a Participant who, at Normal Retirement Date or a Deferred Retirement Date, retires on or after September 1, 1995, pursuant to the provisions of the Pension Plan from the service of the Company, will be an amount equal to the product of the Participant's Final Executive Pay times the sum of the percentages determined below, plus, for each employee who retires with 35 years of Accredited Service under the Pension Plan, an amount equal to \$20.00 for each additional full year of vested service that would otherwise have been credited as Accredited Service but for the application of the minimum age requirements in the Pension Plan or the 35-year Accredited Service maximum, minus (i) a portion of the Participant's estimated primary Social Security benefit, as determined pursuant to the Pension Plan, equal to the lesser of (1) .5% multiplied by 1/12th of the Participant's "Final Average Compensation" up to "Covered Compensation" (as those terms are used in Section 401(l) of the Internal Revenue Code) for each year of Accredited Service and Preference Service, (2) 1/2 of the benefit that would be provided prior to the application of the offset, with respect to Participant's Final Pay up to Covered Compensation, or (3) the maximum offset allowed under Section 401(l) of the Internal Revenue Code, and (ii) the Retirement Income provided by the Pension Plan:

2.1% for each of the first 20 years of Accredited Service and Preference Service.

1.5% for each of the next 15 years of Accredited Service and Preference Service.

2. **EARLY SUPPLEMENTAL EXECUTIVE RETIREMENT INCOME.** The monthly Supplemental Executive Retirement Income payable to a Participant who, on an Early Retirement Date, retires from the service of the Company, will be the amount of his Accrued Supplemental Executive Retirement Income on the date his retirement commences, reduced by 5/12th of 1% for each month by which his Early Retirement Date precedes his Normal Retirement Date by more than 36 months.

3. **LIMITATION AS TO MONTHS FOR WHICH PAYMENT MAY BE MADE.** The Company shall pay to a Participant, or to his Provisional Payee, if applicable, Supplemental Executive Retirement Income in the amount determined pursuant to this Supplemental Plan only for a month in which the Participant or his Provisional Payee is entitled to receive Retirement Income under the provisions of the Pension Plan or would be entitled to Retirement Income but for the election of a Single Sum payment under the Pension Plan. Payment of Supplemental Executive Retirement Income shall terminate when payment of Retirement Income is terminated pursuant to the Pension Plan.

4. The payments provided for in this Supplemental Plan shall be made by the Company at such times as required under this Supplemental Plan; provided, however, that, while the Company hopes and expects to make the payments provided for under this Supplemental Plan, such payment is not guaranteed.

5. The Company may establish a fund, as part of the general assets of the Company, to provide for the payments required under this Supplemental Plan.

6. MAXIMUM PERMISSIBLE RETIREMENT INCOME. Notwithstanding any other provision of this Supplemental Plan, if the Retirement Income payable to a retired employee under provisions of subsection 7 of Section V of the Pension Plan is a greater amount than permitted by Section 415 of the Internal Revenue Code to be paid by qualified plans, then such excess Retirement Income shall be payable to such retired employee under this Plan; subject, however, to approval by the Board of Directors of the Company for each such employee.

7. SINGLE SUM PAYMENT. The Retirement Board, after discussion with a retiring Participant, may pay in a single sum to such Participant, who retires on or after February 1, 1991, at the time of the Participant's retirement with benefits under the Pension Plan, the present value of the Participant's Supplemental Executive Retirement Income. The present value of that part of the Participant's Supplemental Executive Retirement Income which represents payment to make up Retirement Income lost under the Pension Plan because of the Maximum Retirement Income provision thereof (Section V, subsection 6 of the Plan) will not be paid in a lump sum unless the Participant has elected to receive a single sum payment under the Pension Plan. The present value will be actuarially determined using the Pension Benefit Guaranty Corporation Immediate Annuity Rate, as of the date of the distribution, increased to 120%. The discussion with a retiring Participant is for the purpose of assuring the Retirement Board of accurate current information for use in making its independent decision as to whether or not to make payment in a single sum. In making its independent decision, the Retirement Board may take into account any financial hardship of the Participant, the health or disability of the Participant, and/or any other factor it considers relevant. The decision of the Retirement Board shall be in the sole discretion of said Board and shall be final, binding and conclusive. Discussion with respect to such a payment and the decision with respect thereto will take place at least three months before Early Retirement Date, Normal Retirement Date or Deferred Retirement Date. The SERP Retirement Board will not render a decision regarding a single sum payment any earlier than six months prior to the Participant's actual retirement date.

8. RETIRED PARTICIPANTS. The Supplemental Executive Retirement Income of retired Participants may be increased from time to time by such reasonable amounts as determined by the Board of Directors of the Company, to counter the effects of inflation, provided that the percentage amount of such increases will be made uniformly for all retired Participants, or for retired Participants within such reasonable classes, as may be determined by the Board of Directors. This provision shall not apply to any Participant who has received his benefit as a single sum.

9. DISABILITY SERVICE PENSION SUPPLEMENT. If a Participant is totally disabled (unable to perform the Participant's regular job because of disease or injury) and, as a result, fails to accumulate Accredited Service under the Pension Plan for some period of time (Disability Service), a Disability Service Pension Supplement will be calculated and paid as if Accredited Service and applicable Preference Service were credited during such period subject to the following:

- A. The Participant must have retired with Retirement Income under the Pension Plan.
- B. The period of Disability Service begins when the Participant stops accumulating Accredited Service under the Pension Plan as a result of the Participant's total disability, provided that the Participant has not undertaken other employment.
- C. The period of Disability Service ends when the Participant first:
  1. Begins again to accumulate Accredited Service under the Pension Plan,
  2. Undertakes other employment,
  3. Retires on an Early Retirement Date, or,

4. Attains the Participant's Normal Retirement Date.
- D. The "Final Executive Pay" of the Participant, for purposes of determining the Disability Pension Supplement only, will be calculated as if the Participant were earning during the period of Disability Service the sum of (1) the Participant's last monthly rate of basic earnings prior to the period of Disability Service, and (2) 1/12th of the average of the Executive Incentive Compensation (if any) for the five years of Accredited Service while in an eligible salary grade immediately preceding the period of Disability Service (or the monthly average of Executive Incentive Compensation earned over the Participant's Accredited Service if the Participant has fewer than five years of Accredited Service while in an eligible salary grade), increased or decreased each July 1, following the beginning of the Participant's period of Disability Service, according to the change in the Bureau of Labor Statistics Consumer Price Index (CPI-W) for the preceding 12-month period of Disability Service (or lesser period of Disability Service, if applicable). However, no July 1 increase will exceed an amount which could result in an increase greater than a 5% compounded annual increase since the beginning of the Participant's period of Disability Service, nor in a reduction in the Participant's Final Executive Pay to an amount less than the Participant's Final Executive Pay prior to the period of Disability Service. For purposes of this provision, the Consumer Price Index for the second month previous to any measurement date will be deemed to be in effect on such date.
- E. The amount of the Disability Service Pension Supplement is the Supplemental Executive Retirement Income, calculated using Final Executive Pay as determined in Section V, subsection 9.D above, and giving credit for Accredited Service and applicable Preference Service for any period of Disability Service, less:
1. The Supplemental Executive Retirement Income calculated without regard to the Disability Service Pension Supplement,
  2. The Retirement Income provided by the Pension Plan, and
  3. Any amount paid to a retired Participant for lost benefits under the Pension Plan, for the period of Disability Service, under an insurance policy, the premiums for which were paid in whole or in part by CMS Energy Corporation or any subsidiaries which are at least 80% owned, directly or indirectly, by CMS Energy Corporation.
- F. Payments will begin as of the latter of:
1. The Participant's Normal Retirement Date.
  2. The first day of the month following the cessation of any Long Term Disability payments pursuant to any plan or insurance policy, the premiums for which were paid in whole or in part by CMS Energy Corporation, or any of its directly or indirectly wholly owned subsidiaries.

SECTION VI. PROVISIONAL PAYEE OPTIONS AND  
PRE-RETIREMENT SURVIVING SPOUSE BENEFIT

1. POST-RETIREMENT. The provisions of Section VI of the Pension Plan, pertaining to Provisional Payee Options are adopted as part of this Supplemental Plan and any option which is elected by or otherwise applicable to a Participant under the Pension Plan will be identically applicable under the provisions of this Supplemental Plan. A Participant may not have a Provisional Payee Option under this Supplemental Plan which differs from such option or options elected by or otherwise applicable to him under the Pension Plan except that a Participant who has elected a Single Sum under the Pension Plan may name a Provisional Payee

under this Supplemental Plan. Nevertheless, a Provisional Payee may elect, upon the death of the Participant and the agreement of the SERP Retirement Board, to then receive the present value of the amount of the payments to which he otherwise would be entitled, as determined by the SERP Retirement Board using such actuarial tables and interest assumptions as may be adopted for this purpose by the SERP Retirement Board and in use at the time of the Participant's death.

2. PRE-RETIREMENT SURVIVING SPOUSE BENEFIT. Provisions of Section VI, subsection 2 of the Pension Plan of Consumers Power Company pertaining to Pre-Retirement Surviving Spouse Benefits are adopted as part of this Supplemental Plan.

#### SECTION VII. TERMINATION OF SERVICE

If a Participant included in the Supplemental Plan voluntarily terminates his services other than by transfer to an affiliated or associated company as provided by subsection 2 of Section III of this Supplemental Plan, retirement as provided by Section IV of the Pension Plan, or in accordance with the terms of an Employment Agreement effective following a Change in Control as defined in Section XII, the Participant will forfeit all Supplemental Executive Retirement Income except for any amount attributable to Earnings not permitted to be used for benefit calculation under the Pension Plan by the Internal Revenue Code or Regulations thereunder. Any such amount shall be calculated without Preference Service. A Participant whose services are terminated for any reason other than death prior to attaining five years of actual service after inclusion in this Supplemental Plan shall not be eligible for Supplemental Executive Retirement Income. If the Accrued Retirement Income is actuarially reduced because of retirement at an Early Retirement Date, the Accrued Supplemental Executive Retirement Income will be reduced by an identical percentage.

#### SECTION VIII. FORFEITURE

A Participant who is discharged by the Company for cause, or an employee who is subsequently convicted of any felony committed while in the course of his employment with the Company, which felony involved theft, malicious destruction or misuse of the property of the Company or the embezzlement or misapplication of the funds of the Company, or who makes an admission in writing of the commission of such felony, shall be ineligible for and forfeit Supplemental Executive Retirement Income.

#### SECTION IX. NON-ALIENATION OF BENEFITS

No benefit under the Supplemental Plan shall be subject in any manner to anticipation, alienation, sale, transfer, assignment, pledge, encumbrance, charge, renunciation, or reduction and any attempt so to anticipate, alienate, sell, transfer, assign, pledge, encumber, charge, renounce, or reduce the same shall be void, nor shall any such benefit be in any manner liable for or subject to the debts, contracts, liabilities, engagements or torts of the person entitled to such benefit.

If any Participant or retired Participant or any Provisional Payee under the Supplemental Plan is adjudicated bankrupt or attempts to anticipate, alienate, sell, transfer, assign, pledge, encumber, charge, renounce, or reduce any benefit under the Supplemental Plan, except as specifically provided in the Supplemental Plan, then such benefit shall cease and terminate and in that event the SERP Retirement Board shall hold or apply the same or any part thereof to or for the benefit of such Participant or retired Participant or Provisional Payee in such manner as the SERP Retirement Board may think proper, provided the SERP Retirement Board shall not act in any manner as would perpetuate the alienations prohibited by this Section.

#### SECTION X. LIMITATION OF RIGHTS

Neither the establishment of this Supplemental Plan, nor any modification thereto, nor the payment of any benefits, shall be construed as giving to any Participant, other employee, or other person any legal or

equitable rights against the Company, or any officer or employee thereof, or the SERP Retirement Board, except as herein provided. Under no circumstances shall the terms of employment of any employee be modified or in any way affected hereby. Inclusion under the Supplemental Plan will not give any Participant or any Provisional Payee any right to claim a Supplemental Executive Retirement Income except to the extent such right is specifically fixed under the terms of the Supplemental Plan. Subject to the provisions of this Supplemental Plan and the Supplemental Executive Retirement Trust the Participant shall have no rights greater than those of a general, unsecured creditor of the Company.

#### SECTION XI. ADMINISTRATION OF SUPPLEMENTAL PLAN

The general administration of this Supplemental Plan shall be placed in the SERP Retirement Board provided for in this Supplemental Plan and the provisions of Section XII of the Pension Plan will govern the administration of this Supplemental Plan as far as applicable. The determination of the SERP Retirement Board as to any question or matter arising under this Supplemental Plan shall be conclusive and binding.

The claim procedure of this Supplemental Plan shall be the same as the claim procedure provided in the Pension Plan.

#### SECTION XII. AMENDMENT, MODIFICATION OR TERMINATION OF THE SUPPLEMENTAL PLAN

This Supplemental Plan may be amended, modified or terminated at any time by action of the Board of Directors of the Company. Notwithstanding any other provisions of this Supplemental Plan, in the event of a Change in Control (as hereinafter defined), each Participant shall be fully vested in any benefit accredited to the Participant as of the date of the Change in Control, and such amount shall not be subject to further vesting requirements or to any forfeiture provisions. These provisions with respect to Change in Control may not be amended subsequent to such Change in Control without the written consent of a majority in number of Participants. For purposes of this Supplemental Plan, a Change in Control shall occur upon the occurrence of one or more of the following:

- (i) a Change in Control of the Corporation would be required to be reported in response to Item 1(a) of the Current Report on Form 8-K, as in effect on the date hereof, pursuant to Sections 13 or 15(d) of the Exchange Act, whether or not the Corporation is then subject to such reporting requirement;
- (ii) any "person" or "group" within the meaning of Sections 13(d) and 14(d)(2) of the Exchange Act becomes the "beneficial owner" as defined in Rule 13d-3 under the Exchange Act of more than 30% of the then outstanding voting securities of the Corporation;
- (iii) during any period of twenty-four consecutive months (not including any period prior to the adoption of this Plan) Present Directors and/or New Directors cease for any reason to constitute a majority of the Board. For purposes of this subsection (iii), "Present Directors" shall mean individuals who at the beginning of such consecutive twenty-four month period were members of the Board and "New Directors" shall mean any director of the Corporation whose election by the Board or whose nomination for election by the Corporation's shareholders was approved by a vote of at least two-thirds of the Corporation's Directors then still in office who were Present Directors or New Directors;
- (iv) there is a sale by the Corporation within a three-year period of assets of the Corporation with either a book value or market value of 50% or more of the assets of the Corporation;

- (v) a bidder as defined in Rule 14D-1(b) under the Exchange Act files a Tender Offer Statement with the Securities & Exchange Commission and the Corporation.

IN WITNESS WHEREOF, execution is hereby effected this 3rd day of December, 1999.

CMS ENERGY CORPORATION /  
CONSUMERS ENERGY COMPANY

/s/ William T. McCormick, Jr.  
-----  
Chairman of the Board

ATTEST:

/s/ Thomas A. McNish  
-----  
Vice President and Secretary

CMS ENERGY CORPORATION  
Ratio of Earnings to Fixed Charges  
(Millions of Dollars)

	Years Ended December 31 -				
	1999	1998	1997	1996	1995
	-----				
	(b)				
Earnings as defined (a)					
Consolidated net income	\$ 277	\$ 242	\$ 244	\$ 224	\$ 195
Income taxes	64	100	108	137	113
Exclude equity basis subsidiaries	(84)	(92)	(80)	(85)	(57)
Fixed charges as defined, adjusted to exclude capitalized interest of \$41, \$28, \$13, \$5, and \$4 million for the years ended December 31, 1999, 1998, 1997, 1996 and 1995, respectively	588	395	360	313	299
	-----				
Earnings as defined	\$ 845	\$ 645	\$ 632	\$ 589	\$ 550
	=====				
Fixed charges as defined (a)					
Interest on long-term debt	\$ 502	\$ 319	\$ 273	\$ 230	\$ 224
Estimated interest portion of lease rental	7	8	8	10	9
Other interest charges	57	48	49	43	42
Preferred securities dividends and Distributions	96	77	67	54	42
	-----				
Fixed charges as defined	\$ 662	\$ 452	\$ 397	\$ 337	\$ 317
	=====				
Ratio of earnings to fixed charges	1.28	1.43	1.59	1.75	1.74
	=====				

## NOTES:

(a) Earnings and fixed charges as defined in instructions for Item 503 of Regulation S-K.

(b) Excludes a cumulative effect of change in accounting after-tax gain of \$43 million.

SUBSIDIARIES OF CMS ENERGY CORPORATION  
At December 31, 1999

[Numbers on left are Dun & Bradstreet hierarchy (tier level) indicators.]

Subsidiary Name	Jurisdiction of Formation
01 CMS Enterprises Company	Michigan
02 CMS Capital Corp.	Michigan
03 CMS Capital Financial Services, Inc.	Michigan
04 First Utility Finance, Inc.	Michigan
02 CMS Comercializadora de Energia S.A. (99%)	Argentina
02 CMS Electric and Gas Company	Michigan
03 CMS Netherlands Funding Company	Michigan
04 Notera Holding B.V.	Netherlands
03 CMS Rio Grande de Sul Ltda	Brazil
03 CMS Venezuela, S.A.	Venezuela
03 Compania de Inversiones en Energia Electrica S.A. (CIEESA)	Argentina
04 Distribuidora de Electricidad S.A. (99%)	Argentina
04 Inversora en Distribucion de Entre Rios S.A. (53.5%)	Argentina
05 Empresa Distribuidora de Electricidad de Entre Rios S.A.	Argentina
04 Sociedad Inversora en Distribucion de Electricidad S.A. (60%)	Argentina
04 Sociedad Inversora y Distribucion de Electricidad S.A. (57%)	Argentina
03 ENELMAR, S.A. (90%)	Venezuela
04 Sistema Electrico Nueva Esparta C.A. ("Seneca") (70%)	Venezuela
03 Financial Joint Venture, L.L.C. (99%)	Michigan
04 International Investments, Inc.	Michigan
05 CMS Brazil Energia Ltda.	Brazil
06 Companhia Forca E Luz Cataguazes-Leopoldina (21.56%)	Brazil
06 Companhia Paulista de Energia Electrica S.A. (95.83%)	Brazil
07 Companhia Sul Paulista de Energia S.A. (87.27%)	Brazil
08 Companhia Jaguari de Energia S.A. (79.99%)	Brazil
09 Companhia Luz E Forca de Mococa S.A. (22.71%)	Brazil
06 GIPAR, S.A. (49.9%)	Brazil
06 Itacatu, S.A. (0.41%)	Brazil
07 GIPAR, S.A. (50.1%)	Brazil
08 Companhia Forca E Luz Cataguazes-Leopoldina (51%)	Brazil
07 Companhia Forca E Luz Cataguazes-Leopoldina (9.18%)	Brazil
08 Empresa Energetica De Sergipe S.A. (12.18%)	Brazil
08 Energisa S.A. (87.24%)	Brazil
09 Empresa Energetica De Sergipe S.A. (84%)	Brazil
06 CMS Distribuidora Ltda.	Brazil
07 Energisa S.A. (4.92%)	Brazil
02 CMS Energy Asia Private Limited	Singapore
03 CMS Energy India Development Company Private Limited	India
02 CMS Energy South America Company (CESA)	Cayman Islands
03 CMS Empreendimentos Ltda	Brazil
03 CMS Enterprises Development Company S.A. (CEDC)	Argentina

02	CMS Energy UK Limited	United Kingdom
02	CMS Enterprises Development, L.L.C.	Michigan
02	CMS Gas Transmission and Storage Company	Michigan
03	AMPCO Marketing, LLC (50%)	Michigan
03	AMPCO Services, LLC (50%)	Michigan
03	Atlantic Methanol Capital Company (50%)	Cayman Islands
03	CMS Antrim Gas Company	Michigan
03	CMS Field Services, Inc.	Michigan
04	Bighorn Gas Gathering, LLC (50%)	Delaware
04	Bradshaw Energy LLC (97.5%)	Oklahoma
04	CBC/Leon Limited Partnership (89%)	Oklahoma
05	Bright Star Partnership (4.57%)	Oklahoma
04	Cherokee Gas Processing LLC (92%)	Oklahoma
04	CMS Pipeline Company, LLC (99%)	Oklahoma
04	Continental Gas Processing, LLC (99%)	Oklahoma
04	Continental Holdings Company	Oklahoma
05	Bighorn Gas Gathering, LLC (1%)	Delaware
05	CMS Pipeline Company, LLC (1%)	Oklahoma
05	Continental Gas Processing, LLC (1%)	Oklahoma
05	Continental Hydrocarbons, LLC (1%)	Oklahoma
05	Continental Laverne Gas Processing, LLC (1%)	Oklahoma
05	Continental Natural Gas Gathering, LLC (1%)	Oklahoma
05	Continental/Taurus Energy Company, LP (1%)	Oklahoma
04	Continental Hydrocarbons, LLC (99%)	Oklahoma
04	Continental Laverne Gas Processing, LLC (99%)	Oklahoma
04	Continental Natural Gas Gathering, LLC (99%)	Oklahoma
04	Continental/Oklahoma Natural Gas Gathering, LLC	Oklahoma
05	Foss Joint Venture (30%)	
04	Continental/Taurus Holdings Company, LLC	Oklahoma
05	Continental/Taurus Energy Company, LP (99%)	Oklahoma
04	Fort Union Gas Gathering, LLC (33.33%)	Delaware
04	Heritage Gas Gathering LLC	Oklahoma
05	Texas Pipeline, LLC	Delaware
04	Hillsboro Gas Gathering System (23.7064%)	
04	Laubhan Friesen Gas Gathering System (41%)	
04	Leon Limited Partnership I (50%)	Oklahoma
05	Bright Star Partnership (5.43%)	Oklahoma
04	Moody Gas Gathering System (57.1632%)	
04	Roaring Creek Gas Services LLC	Oklahoma
05	Cherokee Gas Processing LLC (8%)	Oklahoma
04	Warrel Gas Gathering System (43.65%)	
03	CMS Gas Argentina Company	Cayman Islands
04	Aguas de Chile Limitada (0.01%)	Chile
04	Compania de Inversiones CMS Energy Chile Limitada (1%)	Chile
04	Transportadora de Gas del Norte S.A.(TGN) (29.4%)	Argentina
03	CMS Goldfields Gas Transmission Company (Inactive)	Michigan
03	CMS Grands Lacs Holding Company	Michigan
03	CMS Jackson Pipeline Company	Michigan
03	CMS Marysville Gas Liquids Company	Michigan
04	Marysville Fractionation Partnership (51%)	Michigan
04	St. Clair Underground Storage Partnership (51%)	Michigan
03	CMS Methanol Company	Cayman Islands
04	Atlantic Methanol Associates LLC (50%)	Cayman Islands

05	Atlantic Methanol Production Company LLC (90%)	Cayman Islands
03	CMS Saginaw Bay Company	Michigan
03	CMS Saginaw Bay Lateral Company	Michigan
03	CMS TriState Canada General Company	Michigan
04	TriState Canada Gas Pipeline Ltd (66.67%)	Canada
03	Financial Joint Venture, LLC (1%)	Michigan
03	Grands Lacs Limited Partnership (49%)	Michigan
03	Guardian Pipeline, LLC (33.33%)	Michigan
03	Michigan Intrastate Lateral System Partnership (50%)	Michigan
04	Saginaw Bay Lateral Limited Partnership (10%)	Michigan
03	Nitrotec Corporation (50%)	Delaware
03	Otsego EOR LLC (25%)	Michigan
03	Panhandle Eastern Pipe Line Company	Delaware
04	CMS Panhandle Eastern Resources, Inc.	Delaware
04	CMS Panhandle Storage Company	Delaware
04	CMS Trunkline Pipeline Holdings, Inc.	Delaware
04	Pan Gas Storage Company	Delaware
05	Lee 8 Storage Partnership (40%)	
04	Trunkline Field Services Company	Delaware
05	PanEnergy Lake Charles Generation, Inc.	Delaware
04	Trunkline Gas Company	Delaware
05	CMS Trunkline Gas Resources, Inc.	Delaware
04	Trunkline LNG Company	Delaware
03	TriState Pipeline, LLC (66-2/3%)	Michigan
03	Western Australia Gas Transmission Company I	Cayman Islands
04	CMS Gas Transmission del Sur Company (60%)	Cayman Islands
05	Atacama Finance Co.(40%)	Cayman Islands
05	CMS Atacama Company (40%)	Cayman Islands
05	CMS Gas Transmission of Australia Holdings Company	Cayman Islands
06	CMS Gas Transmission of Australia	Cayman Islands
05	Compania de Inversiones CMS Energy Chile Limitada (99%)	Chile
06	Administradora Proyecto Atacama S.A. (50%)	
06	CMS Servicios de Agua de Chile Compania Limitada	Chile
06	Gasoducto Atacama Compania Limitada LLP (50%)	
06	Nor Oeste Pacifico Generacion de Energia Limitada (50%)	
05	Energex Co.(20%)	Cayman Islands
05	Gasoducto Cuenca Noroeste Limitado LLP (50%)	
06	Gasoducto Cuenca Noroeste Limitada Argentine Branch	
04	CMS International Financial Services Company	Cayman Islands
04	CMS Luxembourg SARL	Luxembourg
05	Valandrid B.V.	Netherlands
06	CMS Goldfields Gas Transmission Australia Pty. Ltd.	Australia
07	SCP Investments (No. 1) Pty. Ltd.(45%)	Australia
08	SCP Investments (No. 2) Pty. Ltd.	Australia
09	Southern Cross Pipelines Australia Pty. Ltd.	Australia
10	Goldfields Gas Transmission Joint Venture (66.664%)	Australia
08	SCP Investments (No. 3) Pty. Ltd.	Australia
09	Southern Cross Pipelines (NPL) Australia Pty. Ltd.	Australia
10	Goldfields Gas Transmission Joint Venture (25.493%)	Australia
08	Goldfields Gas Transmission Pty. Ltd.	Australia
06	CMS TriState Canada Unlimited Company	Canada
07	TriState Canada Limited Partnership (66%)	Canada
02	CMS Generation Co.	Michigan

03	CMS Centrales Termicas S.A. (99%)	Argentina
03	CMS Generation Altoona Company (Inactive)	Michigan
03	CMS Generation Chateaugay Company	Michigan
03	CMS Generation Filer City, Inc.	Michigan
03	CMS Generation Filer City Operating Company	Michigan
03	CMS Generation Genesee Company	Michigan
03	CMS Generation Grayling Company	Michigan
03	CMS Generation Grayling Holdings Company	Michigan
03	CMS Generation Holdings Company	Michigan
04	CMS Centrales Termicas SA (1%)	Argentina
04	CMS Generation SA (0.01%)	Argentina
04	Genesee Power Station LP (48.75%)	Delaware
05	GPS Newco, LLC (25%)	Kansas
04	GPS Newco, LLC (50%)	Kansas
04	Lyonsdale Energy LP (49%)	Michigan
04	McCook Cogeneration Station, LLC (50%) (Inactive)	Michigan
04	Moapa Energy Limited Partnership (1%)	Nevada
04	Metro East, LLC (50%)(Inactive)	Michigan
04	Mon Valley Energy LP (49.5%)(Inactive)	Pennsylvania
04	Moose River Properties, Inc. (50%)	Delaware
04	Oxford/CMS Development LP (1%)	Michigan
03	CMS Generation Honey Lake Company	Michigan
03	CMS Generation Investment Company I	Cayman Islands
04	Aguas de Chile Limitada (99.99%)	Chile
04	Atacama Finance Company (16%)	Cayman Islands
04	CMS Generation Cebu Limited Duration Company (99%)	Cayman Islands
05	Toledo Holdings Corporation (40%)	Philippines
05	Toledo Power Company (47.5%)	Philippines
04	CMS Generation Cebu Operating Limited Duration Company (99%)	Cayman Islands
04	CMS Generation Jegurupadu I Limited Duration Company (99%)	Cayman Islands
05	Jegurupadu O&M Company Mauritius (50%)	Mauritius
06	Jegurupadu Operating and Maintenance Company (60%)	India
04	CMS Generation Jegurupadu II Limited Duration Company (99%)	Cayman Islands
05	Jegurupadu O&M Company Mauritius (50%)	Mauritius
04	CMS Generation Jorf Lasfar I Limited Duration Company (99%)	Cayman Islands
05	Jorf Lasfar Power Energy Handelsbolag (50%)	Sweden
06	Jorf Lasfar Energy Company SCA (23%)	Sweden
05	Jorf Lasfar I Handelsbolag (50%)	Sweden
06	Jorf Lasfar Energy Company SCA (25%)	Sweden
05	Jorf Lasfar Handelsbolag (50%)	Sweden
06	Jorf Lasfar Energy Company SCA (2%)	Sweden
04	CMS Generation Jorf Lasfar II Limited Duration Company (99%)	Cayman Islands
05	Jorf Lasfar Power Energy Handelsbolag (50%)	Sweden
06	Jorf Lasfar Energy Company SCA (23%)	Sweden
05	Jorf Lasfar I Handelsbolag (50%)	Sweden
06	Jorf Lasfar Energy Company SCA (25%)	Sweden
05	Jorf Lasfar Handelsbolag (50%)	Sweden
06	Jorf Lasfar Energy Company SCA (2%)	Sweden
04	CMS Generation Jorf Lasfar III Limited Duration Company (50%)	Cayman Islands
05	Jorf Lasfar Operations Handelsbolag (1%)	Sweden
06	CMS Morocco Operating Company SCA	Morocco

04	CMS Generation Loy Yang Holdings 1 Ltd.	Cayman Islands
05	Horizon Energy Holdings Ltd.	Cayman Islands
06	Loy Yang Power Partners (49.63%)	Australia
06	Loy Yang Power Projects Pty. Ltd. (49.63%)	Australia
06	Loy Yang Power Management Pty. Ltd. (49.63%)	Australia
04	CMS Generation Loy Yang Holdings 2 Ltd.	Cayman Islands
05	CMS Generation Horizon Energy Holdings Ltd.	Cayman Islands
04	CMS Generation Pinamucan Limited Duration Company	Cayman Islands
04	CMS Generation Pinamucan Operating Limited Duration Company	Cayman Islands
04	CMS Generation Neyveli Ltd. (99%)	Mauritius
05	ST CMS Electric Company Private Limited (50%)	India
04	CMS Servicios de Aguas de Chile Limitada	Chile
04	CMS Takoradi Investment Company	Cayman Islands
05	CMS Takoradi Investment Company II	Cayman Islands
06	Takoradi International Company (90%)	Cayman Islands
05	CMS Generation Taweelah Limited	Cayman Islands
05	Emirates CMS Power Company (40%)	United Arab Emirates
04	CMS Generation Taweelah Limited I	Cayman Islands
04	Energex Co. (16%)	Cayman Islands
04	Energiaktiebolaget CMS	Sweden
04	Jegurupadu O&M Company (99%)	Mauritius
04	Monetize Limited	Mauritius
05	GMR Vasavi Power Corporation Private Limited	India
04	National Power Supply (66.24%)	Thailand
04	Scudder Latin American Power I-P LDC (25%)	Cayman Islands
03	CMS Generation Investment Company II	Cayman Islands
04	CMS Gas Transmission del Sur Company (40%)	Cayman Islands
03	CMS Generation Investment Company III	Cayman Islands
04	Jegurupadu CMS Generation Company Ltd.	Mauritius
05	GVK Industries Ltd.	India
03	CMS Generation Lyonsdale Company	Michigan
03	CMS Generation Michigan Power LLC	Michigan
03	CMS Generation Montreal Company	Michigan
03	CMS Generation Mon Valley Company	Michigan
03	CMS Generation Operating Company	Michigan
03	CMS Generation Recycling Company	Michigan
03	CMS Generation SA (99.99%)	Argentina
04	Hidroelectrica El Chocon, S.A. (2.48%)	Argentina
04	Hidroinvest SA (25%)	Argentina
05	Hidroelectrica El Chocon, S.A. (59%)	Argentina
03	CMS International Operating Company	Cayman Islands
03	Compania de Inversiones en Energia Electrica S.A. (CIEESA)(1%)	Argentina
03	Dearborn Generation Operating LLC	Michigan
03	Dearborn Industrial Energy, LLC	Michigan
04	Dearborn Industrial Generation, L.L.C.	Michigan
03	Exeter Management Company (50%)	Connecticut
03	Honey Lake Energy I LP (1%)	California
03	Honey Lake Energy II LP (1%)	California
03	HYDRA-CO Enterprises, Inc.	New York
04	Benton Falls Associates (50% GP)	Maine
04	Caribbean Electric Power (40% GP)	
04	CMS Generation Stratton Company	Michigan
05	Stratton Energy Associates (20% GP & 15% LP)	New York

04	CMS Generation Operating Company II, Inc.	New York
05	HCO-Jamaica, Inc.	New York
06	Private Power Operators Limited (50%)	Jamaica
04	Cogent Little Falls (49.99% GP)	New York
04	Copenhagen Associates (49.99% LP)	New York
04	Craven County Wood Energy LP (44.99% LP)	Delaware
04	HCE-Appomattox, Inc.	New York
05	Appomattox River Associates LP(1% GP & 54.5% LP)	Virginia
04	HCE-Biopower, Inc.	New York
05	IPP Investment Partnership (51%)	Michigan
04	HCE-Hudson, Inc.	New York
05	Curtis/Palmer Hydroelectric Company LP (12.5% GP)	
04	HCE-Imperial Valley, Inc.	New York
05	Imperial Resource Recovery Associates, LP (1.231% LP)	California
04	HCE-Jamaica Development, Inc.	New York
04	HCE-Lakewood, Inc.	New York
05	CMS Generation Lakewood Company	Delaware
06	Lakewood Cogeneration, L.P. (1%)	Delaware
05	Lakewood Cogeneration, L.P. (1%)	Delaware
04	HCE-Rockfort Diesel, Inc.	New York
05	Jamaica Private Power Company Limited (43.93%)	Jamaica
04	HYDRA-CO Generation, Inc. (Inactive)	New York
04	Hydro Power Associates (49.99% GP)	New York
04	Imperial Resource Recovery Associates, LP (39.269% LP)	California
04	IPP Investment Partnership (49%)	Michigan
05	Cogent Little Falls (0.01% GP)	New York
05	Copenhagen Associates (0.01% LP)	New York
05	Craven County Wood Energy LP (0.01% LP)	Delaware
05	Hydro Power Associates (0.01% GP)	New York
05	Lyonsdale Associates (0.01% GP)	New York
04	Jamaica Energy Team Limited (59.7%)	Jamaica
04	Lakewood Cogeneration, L.P. (78%)	Delaware
04	Little Falls Hydropower Associates (33.33% GP)	New York
04	Lock 17 Group (33.33% GP)	New York
05	Little Falls Hydropower Associates (1%)	New York
04	Lock 17 Management Group (33.33% GP)	New York
04	Lyonsdale Associates (49.99% GP)	New York
04	New Bern Energy Recovery, Inc.	Delaware
05	Craven County Wood Energy LP (5%)	Delaware
04	PowerSmith Cogeneration Project, LP (8.75% LP)	Delaware
04	Windpower Partners 1988 (22.73% LP)	California
04	Windpower Partners 1989 (8.5346% LP)	California
03	Jorf Lasfar Operations Handelsbolag (99%)	Sweden
03	McCook Cogeneration Station, LLC (50%)(Inactive)	Michigan
03	McCook Waste Wood Recovery Facility, LLC (50% Member)	Michigan
03	MCV2 Development Company Partnership (58.68%)	Michigan
03	Metro East, LLC (50%)(Inactive)	Michigan
03	Mid-Michigan Recycling, LLC	Michigan
03	Oxford/CMS Development LP (99%)	Delaware
04	Exeter Energy LP (48% LP)	Connecticut
04	Moapa Energy LP (99%)	Nevada
03	Oxford Tire Recycling, Inc. (Inactive)	Delaware
03	Oxford Tire Recycling of Massachusetts, Inc.	Delaware

03	Oxford Tire Supply, Inc.	Delaware
03	Scudder Latin American Power I-C, LDC (25%)	Cayman Islands
03	Taweelah A2 Operating Company	
02	CMS Lake Muskegon Company	Michigan
03	Lake Muskegon Community, LLC (Inactive) (25%)	Michigan
02	CMS Land Company	Michigan
03	Bay Harbor Company, LLC (50% Member)	Michigan
03	Bay Harbor Village Company, LLC (25%)	Michigan
02	CMS Marketing, Services and Trading Company	Michigan
03	CMS MST Engineering Company	Michigan
03	CMS Texon Company	Michigan
04	Texon Distributing LP (1%)	Delaware
03	CMS Viron Corporation	Missouri
03	Enline Energy Solutions, LLC (50%)	Texas
03	PremStar Energy Canada Ltd.(50%)	Canada
04	Energistics Group, Inc.	Canada
03	Texon Distributing LP (49%)	Delaware
02	CMS Oil and Gas Company	Michigan
03	CMS Oil and Gas (Holdings) Ltd.	Cayman Islands
04	CMS NOMECO Congo LDC (1%)	Cayman Islands
04	CMS NOMECO Venezuela LDC (9%)	Cayman Islands
04	CMS Oil and Gas (Alba) LDC (1%)	Cayman Islands
04	CMS Oil and Gas (Argentina) LDC (1%)	Cayman Islands
04	CMS Oil and Gas (Congo) Ltd (1%)	Cayman Islands
04	CMS Oil and Gas (Ecuador) LDC (1%)	Cayman Islands
04	CMS Oil and Gas (E.G.) LDC (1%)	Cayman Islands
04	CMS Oil and Gas (E.G.) Ltd (1%)	Cayman Islands
03	CMS Oil and Gas (International) Company	Texas
04	CMS NOMECO International Congo Holdings, Inc.	Texas
04	CMS NOMECO Congo, Inc.	Delaware
04	CMS Oil and Gas (Cameroon) Ltd.	Cayman Islands
04	CMS Oil and Gas (Cote d'Ivoire) Ltd	Cayman Islands
04	CMS Oil and Gas International (Transportation) Company	Texas
04	CMS Oil and Gas International (Tunisia) Company	Texas
03	CMS Oil and Gas (International) Ltd.	Cayman Islands
04	CMS NOMECO Congo LDC (99%)	Cayman Islands
04	CMS NOMECO Venezuela LDC (91%)	Cayman Islands
04	CMS Oil and Gas (Alba) LDC (99%)	Cayman Islands
04	CMS Oil and Gas (Argentina) LDC (99%)	Cayman Islands
04	CMS Oil and Gas (Congo) Ltd (99%)	Cayman Islands
04	CMS Oil and Gas (Ecuador) LDC (99%)	Cayman Islands
04	CMS Oil and Gas (E.G.) LDC (99%)	Cayman Islands
04	CMS Oil and Gas (E.G.) Ltd (99%)	Cayman Islands
03	CMS Oil and Gas (Pipeline) Company	Michigan
03	Explotaciones CMS Oil and Gas Company	Delaware
03	NOMECO China Oil Co.	Michigan
03	NOMECO Ecuador Oil Company	Michigan
03	Terra Energy, Ltd.	Michigan
04	Eagle Productions, Inc. (20%)	Michigan
04	Energy Acquisition Operating Corporation	Michigan
04	J.R. Productions, Inc. (20%)	Michigan
04	Kristen Corporation	Michigan
04	Newaygo/Oceana Pipeline LP (43.77%)	Michigan

04	Northwest Operations, Inc. (20%)	Michigan
04	Phoenix Operations, Inc. (40%)	Michigan
04	State 26 Production Co. (20%)	Michigan
04	Terra-Hayes Pipeline Company (26.58%)	Michigan
04	Terra-Westside Processing Co. Partnership (15%)	Michigan
04	Terra Pipeline Company	Michigan
04	Thunderbay Pipeline Company LLC (10%)	Michigan
04	Wellcorps LLC(55%)	Michigan
02	CMS Operating S.A.	Argentina
03	CMS Ensenada S.A.	Argentina
04	Cuyana S.A. de Inversiones	Argentina
05	Centrales Termicas Mendoza, S.A.	Argentina
02	CMS Resource Development Company	Michigan
02	Monarch Management Company	Michigan
01	Consumers Energy Company	Michigan
02	CMS Engineering Co.	Michigan
02	CMS Midland Holdings Company	Michigan
02	CMS Midland, Inc.	Michigan
02	Consumers EnergyGuard Services, Inc.	Michigan
02	ES Services Company	Michigan
02	Huron Hydrocarbons, Inc.	Michigan
02	MEC Development Corp.	Michigan
02	Michigan Gas Storage Company	Michigan

Additional subsidiaries, unnamed above, when considered in the aggregate as a single subsidiary would not be considered a significant subsidiary.

SUBSIDIARIES OF CONSUMERS ENERGY COMPANY  
As of December 31, 1999

[Numbers on left are Dun & Bradstreet hierarchy (tier level) indicators.]

	Subsidiary Name	Jurisdiction of Formation
01	CMS Engineering Co.	Michigan
01	CMS Midland Holdings Company	Michigan
01	CMS Midland, Inc.	Michigan
01	Consumers EnergyGuard Services, Inc.	Michigan
01	ES Services Company	Michigan
01	Huron Hydrocarbons, Inc.	Michigan
01	MEC Development Corp.	Michigan
01	Michigan Gas Storage Company	Michigan

Additional subsidiaries, unnamed above, when considered in the aggregate as a single subsidiary would not be considered a significant subsidiary.

## CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation of our reports included or incorporated by reference in this Form 10-K, into CMS Energy Corporation's previously filed Registration Statements No. 33-47629, No. 33-60007, No. 33-61595, No. 33-62573, No. 333-32229, No. 333-60795, No. 333-63229, No. 333-68937 and No. 333-76347.

/s/ Arthur Andersen LLP

Detroit, Michigan,  
March 27, 2000.

## CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation of our reports included or incorporated by reference in this Form 10-K, into Consumers Energy Company's previously filed Registration Statement No. 333-89363.

/s/ Arthur Andersen LLP

Detroit, Michigan,  
March 27, 2000.

February 25, 2000

Mr. Alan M. Wright and  
Mr. Thomas A. McNish  
CMS Energy Corporation  
Fairlane Plaza South, Suite 1100  
330 Town Center Drive  
Dearborn, MI 48126

CMS Energy Corporation is required to file an Annual Report on Form 10-K for the year ended December 31, 1999 with the Securities and Exchange Commission within 90 days after the end of the year.

We hereby make, constitute and appoint each of you our true and lawful attorney for each of us and in each of our names, places and steads to sign and cause to be filed with the Securities and Exchange Commission said Annual Report with any necessary exhibits, and any amendments thereto that may be required.

Very truly yours,

/s/ William T. McCormick, Jr.

/s/ Earl D. Holton

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William T. McCormick, Jr.

-----  
Earl D. Holton

/s/ John Deutch

/s/ W. U. Parfet

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John M. Deutch

-----  
William U. Parfet

/s/ James J. Duderstadt

/s/ Percy A. Pierre

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James J. Duderstadt

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Percy A. Pierre

/s/ K. R. Flaherty

/s/ K. L. Way

-----  
Kathleen R. Flaherty

-----  
Kenneth L. Way

/s/ Victor J. Fryling

/s/ K. Whipple

-----  
Victor J. Fryling

-----  
Kenneth Whipple

/s/ John B. Yasinsky

-----  
John B. Yasinsky

February 25, 2000

Mr. Alan M. Wright and  
Mr. Thomas A. McNish  
Consumers Energy Company  
212 West Michigan Avenue  
Jackson, MI 49201

Consumers Energy Company is required to file an Annual Report on Form 10-K for the year ended December 31, 1999 with the Securities and Exchange Commission within 90 days after the end of the year.

We hereby make, constitute and appoint each of you our true and lawful attorney for each of us and in each of our names, places and steads to sign and cause to be filed with the Securities and Exchange Commission said Annual Report with any necessary exhibits, and any amendments thereto that may be required.

Very truly yours,

/s/ William T. McCormick, Jr.

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William T. McCormick, Jr.

/s/ Earl D. Holton

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Earl D. Holton

/s/ John Deutch

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John M. Deutch

/s/ W. U. Parfet

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William U. Parfet

/s/ James J. Duderstadt

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James J. Duderstadt

/s/ Percy A. Pierre

-----  
Percy A. Pierre

/s/ K. R. Flaherty

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Kathleen R. Flaherty

/s/ K. L. Way

-----  
Kenneth L. Way

/s/ Victor J. Fryling

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Victor J. Fryling

/s/ K. Whipple

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Kenneth Whipple

/s/ John B. Yasinsky

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John B. Yasinsky

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE STATEMENT OF INCOME, STATEMENT OF CASH FLOWS, BALANCE SHEET, AND STATEMENT OF COMMON STOCKHOLDERS' EQUITY, AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

0000811156  
 CMS ENERGY CORPORATION  
 1,000,000

	6-MOS			9-MOS			12-MOS		
	DEC-31-1999			DEC-31-1999			DEC-31-1999		
	JAN-01-1999			JAN-01-1999			JAN-01-1999		
	JUN-30-1999			SEP-30-1999			DEC-31-1999		
	PER-BOOK			PER-BOOK			PER-BOOK		
	3,909			3,974			4,004		
	5,507			5,648			6,113		
	1,694			1,961			1,817		
	3,037			3,011			3,528		
		0			0			0	
		14,147			14,594			14,462	
			1			1			1
	2,643			2,666			2,749		
	(138)			(140)			(189)		
	2,390			2,393			2,456		
	643			944			1,119		
		44			44			44	
	2,147			2,086			1,802		
	264			317			230		
	4,932			5,006			5,185		
	0			0			0		
	271			273			516		
	0			0			0		
	92			89			88		
		35			35			36	
	3,213			3,273			3,881		
	14,147			14,594			15,462		
	2,869			4,335			6,103		
		67			92			64	
	2,392			3,587			5,191		
	2,459			3,679			5,255		
		410			656			848	
		13			9			10	
	423			665			858		
	228			368			519		
		195			297			339	
	22			41			62		
	173			256			277		
		77			162			163	
		0			0			62	
		440			440			917	
		1.50			2.29			2.18	
		1.48			2.25			2.17	

EPS for CMS Energy Common Stock \$2.18  
 EPS for Class G Common Stock \$4.21

UT

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE STATEMENT OF INCOME, STATEMENT OF CASH FLOWS, BALANCE SHEET, AND STATEMENT OF COMMON STOCKHOLDER'S EQUITY, AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

0000201533  
CONSUMERS ENERGY COMPANY  
1,000,000

12-MOS	DEC-31-1999	JAN-01-1999	DEC-31-1999	PER-BOOK
4,004				
645				
	699			
1,822				
		0		
		7,170		
			841	
645				
	485			
1,971				
	395			
			44	
	805			
	214			
1,201				
0				
55				
	0			
85				
		35		
2,365				
7,170				
	3,874			
		172		
3,199				
3,371				
	503			
		18		
521				
	181			
			340	
	27			
313				
	262			
	62			
	781			
			0	
			0	

This schedule contains summary financial information extracted from the Panhandle Eastern Pipe Line Company Quarterly Report on Form 10-K for the year ended December 31, 1999 and is qualified in its entirety by reference to such financial statements.

0000076063  
PANHANDLE EASTERN PIPE LINE COMPANY  
1,000  
U.S. DOLLARS

12-MOS	
DEC-31-1999	DEC-31-1999
	1
	0
	0
112000	0
	34000
272000	1537000
	37000
2560000	
204000	1094000
0	0
	1000
2560000	1127000
	0
471000	0
	0
191000	
87000	
0	
78000	
193000	
	47000
74000	
	0
	0
	0
	74000
	0
	0

Not meaningful since Panhandle Eastern Pipe Line Company is a wholly-owned subsidiary.