UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q
[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2000

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

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 X No __

Panhandle Eastern Pipe Line Company meets the conditions set forth in General Instructions H(1)(a) and (b) of Form 10-Q and is therefore filing this Form 10-Q with the reduced disclosure format. In accordance with Instruction H, Part I, Item 2 has been reduced and Part II, Items 2, 3 and 4 have been omitted.

Number of shares outstanding of each of the issuer's classes of common stock at July 31, 2000:

CMS Energy Corporation:	
CMS Energy Common Stock, $.01 par value	110,020,574
CMS Energy Class G Common Stock, no par value	0
Consumers Energy Company, $10 par value, privately held by CMS Energy	84,108,789
Panhandle Eastern Pipe Line Company, no par value, indirectly privately held by CMS Energy	1,000

CMS Energy Corporation
and
Consumers Energy Company
and
Panhandle Eastern Pipe Line Company

Quarterly reports on Form 10-Q to the Securities and Exchange Commission
for the Quarter Ended June 30, 2000

This combined Form 10-Q is separately filed by each of 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 their respective subsidiaries, Consumers Energy Company and Panhandle Eastern Pipe Line Company make no representation as to information relating to any other companies affiliated with CMS Energy Corporation.

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GLOSSARY

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

ABATE	Association of Businesses Advocating Tariff Equity
ALJ	Administrative Law Judge
Alliance	Alliance Regional Transmission Organization
Articles	Articles of Incorporation
Attorney General	Michigan Attorney General
bcf	Billion cubic feet
Big Rock	Big Rock Point nuclear power plant, owned by Consumers
Board of Directors	Board of Directors of CMS Energy
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 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 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
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
Customer Choice and Electricity Reliability Act	Michigan statute enacted in June 2000 that allows all retail customers choice of alternative electric suppliers no later than January 1, 2002, provides for full recovery of net stranded costs and implementation costs, establishes a 5 percent reduction in residential rates, establishes rate freeze and rate cap, and allows for securitization
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
Duke Energy	Duke Energy Corporation, a non-affiliated company

EITF	Emerging Issues Task Force
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
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
Michigan State Utility Workers Council	The executive board and negotiating body for local chapters of the Union
MMBtu	Million British thermal unit
MPSC	Michigan Public Service Commission
MW	Megawatts
NEIL	Nuclear Electric Insurance Limited, an industry mutual insurance company owned by member utility companies

NOx	Nitrogen Oxide
NRC	Nuclear Regulatory Commission
NYMEX	New York Mercantile Exchange
Outstanding Shares	Outstanding shares of Class G Common Stock
Palisades	Palisades nuclear power plant, owned by Consumers

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
PPA	The Power Purchase Agreement between Consumers and the MCV Partnership with a 35-year term commencing in March 1990
PSCR	Power supply cost recovery
RTO	Regional Transmission Organization
Sea Robin	Sea Robin Pipeline Company
SEC	Securities and Exchange Commission
Securitization	A financing authorized by statute in which the statutorily assured flow of revenues from a portion of the rates charged by a utility to its customers is set aside and pledged as security for the repayment of rate reduction bonds issued by a special purpose entity affiliated with such utility.
Senior Credit Facility	$1 billion one-year revolving credit facility maturing in June 2001
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
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

CMS Energy Corporation

Management's Discussion and Analysis

CMS Energy is the parent holding company of Consumers and 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, as further discussed in the Capital Resources and Liquidity section of this MD&A and Note 1. Panhandle is primarily engaged in the interstate transportation and storage of natural gas.

The MD&A of this Form 10-Q should be read along with the MD&A and other parts of CMS Energy's 1999 Form 10-K. This MD&A also refers to, and in some sections specifically incorporates by reference, CMS Energy's Condensed Notes to Consolidated Financial Statements and should be read in conjunction with such Statements and Notes. This 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 "CMS Energy, Consumers and Panhandle Forward-Looking Statements Cautionary Factors" in CMS Energy's 1999 Form 10-K Item 1 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 CMS Energy's outlook. This report also describes material contingencies in the Condensed Notes to Consolidated Financial Statements and readers are encouraged to read such Notes.

RESULTS OF OPERATIONS

CMS Energy Consolidated Earnings

	In Millions, Except Per Share Amounts		
Three months ended June 30,	**2000**	**1999**	**Change**
Consolidated Net Income	$ 81	$ 75	$ 6
Net Income Attributable to Common Stocks:			
CMS Energy	81	74	7
Class G	—	1	(1)
Earnings Per Average Common Share:			
CMS Energy			
Basic	.73	.68	.05
Diluted	.72	.67	.05
Class G			
Basic and Diluted	—	.10	(.10)

	In Millions, Except Per Share Amounts		
Six months ended June 30,	**2000**	**1999**	**Change**
Consolidated Net Income	$ 161	$ 173	$ (12)
Net Income Attributable to Common Stocks:			
CMS Energy	161	162	(1)
Class G	—	11	(11)
Earnings Per Average Common Share:			
CMS Energy			
Basic	1.44	1.50	(.06)
Diluted	1.42	1.48	(.06)
Class G			
Basic and Diluted	—	1.28	(1.28)

The increase in consolidated net income for the second quarter 2000 over the comparable period in 1999 resulted from increased earnings from CMS Energy's diversified energy businesses, including the independent power production business, the natural gas transmission, storage and processing business, the oil and gas exploration and production business, the marketing, services and trading business and the international energy distribution business, as well as gains on the sale of non-strategic assets. Partially offsetting these increases were decreased earnings from the electric and gas utilities, as well as higher interest expense principally related to the Panhandle acquisition. Second quarter 2000 results include approximately $50 million or $.43 per diluted share, of after-tax gains from major asset sales. CMS Energy's recurring asset optimization program is expected to generate $50 million of pre-tax gains, or approximately $.30 per diluted share, from asset sales annually. As a result, approximately $.13 per diluted share of after-tax gains exceeds the amount CMS Energy expects to sustain in future years.

The decrease in consolidated net income for the six months ended June 30, 2000 over the comparable period in 1999 resulted from decreased earnings from the electric and gas utilities, coupled with higher interest expense principally related to the Panhandle acquisition. Partially offsetting these decreases were increased earnings from CMS Energy's diversified energy businesses, including the natural gas transmission, storage and processing business primarily reflecting ownership of Panhandle for the entire first six months of 2000 versus only the second quarter of 1999, the independent power production business, the oil and gas exploration and production business, the international energy distribution business, and the marketing, services and trading business, as well as gains on the sale of non-strategic assets. The six months ended June 30, 2000 results include approximately $50 million, or $.43 per diluted share of after-tax gains from major asset sales. Approximately $.13 per diluted share of after-tax gains exceeds the amount CMS Energy expects to sustain in future years as part of its recurring asset optimization program.

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: For the three months ended June 30, 2000, electric pretax operating income decreased $13 million from the comparable period in 1999. The earnings decrease reflects increased power costs not totally recoverable from customers, the 5 percent residential customer rate reduction resulting from the Customer Choice and Electricity Reliability Act, and increased operating expenses. For the six months ended June 30, 2000, electric pretax operating income decreased $32 million from the comparable period in 1999. The earnings decrease also reflects the increased cost of purchased power and the impact of the electric rate reduction partially offset by increased electric sales to customers. Due to changes in regulation, since 1998 differences in power supply costs now impact Consumers' earnings. In the past, such cost changes did not impact electric pretax operating income because Consumers passed the cost of electric power on to electric customers. During the current year, Consumers needed additional purchased electric power to meet customer requirements due to scheduled and unscheduled outages at Consumers' internal generators. The following table quantifies these impacts on pretax operating income:

	In Millions	
Change Compared to Prior Year	Three Months Ended June 30 2000 vs 1999	Six Months Ended June 30 2000 vs 1999
Electric deliveries	$ 4	$ 12
Power supply costs and related revenue	(3)	(25)
Rate decrease	(5)	(5)
Non-commodity revenue	(2)	(5)
Operation and maintenance expense	(8)	(8)
General taxes and depreciation expense	1	(1)
Total change	$(13)	$(32)

Electric Deliveries: Electric deliveries were 10.1 billion kWh for the three months ended June 30, 2000, essentially unchanged from the second quarter of 1999. Electric deliveries were 19.8 billion kWh for the six months ended June 30, 2000, a slight decrease from the corresponding 1999 period. Total electric deliveries decreased due to lower intersystem sales, less usage by industrial customers, and lower residential space heating.

Power Supply Costs:

		In Millions	
June 30	2000	1999	Change
Three months ended	$294	$293	$ 1
Six months ended	594	571	23

Power supply costs were essentially unchanged for the three months ended June 30, 2000 from the comparable period in 1999 but increased for the six month period, primarily due to higher interchange power costs. Consumers had to purchase more external power because internal generation decreased due to scheduled and unscheduled outages.

Consumers' Gas Utility Results of Operations

Gas Pretax Operating Income:

Gas pretax operating income decreased in the three months ended June 30, 2000 by $44 million. The earnings decrease primarily reflects sharply higher gas prices in 2000 and the establishment of a $45 million regulatory obligation related to the higher prices above the frozen gas customer rate. These decreases are partially offset by higher gas deliveries due to cooler temperatures in the three months ended June 30, 2000. Gas pretax operating income decreased in the six months ended June 30, 2000 by $59 million. The earnings decrease primarily reflects decreased gas deliveries in the six months ended June 30, 2000 due to warmer temperatures during the heating season and the higher gas prices purchased for the next heating season as described for the three month period. Due to a temporary change in regulation, differences in gas costs directly impact Consumers' earnings. This change in regulation relates to the gas industry restructuring initiatives, which provide Consumers the opportunity to temporarily benefit or lose from changes in commodity gas prices. See Note 2, Uncertainties, "Consumers' Gas Utility 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	Three Months Ended June 30 2000 vs 1999	Six Months Ended June 30 2000 vs 1999

Gas deliveries	$ 4	$ (6)
Gas commodity costs and related revenue	(50)	(61)
Gas wholesale and retail services	2	4
Operation and maintenance expense	1	3
General taxes and depreciation expense	(1)	1
Total change	$(44)	$(59)

Gas Deliveries: Gas system deliveries for the three months ended June 30, 2000, including miscellaneous transportation totaled 66 bcf, an increase of 4 bcf or 6 percent compared with 1999. The increased deliveries reflect cooler temperatures during the second quarter of 2000. Gas system deliveries for the six months ended June 30, 2000, including miscellaneous transportation totaled 227 bcf, a decrease of 1 bcf or .5 percent compared with 1999.

Cost of Gas Sold:

			In Millions
June 30	**2000**	**1999**	**Change**
Three months ended	$ 95	$ 78	$17
Six months ended	$390	$384	$ 6

The cost of gas sold increased for the three months ended June 30, 2000 due to higher gas prices and increased gas deliveries due to cooler than normal temperature. Higher gas prices also impacted the cost of gas sold for the six months ended June 30, 2000. These higher gas costs were partially offset by decreased sales from warmer than normal temperatures during the first quarter of 2000.

Natural Gas Transmission, Storage and Processing Results of Operations

Pretax Operating Income: Pretax operating income for the three months ended June 30, 2000 increased $4 million (9 percent) from the comparable period in 1999. The increase reflects increased earnings from international and domestic operations, including Sea Robin, which was acquired in March 2000, partially offset by decreased earnings from Panhandle. Pretax operating income for the six months ended June 30, 2000 increased $78 million (170 percent) from the comparable period in 1999. The increase reflects earnings from Panhandle and Sea Robin, which CMS Energy acquired in March 1999 and March 2000, respectively, as well as increased earnings from other international and domestic operations and lower operating expenses.

Independent Power Production Results of Operations

Pretax Operating Income: Pretax operating income for the three months ended June 30, 2000 increased $29 million (74 percent) from the comparable period in 1999. The increase primarily reflects the earnings benefits from a new facility in Asia, the restructuring of a power supply contract and increased earnings from international and domestic plant operations. Partially offsetting these increases were higher operating expenses and a scheduled reduction in operating fees. Pretax operating income for the six months ended June 30, 2000 increased $19 million (29 percent) from the comparable period in 1999. The increase is attributable to earnings from the new Asian facility, the restructuring of a power supply contract and increased earnings from international plant operations. Partially offsetting these increases were decreased earnings from domestic plants and the MCV Facility, a scheduled reduction in operating fees and higher operating expenses.

Oil and Gas Exploration and Production Results of Operations

Pretax Operating Income: Pretax operating income for the three months ended June 30, 2000 increased $1 million (20 percent) from the comparable period in 1999 as a result of higher realized commodity prices and increased production from West Texas and Powder River properties, partially offset by increased general and administrative expenses and reduced earnings from northern Michigan oil and gas properties which were sold in March 2000. Pretax operating income for the six months ended June 30, 2000 increased $3 million (43 percent) from the comparable period in 1999 as a result of higher realized commodity prices and increased production from West Texas and Powder River properties, partially offset by lower northern Michigan production as a result of the aforementioned sale in March 2000 and higher operating, general and administrative, and exploration costs.

Marketing, Services and Trading Results of Operations

Pretax Operating Income: Pretax operating earnings for the three months ended June 30, 2000 increased $4 million from the comparable period in 1999. The increase primarily reflects increased earnings from wholesale gas activities, including mark-to-market adjustments on trading contracts, which benefited from natural gas market price increases, partially offset by reduced margins from wholesale electric activities. Pretax operating income for the six months ended June 30, 2000 increased $4 million from the comparable period in 1999 as a result of increased wholesale gas earnings due to increases in natural gas market prices, increased LNG sales and earnings benefits from an energy management services acquisition made in late 1999, partially offset by reduced margins from wholesale electric activities.

International Energy Distribution Results of Operations

Pretax Operating Income: Pretax operating income for the three months ended June 30, 2000 increased $2 million (100 percent) from the comparable period in 1999. The increase primarily reflects earnings from new investments in a Brazilian electric distribution utility as well as lower operating expenses. Pretax operating income for the six months ended June 30, 2000 increased $14 million (350 percent) from the comparable period in 1999. The increase is the result of increased earnings from new investments in a Brazilian electric distribution utility, increased earnings from Argentine and Venezuelan electric distribution utilities, and lower operating expenses.

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 security 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 June 30, 2000. 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 $7.2 billion at June 30, 2000 with a fair value of $6.7 billion. The fair value of CMS Energy's interest rate swaps at June 30, 2000, with a notional amount of $1.9 billion, was $1 million, representing the amount CMS Energy would pay 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 June 30, 2000.

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 June 30, 2000, but would result in a net cash settlement of approximately $21 million. The estimated fair value of the foreign exchange and option contracts at June 30, 2000 was $18 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 June 30, 2000.

For a discussion of accounting policies related to derivative transactions, see Note 5.

CAPITAL RESOURCES AND LIQUIDITY

Cash Position, Investing and Financing

CMS Energy's primary ongoing source of cash is dividends and distributions from subsidiaries. During the first six months of 2000, Consumers paid $109 million in common dividends and Enterprises paid $454 million in common dividends and distributions to CMS Energy. In July 2000, Consumers declared a $17 million dividend payable in August 2000 to CMS Energy. 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 $183 million and $440 million for the first six months of 2000 and 1999, respectively. The $257 million decrease resulted primarily from a decrease in earnings, excluding gains from asset sales, the timing of cash receipts and payments related to working capital items, a decrease in deferred taxes, and an increase in undistributed equity earnings of unconsolidated subsidiaries. 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 $37 million and $2.441 billion for the first six months of 2000 and 1999, respectively. The decrease of $2.404 billion primarily reflects the acquisition of Panhandle in March 1999 for $1.9 billion and a $558 million increase in proceeds from the sales of assets. CMS Energy's expenditures (excluding acquisitions) during the first six months of 2000 for its utility and diversified energy businesses were $243 million and $279 million, respectively, compared to $197 million and $357 million, respectively, during the comparable period in 1999.

Financing Activities: CMS Energy's net cash used in financing activities totaled $38 million for the first six months of 2000, while net cash provided by financing activities totaled $2.113 billion for the first six months of 1999. Net cash provided in 1999 primarily related to funding the approximately $1.9 billion Panhandle acquisition in March 1999. The decrease of $2.151 billion in net cash provided by financing activities resulted from a decrease of $2.119 billion in the issuance of new securities (see table below for securities issued in first six months of 2000), an increase in the retirement of bonds and other long-term debt ($186 million), and an increase in the repurchase of common stock, net of common stock issuances ($177 million), partially offset by decreases in the retirement of notes payable ($138 million) and preferred stock ($194 million).

				In Millions	
	Month Issued	Maturity	Distribution/ Interest Rate	Principal Amount	Use of Proceeds
CMS Energy					
GTNs Series E	(1)	(1)	8.8%(1)	$ 62	General corporate purposes
				$ 62	
Panhandle					
Senior Notes	March	2010	8.25%	$100	To fund acquisition of Sea Robin and general corporate purposes
				$100	
Total				$162	

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

For the first six months of 2000, CMS Energy declared and paid $82 million in cash dividends to holders of CMS Energy Common Stock. In July 2000, the Board of Directors declared a quarterly dividend of $.365 per share on CMS Energy Common Stock, payable in August 2000.

Other Investing and Financing Matters: At June 30, 2000, the book value per share of CMS Energy Common Stock was $21.36.

At August 1, 2000, CMS Energy had an aggregate $1.6 billion in securities registered for future issuance.

CMS Energy's Senior Credit Facility consists of a $1 billion one-year revolving credit facility maturing in June 2001. Additionally, CMS Energy has unsecured lines of credit as anticipated sources of funds to finance working capital requirements and to pay for capital expenditures between long-term financings. At June 30, 2000, the total amount available under the Senior Credit Facility was $270 million, and under the unsecured lines of credit was $24 million. For detailed information, see Note 3, 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 3, incorporated by reference herein.

CMS Energy has identified for possible sale certain assets that are expected to contribute little or no earnings benefit in the short to medium term. From December 1999 through August 1, 2000, CMS Energy had sold or had reached agreements to sell $664 million of these assets, including a partial interest in its Northern Header gathering system, all of its ownership interest in a Brazilian distribution system, all of its northern Michigan oil and gas properties, its ownership interest in the Lakewood Cogeneration plant located in Lakewood, New Jersey, and all of its ownership interest in certain oil reserves located in Ecuador. These asset sales have resulted in total cash proceeds and associated reduction of consolidated project debt of approximately $850 million. CMS Energy plans to continue to sell additional assets resulting in cash proceeds and associated reduction of consolidated project debt, as more fully discussed in the Outlook-Financial Plan section below.

In addition, in February 2000, CMS Energy announced its intention to sell its 50 percent interest in Loy Yang. The amount CMS Energy ultimately realizes from the sale of Loy Yang could differ materially from the approximately $500 million investment amount currently reflected as an asset on the balance sheet.

Capital Expenditures

CMS Energy estimates that capital expenditures, including new lease commitments and investments in new business developments through partnerships and unconsolidated subsidiaries, will total $4.4 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 Ending December 31	2000	2001	In Millions 2002
Consumers electric operations (a) (b)	$ 438	$ 580	$ 545
Consumers gas operations (a)	117	140	145
Natural gas transmission, storage and processing	326	210	260
Independent power production	448	200	215
Oil and gas exploration and production	182	160	165
Marketing, services and trading	32	30	5
International energy distribution	89	25	—
Other	18	25	25
	$1,650	$1,370	$1,360

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

(b) These amounts include estimates for capital expenditures possibly required to comply with recently revised national air quality standards under the Clean Air Act. For further information see Note 2, Uncertainties.

CMS Energy currently plans investments in the years 2000 through 2002 in focused markets, which include: North and South America; West Africa; the Middle East and India. 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, as further discussed in Outlook section below.

OUTLOOK

As the deregulation and privatization of the energy industry takes place in global energy markets, CMS Energy has positioned itself to be a leading international integrated energy company acquiring, developing and operating energy facilities and providing energy services in the United States and selected world growth markets. In the immediate future, CMS Energy expects to continue to sharpen its geographic focus on key growth areas where it has significant business concentrations and opportunities. CMS Energy provides a complete range of international energy expertise from energy production to consumption. CMS Energy intends to pursue 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.

Financial Plan

CMS Energy is currently implementing a financial plan to strengthen its balance sheet, reduce fixed expenses and enhance earnings per share growth. CMS Energy plans to raise $1 billion of asset sale proceeds and $400 million of consolidated project debt eliminations from asset sales by year-end 2000. As of August 1, 2000, CMS Energy has completed the sale of assets resulting in approximately $850 million of cash proceeds and associated debt reduction of consolidated project debt.

CMS Energy management believes that the sale of specific assets to interested industry buyers will allow CMS Energy to achieve more geographic and business focus, thereby permitting CMS Energy to concentrate on its most profitable and growing ventures.

CMS Energy will continue to evaluate alternatives to strengthen its balance sheet and to enhance shareholder value. 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, a major acquisition, employee benefit plans and the stock purchase plan.

The 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. As of August 1, 2000, CMS Energy had repurchased approximately 6.6 million shares.

Diversified Energy Outlook

CMS Energy expects to grow its diversified energy businesses (all businesses except for Consumers and Panhandle) by focusing on acquisitions and greenfield (new construction) projects in 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.

CMS Energy also intends to grow its oil and gas exploration and production business focusing its domestic interest gas exploration and production in west Texas and the Powder River Basin and its international interest in South America and Africa.

Consumers' Electric Utility Outlook

Growth: Consumers expects average annual growth of approximately two and one half percent per year in electric system deliveries for the years 2000 to 2005 based on a steadily growing customer base. This growth rate does not take into account the possible impact on the industry of restructuring or changing regulation. Abnormal weather, changing economic conditions or the developing competitive market for electricity may affect actual electric deliveries 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. 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. During the period from 2000 through 2005, depending on future business and regulatory circumstances, these contracts can be terminated or restructured. These contracts involve 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.

Since 1997, there have been repeated efforts made in the Michigan Legislature to enact electric restructuring legislation. On June 3, 2000, these efforts resulted in the passage of the "Customer Choice and Electricity Reliability Act," which became effective June 5, 2000.

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: Prior to June 5, 2000 there were several pending rate issues that could have affected Consumers' electric business. As a result of the passage of the Customer Choice and Electricity Reliability Act, certain MPSC rate proceedings and a complaint by ABATE seeking a reduction in rates have been dismissed.

For further information and material changes relating to the rate matters and restructuring of the electric utility industry, see Note 1, Corporate Structure and Basis of Presentation, and Note 2, Uncertainties, "Consumers' Electric Utility Rate Matters – Electric Restructuring" and "Consumers' Electric Utility Rate Matters – Electric Proceedings," incorporated by reference herein.

Uncertainties: Several electric business trends or uncertainties may affect CMS Energy's financial results and condition. 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 Superfund; 3) electric industry restructuring, including the ability to offset the 5 percent reduction in residential rates with savings from Securitization and the ability to recover Stranded Costs; 4) the ability to meet peak electric demand loads at a reasonable cost and without market disruption and initiatives undertaken to reduce exposure to energy price increases; and 5) ongoing issues relating to the storage of spent nuclear fuel and the operating life of Palisades. For detailed information about these trends or uncertainties, see Note 2, Uncertainties, incorporated by reference herein.

Consumers Gas Utility Business Outlook

Growth: Consumers currently anticipates 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 per customer.

Gas Restructuring: In December 1997, the MPSC approved Consumers' application to implement, effective April 1, 1998, a gas customer choice pilot program that was designed to encourage Consumers to minimize its purchased natural gas commodity costs while providing rate stability for its customers. The program allows 300,000 residential, commercial and industrial retail gas sales customers to choose an alternative gas commodity supplier in direct competition with Consumers. Unless some other arrangements are made, when this pilot program ends on March 31, 2001, these customers will again become Consumers' gas commodity customers. 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 June 30, 2000, more than 160,000 customers chose alternative gas suppliers, representing approximately 11 bcf of gas load. Customers choosing to remain as sales customers of Consumers will not see a rate change in their gas rates. This three-year program: 1) freezes gas distribution rates through

March 31, 2001, establishing a delivered 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. The Attorney General filed with the Michigan Supreme Court an application for leave to appeal the Court of Appeals' decision. Subsequent to June 30, 2000, the MPSC issued an order directing Consumers and certain other Michigan gas utilities to undertake a collaborative process, including public meetings with MPSC staff and other interested parties during August and September 2000, for the purpose of developing uniform terms and conditions for the future provision of gas customer choice to all Michigan customers.

During the first two years of the pilot program, Consumers realized a benefit of $45 million as delivered gas commodity prices were below the $2.84 per mcf level collected from customers. Recent significant increases in gas prices have exposed Consumers to gas commodity losses during the last year of the program that ends March 31, 2001. Estimated loss of earnings for this last year of the program could range from $45 million to $135 million, of which Consumers has already recognized $45 million in the second quarter 2000 as a regulatory obligation. Under the provisions of the pilot program, Consumers has the right to request termination of the program at any time and to return to a GCR mechanism, pursuant to which the customer gas commodity prices would increase significantly from the current frozen rate. As an alternative to exercising that right, Consumers is considering an approach that, if approved by the MPSC, would potentially avoid further losses any greater than the $45 million already recognized and mitigate the customer rate increases that would otherwise result. It is expected that such an approach could be implemented this fall.

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 involving these bills. They 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 have 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 timing or 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 GCR and the success or failure of initiatives undertaken to protect against gas commodity price increases.

Consumers' Other Outlook

The Union represents Consumers' operating, maintenance and construction employees. Consumers and the Union negotiated a new collective bargaining agreement that became effective as of June 1, 2000. By its terms, that agreement will continue in full force and effect until June 1, 2005. Consumers is evaluating the financial effect of changes in the agreement.

Consumers 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. Consumers continues to look for additional growth opportunities in energy-related services for Consumers' customers.

Panhandle Outlook

CMS Energy intends to use Panhandle as a platform for expansion in the United States. The growth strategy around Panhandle includes enhancing the opportunities to extract value for other CMS businesses involved in electric power generation and distribution, gathering, processing, exploration and production. 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.

Regulatory Matters: For detailed information about Panhandle's regulatory uncertainties see Note 2, Uncertainties – Panhandle Matters, incorporated by reference herein.

OTHER MATTERS

New Accounting Rules

In 1999, the FASB issued SFAS 137, *Accounting for Derivative Instruments and Hedging Activities – Deferral of the Effective Date of FASB Statement No.133*. In June 2000, the FASB also issued SFAS 138, *Accounting for Certain Derivative Instruments and Certain Hedging Activities, an amendment 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, and SFAS 138 clarifies certain issues pertaining to SFAS 133. CMS Energy is currently studying SFAS 133 and will adopt SFAS 133 as of January 1, 2001, but has yet to quantify the effects of adoption on its financial statements.

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. From January 1, 2000 through June 30, 2000, the foreign currency translation amount realized from asset sales increased equity by $25 million and the change in the foreign currency translation adjustment decreased equity by $90 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 $370 million at June 30, 2000, which includes $25 million, $150 million and $195 million for Australian, Brazilian and Argentine foreign exchange contracts, respectively. The estimated fair value of the foreign exchange and option contracts at June 30, 2000 was $18 million, representing the amount CMS Energy would pay upon settlement.

CMS Energy Corporation
Consolidated Statements of Income
(Unaudited)

	Three Months Ended		Six Months Ended	
June 30	**2000**	**1999**	**2000**	**1999**
			In Millions, Except Per Share Amounts	
Operating Revenue				
Electric utility	$ 647	$ 663	$1,287	$1,299
Gas utility	148	175	623	681
Natural gas transmission, storage and processing	177	186	355	290
Independent power production	131	86	212	158
Oil and gas exploration and production	33	25	65	44
Marketing, services and trading	391	146	742	304
International energy distribution	65	45	128	83
Other	7	6	14	10
	1,599	1,332	3,426	2,869
Operating Expenses				
Operation				
Fuel for electric generation	104	106	182	199
Purchased power — related parties	151	139	297	278
Purchased and interchange power	163	103	331	206
Cost of gas sold	430	253	1,021	749
Other	261	253	489	459
	1,109	854	2,320	1,891
Maintenance	73	49	149	88
Depreciation, depletion and amortization	142	138	318	288
General taxes	70	60	141	126
	1,394	1,101	2,928	2,393
Pretax Operating Income (Loss)				
Electric utility	109	122	224	256
Gas utility	(28)	16	35	94
Natural gas transmission, storage and processing	47	43	124	46
Independent power production	68	39	85	66
Oil and gas exploration and production	6	5	10	7
Marketing, services and trading	—	(4)	4	—
International energy distribution	4	2	10	(4)
Other	(1)	8	6	11
	205	231	498	476
Other Income (Deductions)				
Accretion income	1	1	1	2
Accretion expense	(2)	(4)	(4)	(7)
Gain on asset sales, net of foreign currency translation losses of $25 in 2000	61	7	69	9
Other, net	1	11	(3)	13

	61	15	63	17
Fixed Charges				
Interest on long-term debt	144	134	291	230
Other interest	12	11	12	24
Capitalized interest	(11)	(13)	(21)	(23)
Preferred dividends	—	—	1	5
Preferred securities distributions	24	9	47	17
	169	141	330	253
Income Before Income Taxes and Minority Interests	97	105	231	240
Income Taxes	15	30	68	67
Minority Interests	1	—	2	—
Consolidated Net Income	$ 81	$ 75	$ 161	$ 173

		Three Months Ended		Six Months Ended	
June 30		**2000**	**1999**	**2000**	**1999**
				In Millions, Except Per Share Amounts	
Net Income Attributable to Common Stocks	**CMS Energy**	$ 81	$ 74	$ 161	$ 162
	Class G	-	$ 1	-	$ 11
Average Common Shares Outstanding	**CMS Energy**	110	109	112	108
	Class G	-	9	-	9
Basic Earnings Per Average Common Share	**CMS Energy**	$ .73	$ .68	$1.44	$1.50
	Class G	-	$ .10	-	$1.28
Diluted Earnings Per Average Common Share	**CMS Energy**	$ .72	$ .67	$1.42	$1.48
	Class G	-	$ .10	-	$1.28
Dividends Declared Per Common Share	**CMS Energy**	$.365	$ .33	$ .73	$ .66
	Class G	-	$.325	-	$ .65

The accompanying condensed notes are an integral part of these statements.

CMS Energy Corporation
Consolidated Statements of Cash Flows
(Unaudited)

	Six Months Ended	
June 30	**2000**	**1999**
		In Millions
Cash Flows from Operating Activities		
Consolidated net income	$ 161	$ 173
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation, depletion and amortization (includes nuclear decommissioning of $19 and $24, respectively)	318	288
Capital lease and debt discount amortization	16	26
Accretion expense	4	7
Accretion income — abandoned Midland project	(1)	(2)
MCV power purchases	(28)	(28)
Undistributed earnings of related parties	(101)	(46)
Deferred income taxes and investment tax credit	(37)	43
Gain on the sale of assets, net of foreign currency translation losses	(69)	(9)
Regulatory obligation — gas choice	45	—
Changes in other assets and liabilities	(125)	(12)
Net cash provided by operating activities	183	440
Cash Flows from Investing Activities		
Acquisition of companies, net of cash acquired	(74)	(1,899)

Capital expenditures (excludes assets placed under capital lease)	(488)	(291)
Investments in partnerships and unconsolidated subsidiaries	(24)	(258)
Cost to retire property, net	(53)	(39)
Proceeds from sale of property	574	16
Other	28	30
Net cash used in investing activities	(37)	(2,441)
Cash Flows from Financing Activities		
Proceeds from bank loans, notes and bonds	344	2,463
Issuance of common stock	3	51
Retirement of bonds and other long-term debt	(234)	(48)
Repurchase of common stock	(129)	—
Increase (decrease) in notes payable, net	74	(64)
Payment of common stock dividends	(82)	(77)
Payment of capital lease obligations	(14)	(18)
Retirement of preferred stock	—	(194)
Net cash provided by (used in) financing activities	(38)	2,113
Net Increase in Cash and Temporary Cash Investments	108	112
Cash and Temporary Cash Investments, Beginning of Period	132	101
Cash and Temporary Cash Investments, End of Period	$ 240	$ 213

Other cash flow activities and non-cash investing and financing activities were:		
Cash transactions		
Interest paid (net of amounts capitalized)	$258	$186
Income taxes paid (net of refunds)	24	41
Non-cash transactions		
Nuclear fuel placed under capital lease	$ 3	$ (2)
Other assets placed under capital leases	7	7
Assumption of debt	—	305

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

The accompanying condensed notes are an integral part of these statements.

CMS Energy Corporation
Consolidated Balance Sheets

ASSETS	June 30 2000 (Unaudited)	December 31 1999	June 30 1999 (Unaudited)
			In Millions
Plant and Property (At cost)			
Electric utility	$ 7,073	$ 6,981	$ 6,832
Gas utility	2,497	2,461	2,394
Natural gas transmission, storage and processing	2,078	1,934	1,882
Independent power production	734	974	575
Oil and gas properties (successful efforts method)	531	817	706
International energy distribution	446	445	368
Other	93	62	49
	13,452	13,674	12,806
Less accumulated depreciation, depletion and amortization	6,207	6,157	5,917
	7,245	7,517	6,889
Construction work-in-progress	854	604	363
	8,099	8,121	7,252
Investments			
Independent power production	957	950	1,017
Natural gas transmission, storage and processing	382	369	498
International energy distribution	41	150	146
Midland Cogeneration Venture Limited Partnership	261	247	230
First Midland Limited Partnership	246	240	238
Other	42	40	35

	1,929	1,996	2,164
Current Assets			
Cash and temporary cash investments at cost, which approximates market	240	132	213
Accounts receivable, notes receivable and accrued revenue, less allowances of $20, $12 and $15, respectively	1,030	959	931
Inventories at average cost			
Gas in underground storage	166	225	167
Materials and supplies	196	158	145
Generating plant fuel stock	47	47	32
Deferred income taxes	16	33	9
Prepayments and other	249	263	196
	1,944	1,817	1,693
Non-current Assets			
Goodwill, net	915	891	709
Nuclear decommissioning trust funds	612	602	581
Unamortized nuclear costs	490	519	521
Notes and lease receivable	421	44	6
Postretirement benefits	333	348	358
Notes receivable — related party	223	251	15
Abandoned Midland project	35	48	60
Other	706	825	780
	3,735	3,528	3,030
Total Assets	$15,707	$15,462	$14,139

STOCKHOLDERS' INVESTMENT AND LIABILITIES	June 30 2000 (Unaudited)	December 31 1999	June 30 1999 (Unaudited)
			In Millions
Capitalization			
Common stockholders' equity	$ 2,345	$ 2,456	$ 2,390
Preferred stock of subsidiary	44	44	44
Company-obligated mandatorily redeemable preferred securities of:			
Consumers Power Company Financing I (a)	100	100	100
Consumers Energy Company Financing II (a)	120	120	120
Consumers Energy Company Financing III (a)	175	175	—
Company-obligated convertible Trust Preferred Securities of:			
CMS Energy Trust I (b)	173	173	173
CMS Energy Trust II (b)	301	301	—
Company-obligated Trust Preferred Securities of CMS RHINOS Trust (c)	250	250	250
Long-term debt	6,918	6,987	7,079
Non-current portion of capital leases	197	88	92
	10,623	10,694	10,248
Minority Interests	212	222	148
Current Liabilities			
Current portion of long-term debt and capital leases	547	552	306
Notes payable	278	230	264
Accounts payable	824	775	397
Accrued taxes	309	320	261
Accrued interest	163	148	106
Accounts payable — related parties	65	61	73
Power purchases — MCV Partnership	47	47	47
Accrued refunds	—	11	14
Other	375	363	363
	2,608	2,507	1,831
Non-current Liabilities			
Deferred income taxes	612	702	646
Postretirement benefits	469	485	488
Deferred investment tax credit	122	126	131
Regulatory liabilities for income taxes, net	82	64	115
Power purchases — MCV Partnership	50	73	101
Other	929	589	431
	2,264	2,039	1,912

Commitments and Contingencies (Notes 1 and 2)			
Total Stockholders' Investment and Liabilities	$15,707	$15,462	$14,139

(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 contained in CMS Energy's 1999 Form 10-K .

(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 debentures due July 2004 from CMS Energy. For further discussion, see Note 7 contained in CMS Energy's 1999 Form 10-K.

(c) As described in Note 7 contained in CMS Energy's 1999 Form 10-K, 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.

The accompanying condensed notes are an integral part of these statements.

CMS Energy Corporation
Consolidated Statements of Common Stockholders' Equity
(Unaudited)

	Three Months Ended		Six Months Ended	
June 30	**2000**	**1999**	**2000**	**1999**
			In Millions	
Common Stock				
At beginning and end of period	$ 1	$ 1	$ 1	$ 1
Other Paid-in Capital				
At beginning of period	2,653	2,619	2,749	2,594
Redemption of affiliate's preferred stock	—	—	—	(2)
Common stock repurchased	(27)	—	(129)	—
Common stock reissued	—	—	3	—
Common stock issued:				
CMS Energy	—	21	3	47
Class G	—	3	—	4
At end of period	2,626	2,643	2,626	2,643
Revaluation Capital				
At beginning of period	3	(13)	3	(9)
Change in unrealized investments-gain (loss) (a)	(2)	23	(2)	19
At end of period	1	10	1	10
Foreign Currency Translation				
At beginning of period	(132)	(141)	(108)	(136)
Change in foreign currency translation realized from asset sale (a)	—	—	25	—
Change in foreign currency translation (a)	(41)	15	(90)	10
At end of period	(173)	(126)	(173)	(126)
Retained Earnings (Deficit)				
At beginning of period	(151)	(174)	(189)	(234)
Consolidated net income (a)	81	75	161	173
Common stock dividends declared:				
CMS Energy	(40)	(36)	(82)	(71)
Class G	—	(3)	—	(6)
At end of period	(110)	(138)	(110)	(138)
Total Common Stockholders' Equity	$2,345	$2,390	$2,345	$2,390
(a) Disclosure of Comprehensive Income:				
Revaluation capital				
Unrealized investments-gain (loss), net of tax of $-, $(12), $- and $(10), respectively	$ (2)	$ 23	$ (2)	$ 19
Foreign currency translation, net	(41)	15	(65)	10
Consolidated net income	81	75	161	173
Total Consolidated Comprehensive Income	$ 38	$ 113	$ 94	$ 202

The accompanying condensed notes are an integral part of these statements.

CMS Energy Corporation
Condensed Notes to Consolidated Financial Statements

These Condensed Notes and their related Consolidated Financial Statements should be read along with the Consolidated Financial Statements and Notes contained in the 1999 Form 10-K of CMS Energy, which includes the Reports of Independent Public Accountants. Certain prior year amounts have been reclassified to conform with the presentation in the current year. In the opinion of management, the unaudited information herein reflects all adjustments necessary to assure the fair presentation of financial position, results of operations and cash flows for the periods presented.

1: Corporate Structure and Basis of Presentation

Corporate Structure and Basis of Presentation

CMS Energy is the parent holding company of Consumers and 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.

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. For the three and six months ended June 30, 2000, undistributed equity earnings were $73 million and $101 million, respectively compared to $30 million and $46 million for the three and six months ended June 30, 1999, respectively.

Foreign currency translation adjustments relating to the operation of CMS Energy's long-term investments in foreign countries are included in common stockholders' equity. From January 1, 2000 through June 30, 2000, the foreign currency translation amount realized from assets sales increased equity by $25 million and the change in the foreign currency translation adjustment decreased equity by $90 million, net of after-tax hedging proceeds.

Oil and Gas Properties

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.

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. 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. 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 June 30, 2000, Consumers had a net investment in energy supply facilities of $1.017 billion included in electric plant and property. See Note 2, Uncertainties, "Consumers' Electric Utility Rate Matters – Electric Restructuring."

Acquisition

In March 1999, CMS Energy, through a subsidiary, acquired Panhandle from 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 fair values. CMS Energy allocated the excess purchase price over the 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, 1999, 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	
Six Months Ended June 30,	**2000**	**1999**
Operating revenue	$3,426	$3,004
Consolidated net income	$ 161	$ 184
Basic earnings per share	$ 1.44	$ 1.59
Diluted earnings per share	$ 1.42	$ 1.57

2: 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 EPA to review periodically the effectiveness of the national air quality standards in preventing adverse health effects.

1997 EPA Revised NOx and Small Particulate Emissions Standards — In 1997, the EPA revised these standards to impose further limitations on nitrogen oxide and small particulate-related emissions. After a United States Court of Appeals found the revision an unconstitutional delegation of legislative power, the EPA suspended the standards under the 1997 rule and reinstated the pre-1997 standards. In January 2000, the Department of Justice filed a petition for the United States Supreme Court to review the case. In May 2000, the Supreme Court agreed to hear the appeal.

1998 EPA Plan for NOx Emissions — In September 1998, based in part upon the 1997 standards, the EPA Administrator issued final regulations requiring the state of Michigan to further limit 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 has filed a petition with the United States Supreme Court appealing this ruling. During this time period, the state of Michigan established alternative less stringent nitrogen oxide emission reduction requirements. At this time the state of Michigan has decided to draft new rules to comply with the EPA requirements in parallel with its appeal to the supreme court.

Section 126 Petitions — 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 all air quality targets are conclusively established, the estimated cost of compliance discussed below is subject to revision.

Cost of Environmental Law Compliance — 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 2000 dollars. If Consumers has to meet the EPA's 1998 and/or Section 126 petition requirements, the estimated cost to Consumers would be between $290 million and $500 million, calculated in 2000 dollars. In both 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. In addition, Consumers expects to incur cost of removal related to this effort, but is unable to predict the amount at this time.

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. Beginning in 1992 and continuing into 2000, Consumers incurred capital expenditures totaling $72 million to install equipment at certain generating units to comply with the acid rain provisions of the Clean Air Act. Management believes that these expenditures will not materially affect Consumers' annual operating costs.

Cleanup and Solid Waste — Under the Michigan Natural Resources and Environmental Protection Act, Consumers expects that it will ultimately incur investigation and remedial action costs at a number of sites. Nevertheless, it believes that these costs are 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 June 30, 2000, Consumers has accrued the minimum amount of the range for its estimated Superfund liability.

During routine maintenance activities, Consumers identified PCB as a component in certain paint, grout and sealant materials at the Ludington Pumped Storage Facility. Consumers removed and replaced part of the PCB material. Consumers is studying the remaining materials and determining options and their related costs.

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. In March 1999, the court issued an opinion and order granting Consumers' motion for summary judgment, resulting in the dismissal of the case. The plaintiffs appealed this decision. Consumers cannot predict the outcome of this appeal.

Consumers Electric Utility Rate Matters

Electric Restructuring: Since 1997, there have been repeated efforts made in the Michigan Legislature to enact electric restructuring legislation. On June 3, 2000, these efforts resulted in the passage of the "Customer Choice and Electricity Reliability Act," which became effective June 5, 2000. This act: 1) permits all customers to exercise choice of electric generation suppliers by January 1, 2002; 2) cuts residential electric rates by 5 percent; 3) freezes all electric rates through December 31, 2003, and establishes a rate cap for residential customers through at least December 31, 2005, and a rate cap for small commercial and industrial customers through at least December 31, 2004; 4) allows for the use of Securitization to refinance stranded costs as a means of offsetting the earnings impact of the 5 percent residential rate reduction; 5) establishes a market power test which may require the transfer of control of a portion of generation resources in excess of that required to serve firm retail sales load; 6) requires Michigan utilities to join a FERC approved RTO or divest its interest in transmission facilities to an independent transmission owner; 7) requires the expansion of available transmission capability by at least 2,000 MW by January 1 of 2003; and 8) allows for the recovery of stranded costs and implementation costs incurred as a result of the passage of the act.

In September 1999, Consumers began implementing a plan for electric retail customer open access. Consumers submitted this plan to the MPSC in 1998, and the MPSC issued electric restructuring orders in March 1999 that generally supported the plan. The Customer Choice and Electricity Reliability Act states that orders issued by the MPSC before the date of this act that; 1) allow electric customers to choose their supplier, 2) authorize recovery of net stranded costs and implementation costs, and 3) confirm any voluntary commitments of electric utilities, are in compliance with this act and enforceable by the MPSC. On June 19, 2000, the MPSC issued an order requiring Consumers to file tariffs governing its retail open access program and any revisions appropriate to comply with the Customer Choice and Electricity Reliability Act. Consumers cannot predict how the MPSC will modify the tariffs or enforce the existing restructuring orders.

On June 9, 2000, the Court of Appeals issued an opinion relating to a number of consolidated MPSC restructuring orders. The opinion primarily involved issues that the Customer Choice and Electricity Reliability Act has rendered moot. In a separate pending case, ABATE and the Attorney General each appealed an August 1999 order in which the MPSC found that it had jurisdiction to approve rates, terms and conditions for electric retail wheeling (also known as electric customer choice) if a utility voluntarily chooses to offer that service. Consumers believes that the Customer Choice and Electricity Reliability Act has rendered the issue moot, but cannot predict how the Court of Appeals will resolve the issue.

During periods when electric demand is high, the cost of purchasing energy on the spot market can be substantial. To reduce Consumers' exposure to the fluctuating cost of electricity, and to ensure adequate supply to meet demand, Consumers is planning to maintain sufficient generation and to purchase electricity from others to create a power reserve (also called a reserve margin). Consumers plans a reserve margin of approximately 15 percent. The reserve margin provides Consumers with additional power above its anticipated peak power demands. It also allows Consumers to provide reliable service to its electric service customers and to protect itself against unscheduled plant outages and unanticipated demand. Consumers estimates the actual reserve margin for summer 2000 is in the range of 13 percent to 16 percent. The ultimate reserve margin will depend on summer weather conditions and on the level of retail open access load being served by others this summer. (Consumers offered other electric service providers with the opportunity to serve up to 600 MW of nominal retail open access load during summer 2000. As of June 30, 2000, no other electric service provider is serving the retail open access load.) To reduce the risk of

high energy prices during peak demand periods and to achieve its reserve margin target, Consumers has employed a strategy of purchasing electric call option contracts for the physical delivery of electricity during the months of June through September. Consumers expects to use a similar strategy in the future. As of June 30, 2000, Consumers had purchased or had commitments to purchase electric call option contracts for summer 2000 at a cost of approximately $51 million, of which $6 million had expired. Additionally, as of June 30, 2000 Consumers had purchased or had commitments to purchase electric call option contracts partially covering the reserve margin requirements for summer 2001, 2002 and 2003 at a cost of $13 million with expected total future purchases to reach $56 million this year.

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. 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 structure of Alliance, its rates and its geographic configuration. Consumers and the Alliance companies sought rehearing of the Alliance order. Additionally, in a February 2000 compliance filing, the Alliance companies addressed some of the concerns expressed in the December 1999 Alliance order. Consumers is uncertain about the outcome of the Alliance matter before the FERC and its continued participation in Alliance.

On the same day as the December 1999 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.

In May 2000, the FERC issued an order on compliance filing and request for rehearing and clarification. The order concluded that the Alliance RTO's proposed structure is not in the proper scope and configuration. The FERC rejected the Alliance companies' proposal to allow 25 percent cumulative active ownership of the Alliance RTO by the transmission owners. The May 2000 order also required the applicants to make a rate compliance filing. The FERC did not substantively address Consumers' alternative governance structure. In June 2000, Consumers filed a request for hearing of the May 2000 order and also separately sought once again approval of its alternative governance structure. Consumers also filed a petition for review of the May 2000 order in the United States Court of Appeals for the District of Columbia Circuit.

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. The Attorney General, ABATE, the MCV Partnership and other parties filed appeals with the Court of Appeals challenging the MPSC's 1996 order. In 1999, the Court of Appeals affirmed the MPSC's 1996 order in all respects. The Attorney General, however, filed an application for leave to appeal this decision to the Michigan Supreme Court. In June 2000, the Michigan Supreme Court denied the application for leave to appeal.

In 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 that approximated $189 million annually. As a result of the passage of the rate freeze imposed by the Customer Choice and Electricity Reliability Act, the MPSC issued an order on June 19, 2000 dismissing the ABATE complaint. On July 12, 2000 ABATE filed a rehearing petition with the MPSC. Consumers cannot predict the outcome of the rehearing process.

Before 1998, the PSCR process provided for the reconciliation of actual power supply costs with power supply revenues. This process assured recovery of all reasonable and prudent power supply costs actually incurred by Consumers, such as, the actual cost of fuel, interchange power and purchased power. In 1998, as part of the electric restructuring efforts, the MPSC suspended the PSCR process through December 31, 2001. Under the suspension, the MPSC would not grant adjustment of customer rates through 2001. In March 2000, Consumers filed an application with the MPSC requesting reinstatement of the PSCR clause, approval of a PSCR plan, and authorization of monthly PSCR factors from July 2000 through June 2001. As a result of the rate freeze imposed by the Customer Choice and Electricity Reliability Act, the MPSC issued an order on June 19, 2000 dismissing this application.

Other Consumers Electric Utility Uncertainties

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

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

	In Millions	
	Six Months Ended	
June 30	2000	1999
Pretax operating income	$20	$26
Income taxes and other	6	8
Net income	$14	$18

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. 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. Implementation of the agreement is contingent upon regulatory treatment satisfactory to Consumers. Such treatment is not yet assured. Under the terms of the agreement, 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 file for approval of a revised capacity solicitation process (which Consumers filed). 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 uncertainties associated with electric industry restructuring legislation in Michigan, Consumers and PECO entered into an interim arrangement for the sale of 125 MW of PPA capacity and associated energy to PECO during 2000. Prices in the interim arrangement are identical to the March 1999 power sales agreement. Consumers is currently evaluating its options associated with the PECO agreement due to the recent electric restructuring legislation and related MPSC decisions.

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 June 30, 2000 and June 30, 1999, the remaining after-tax present value of the estimated future PPA liability associated with the 1992 loss totaled $63 million and $96 million, respectively. The annual 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. In March 1999, Consumers and the MCV Partnership reached an agreement effective January 1, 1999 that capped availability payments to the MCV Partnership at 98.5 percent. If the MCV Facility generates electricity at the maximum 98.5 percent level during the next five years, Consumers' after-tax cash underrecoveries associated with the PPA could be as follows:

	In Millions				
	2000	**2001**	**2002**	**2003**	**2004**
Estimated cash underrecoveries at 98.5%, net of tax	$36	$39	$38	$37	$ 36

If the MCV Facility operates at availability levels above management's 91.5 percent estimate made in 1992 for the remainder of the PPA, the estimated PPA liability would be deficient and Consumers will need to recognize additional operating expenses for current underrecoveries. For further discussion on the impact of the frozen PSCR, see "Electric Rate Matters" in this Note. Management continues to evaluate the adequacy of the contract loss liability considering actual MCV Facility operations, and resolution of the electric restructuring effort.

In February 1998, the MCV Partnership filed a claim of appeal from the January 1998 and February 1998 MPSC orders related to 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 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 31, 2000 in which the NRC stated that no significant performance issues existed during the assessment period in the reactor safety, radiation safety, and safeguards strategic performance areas. The NRC stated that Palisades continues to operate in a safe manner. Further, it stated that the NRC plans to conduct only routine inspections at Palisades over the next year. The NRC implemented the revised reactor oversight process industry-wide, including for Palisades, on April 2, 2000. As part of that process, Palisades submitted required NRC performance data in April 2000 that indicated that Consumers was within the limits of acceptable performance for which no NRC response is required.

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 June 30, 2000, Consumers had loaded 18 dry storage casks with spent nuclear fuel at Palisades. Palisades will need to load more casks by 2004 in order to continue operation. Palisades only has three additional storage-only casks available for loading. Consumers anticipates, however, that licensed transportable casks will be available prior to 2004.

Consumers maintains insurance against property damage, debris removal, personal injury liability and other risks that are present at its nuclear facilities. Consumers also maintains coverage for replacement power 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. On February 21,

2000, Consumers submitted an analysis to the NRC that shows that the NRC's screening criteria will not be reached until 2014. Accordingly, 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.

In May 2000, Consumers requested that the NRC modify the operating license for the Palisades nuclear plant to recapture the four year construction period. This modification would extend the plant's operation to March of 2011 and allow a full 40-year operating period, consistent with current NRC practice.

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 June 30, 2000, Consumers had a recorded liability to the DOE of $126 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, intended to produce specific relief for the DOE's failure to comply, has not been successful to date. In April 2000, the U.S. Senate and House of Representatives approved federal legislation that would advance the cause of moving nuclear waste to a permanent repository. The President of the United States vetoed this legislation.

On July 20, 2000, the DOE announced that an agreement had been reached with a utility to address the DOE's delay in accepting spent fuel. The DOE stated that the agreement, which is in the form of a contract amendment, is intended to be a framework that can be applied to all Nuclear Power Plants. Consumers is evaluating this matter further.

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 June 30, 2000, after consideration of prior years' expenses, Consumers has a remaining accrued liability of $59 million and a regulatory asset of $64 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, effective April 1, 1998, a gas customer choice pilot program that was designed to encourage Consumers to minimize its purchased natural gas commodity costs while providing rate stability for its customers. The program allows 300,000 residential, commercial and industrial retail gas sales customers to choose an alternative gas commodity supplier in direct competition with Consumers. Unless some other arrangements are made, when this pilot program ends on March 31, 2001, these customers will again become Consumers' gas commodity customers. 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 June 30, 2000, more than 160,000 customers chose alternative gas suppliers, representing approximately 11 bcf of gas load. Customers choosing to remain as sales customers of Consumers will not see a rate change in their gas rates. This three-year program: 1) freezes gas distribution rates through March 31, 2001, establishing a delivered 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. The Attorney General filed with the Michigan Supreme Court an application for leave to appeal the Court of Appeals' decision. Subsequent to June 30, 2000, the MPSC issued an order directing Consumers and certain other Michigan gas utilities to undertake a collaborative process, including public meetings with MPSC staff and other interested parties during August and September 2000, for the purpose of developing uniform terms and conditions for the future provision of gas customer choice to all Michigan customers.

During the first two years of the pilot program, Consumers realized a benefit of $45 million as delivered gas commodity prices were below the $2.84 per mcf level collected from customers. Recent significant increases in gas prices have exposed Consumers to gas commodity losses during the last year of the program that ends March 31, 2001. Estimated loss of earnings for this last year of the program could range from

$45 million to $135 million, of which Consumers has already recognized $45 million in the second quarter 2000 as a regulatory obligation. Under the provisions of the pilot program, Consumers has the right to request termination of the program at any time and to return to a GCR mechanism, pursuant to which the customer gas commodity prices would increase significantly from the current frozen rate. As an alternative to exercising that right, Consumers is considering an approach that, if approved by the MPSC, would potentially avoid further losses any greater than the $45 million already recognized and mitigate the customer rate increases that would otherwise result. It is expected that such an approach could be implemented this fall.

Panhandle Matters

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. FERC approved this settlement February 1, 2000 and required refunds of approximately $2 million which were made in April 2000, with supplemental refunds of $1.3 million in June 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, FERC required certain natural gas producers to refund previously collected Kansas ad-valorem taxes to interstate natural gas pipelines. FERC ordered these pipelines to refund these amounts to their customers. The pipelines must make all payments in compliance with prescribed FERC requirements. At June 30, 2000 and December 31, 1999, Accounts Receivable included $56 million and $54 million, respectively, due from natural gas producers, and Other Current Liabilities included $56 million and $54 million, respectively, 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 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 Uncertainties

CMS Generation – Loy Yang: At June 30, 2000, CMS Energy has an approximately $500 million investment in Loy Yang. In February 2000, CMS Energy announced its intention to sell its 50 percent interest in Loy Yang. The amount CMS Energy ultimately realizes from the sale of Loy Yang could differ materially in the near term from the amount currently reflected as an asset on the balance sheet.

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 $1.65 billion for 2000, $1.37 billion for 2001, and $1.36 billion for 2002. For further information, see Capital Resources and Liquidity-Capital Expenditures in the MD&A.

Other: As of June 30, 2000, CMS Energy and Enterprises guaranteed up to $605 million in contingent obligations of unconsolidated affiliates and related parties.

In March 2000, Adams Affiliates, Inc. and Cottonwood Partnership (prior majority owners of Continental Natural Gas) initiated arbitration proceedings through the American Arbitration Association against CMS Energy. The plaintiffs claim, in connection with an Agreement and Plan of Merger among CMS Energy, CMS Merging Corporation, Continental Natural Gas and the plaintiffs, damages for breach of warranty,

implied duty of good faith, violation of the Michigan Uniform Securities Act, and common law fraud and negligent misrepresentation. The plaintiffs allege $13 million of compensatory damages and $26 million in exemplary damages. CMS Energy filed a response denying all the claims made by the plaintiffs and asserting several counterclaims. CMS Energy believes this lawsuit is without merit and will vigorously defend against it, but cannot predict the outcome of this matter.

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.

3: Short-Term and Long-Term Financings, and Capitalization

CMS Energy: CMS Energy's Senior Credit Facility consists of a $1 billion one-year revolving credit facility maturing in June 2001. Additionally, CMS Energy has unsecured lines of credit in an aggregate amount of $38 million. As of June 30, 2000, the total amount utilized under the Senior Credit Facility and the unsecured lines of credit were $730 million and $14 million, respectively, and the amounts available under the Senior Credit Facility and the unsecured lines of credit were $270 million and $24 million, respectively.

At June 30, 2000, CMS Energy had $111 million of Series A GTNs, $107 million of Series B GTNs, $130 million of Series C GTNs, $199 million Series D GTNs, and $340 million Series E GTNs issued and outstanding with weighted average interest rates of 7.9 percent, 8.1 percent, 7.9 percent, 7.0 percent and 7.7 percent, respectively.

In February 2000, the Board of Directors approved a stock repurchase program whereby CMS Energy could reacquire up to 10 million shares of CMS Energy Common Stock. As of June 30, 2000, CMS Energy had reacquired approximately 6.6 million shares.

CMS Energy is currently implementing a financial plan to strengthen its balance sheet, reduce fixed expenses and enhance earnings per share growth. In conjunction with this plan, CMS Energy has identified for possible sale certain non-strategic assets which are expected to contribute little or no earnings benefits in the short to medium term. In addition, this plan will allow CMS Energy to achieve more geographic and business focus, thereby allowing CMS Energy to concentrate on its most profitable and growing ventures. From December 1999 through June 30, 2000, CMS Energy has received $664 million of proceeds from the sale of these assets, including a partial interest in its Northern Header gathering system, all of its ownership interest in a Brazilian distribution system, all of its northern Michigan oil and gas properties, its ownership interest in the Lakewood Cogeneration plant located in Lakewood, New Jersey, and all of its ownership interest in certain oil reserves located in Ecuador.

Consumers: At July 1, 2000, Consumers had FERC authorization to issue or guarantee through June 2002, up to $900 million of short-term securities outstanding at any one time. Consumers also had remaining

FERC authorization to issue through June 2002 up to $250 million and $800 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 $145 million. These facilities are available to finance seasonal working capital requirements and to pay for capital expenditures between long-term financings. At June 30, 2000, a total of $275 million was outstanding at a weighted average interest rate of 7.8 percent, compared with $264 million outstanding at June 30, 1999, at a weighted average interest rate of 6.1 percent.

Consumers currently has in place a $325 million trade receivables sale program. At June 30, 2000 and 1999, receivables sold under the program totaled $283 million and $266 million, respectively. Accounts receivable and accrued revenue in the Consolidated Balance Sheets have been reduced to reflect receivables sold.

Under the provisions of its Articles of Incorporation, Consumers had $360 million of unrestricted retained earnings available to pay common dividends at June 30, 2000. In January 2000, Consumers declared and paid a $79 million common dividend, in April 2000, Consumers declared a $30 million common dividend which was paid in May 2000. In July 2000, Consumers declared a $17 million common dividend payable in August 2000.

Panhandle: In March 2000, Panhandle received net proceeds of $99 million from the sale of $100 million 8.25 percent senior notes, due April 2010. Proceeds from this offering were used to fund the acquisition of Sea Robin, a 1 bcf per day natural gas and condensate pipeline in the Gulf of Mexico offshore Louisiana west of Trunkline's existing Terrebonne system.

CMS Oil and Gas: CMS Oil and Gas has a three-year $225 million floating rate revolving credit facility which matures in May 2002. At June 30, 2000, the amount utilized under the credit facility was $15 million.

4: 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.

Earnings per share attributable to Common Stock for the three and six months ended June 30, 1999 reflect the performance of 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 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 EPS:

	In Millions, Except Per Share Amounts			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2000	1999	2000	1999

Net Income Applicable to Basic and Diluted EPS				
Consolidated Net Income	$ 81	$ 75	$ 161	$ 173
Net Income Attributable to Common Stocks:				
CMS Energy — Basic EPS	$ 81	74	161	162
Add conversion of 7.75% Trust Preferred Securities (net of tax)	2	2	4	4
CMS Energy — Diluted EPS	$ 83	$ 76	$ 165	$ 166
Class G:				
Basic and Diluted EPS	$ —(a)	$ 1	$ —(a)	$ 11
Average Common Shares Outstanding Applicable to Basic and Diluted EPS				
CMS Energy:				
Average Shares — Basic	110.1	108.7	111.8	108.5
Add conversion of 7.75% Trust Preferred Securities	4.2	4.2	4.2	4.2
Options-Treasury Shares	.1	.4	.1	.4
Average Shares — Diluted	114.4	113.3	116.1	113.1
Class G:				
Average Shares Basic and Diluted	—(a)	8.6	—(a)	8.5
Earnings Per Average Common Share				
CMS Energy:				
Basic	$ .73	$ .68	$ 1.44	$ 1.50
Diluted	$ .72	$ .67	$ 1.42	$ 1.48
Class G:				
Basic and Diluted	$ —(a)	$ .10	$ —(a)	$ 1.28

(a) All of the outstanding shares of Class G Common Stock were exchanged for CMS Energy Common Stock on October 25, 1999.

In February and May 2000, CMS Energy paid dividends of $.365 per share on CMS Energy Common Stock. In July 2000, the Board of Directors declared a quarterly dividend of $.365 per share on CMS Energy Common Stock, payable in August 2000.

5: 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 material lack of correlation between the changes in the market value of the commodity price contracts and the market price ultimately received for the hedged item, open commodity price contracts would be marked-to-market and gains and losses would be recognized in the income statement currently. 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.

A CMS Energy subsidiary has a swap agreement which fixes the prices that it will pay for gas sold to the MCV Facility for the years 2001 through 2006. The subsidiary pays fixed prices and receives floating prices under the agreement. The settlement periods are each a one-year period ending December 31, 2001 through 2006 on 3.65 million MMBtu. At June 30, 2000, the agreement has been classified as a trading activity and correspondingly, has been marked-to-market.

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 re present the exposure to credit loss. The notional amount of CMS Energy's and its subsidiaries' interest rate swaps was $1.9 billion at June 30, 2000. 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 $370 million at June 30, 2000, which includes $25 million, $150 million and $195 million for Australian, Brazilian and Argentine foreign exchange contracts, respectively. The estimated fair value of the foreign exchange and option contracts at June 30, 2000 was $18 million, representing the amount CMS Energy would pay upon settlement.

6: 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.

Report of Independent Public Accountants

To CMS Energy Corporation:

We have reviewed the accompanying consolidated balance sheets of CMS ENERGY CORPORATION (a Michigan corporation) and subsidiaries as of June 30, 2000 and 1999, the related consolidated statements of income and common stockholders' equity for the three-month and six-month periods then ended and the related consolidated statements of cash flows for the six-month periods then ended. These financial statements are the responsibility of the Company's management.

We conducted our review in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the financial statements referred to above for them to be in conformity with accounting principles generally accepted in the United States.

We have previously audited, in accordance with auditing standards generally accepted in the United States, the consolidated balance sheet of CMS Energy Corporation and subsidiaries as of December 31, 1999, and, in our report dated February 4, 2000, we expressed an unqualified opinion on that statement. In our opinion, the information set forth in the accompanying consolidated balance sheet as of December 31, 1999, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ Arthur Andersen LLP

Detroit, Michigan,
July 28, 2000.

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.

The MD&A of this Form 10-Q should be read along with the MD&A and other parts of Consumers' 1999 Form 10-K. This MD&A also refers to, and in some sections specifically incorporates by reference, Consumers' Condensed Notes to Consolidated Financial Statements and should be read in conjunction with such Statements and Notes.

This 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 that 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 MD&A and particularly in the section entitled "CMS Energy, Consumers and Panhandle Forward-Looking Statements Cautionary Factors" in Consumers' 1999 Form 10-K Item 1 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 report also describes material contingencies in Consumers' Condensed Notes to Consolidated Financial Statements and readers are encouraged to read such Notes.

Results of Operations

Consumers Consolidated Earnings

			In Millions
June 30	**2000**	**1999**	**Change**
Three months ended	$ 24	$ 68	$(44)
Six months ended	109	177	(68)

Net income available to the common stockholder decreased $44 million from the 1999 level for the three months ended June 30, 2000. The earnings decrease was primarily due to lower gas and electric revenues and higher gas commodity costs and higher electric power costs not all of which are being collected in customer rates. The earnings decrease primarily reflects the establishment of a $45 million regulatory obligation related to the impact of sharply higher gas prices above the frozen gas customer rate. In addition, earnings decreased by $5 million due to the state of Michigan passing legislation codifying electric customer choice which required an immediate five percent electric rate reduction for residential customers, while commercial and industrial rates remain unchanged. Net income for the six months ended June 30, 2000 decreased $68 million from the comparable period in 1999 also as the result of increased gas costs referenced above. The earnings decrease was also due to lower gas deliveries, higher electric power costs, and the required electric rate reduction totaling $5 million resulting from the customer choice legislation enacted in Michigan, partially offset by increased electric sales to customers. 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
June 30	**2000**	**1999**	**Change**
Three months ended	$109	$122	$(13)
Six months ended	224	256	(32)

For the three months ended June 30, 2000, electric pretax operating income decreased $13 million from the comparable period in 1999. The earnings decrease reflects increased power costs not totally recoverable from customers, the 5 percent residential customer rate reduction resulting from the Customer Choice and Electricity Reliability Act, and increased operating expenses. For the six months ended June 30, 2000, electric pretax operating income decreased $32 million from the comparable period in 1999. The earnings decrease also reflects the increased cost of purchased power and the impact of the electric rate reduction partially offset by increased electric sales to customers. Due to changes in regulation, since 1998 differences in power supply costs now impact Consumers' earnings. In the past, such cost changes did not impact electric pretax operating income because Consumers passed the cost of electric power on to electric customers. During the current year, Consumers needed additional purchased electric power to meet customer requirements due to scheduled and unscheduled outages at Consumers' internal generators. The following table quantifies these impacts on pretax operating income:

		In Millions
	Three Months Ended June 30	**Six Months Ended June 30**
Change Compared to Prior Year	**2000 vs 1999**	**2000 vs 1999**
Electric deliveries	$ 4	$ 12
Power supply costs and related revenue	(3)	(25)
Rate decrease	(5)	(5)
Non-commodity revenue	(2)	(5)
Operation and maintenance expense	(8)	(8)
General taxes and depreciation expense	1	(1)

Total change	$(13)	$(32)

Electric Deliveries: Electric deliveries were 10.1 billion kWh for the three months ended June 30, 2000, essentially unchanged from the second quarter of 1999. Electric deliveries were 19.8 billion kWh for the six months ended June 30, 2000, a slight decrease from the corresponding 1999 period. Total electric deliveries decreased due to lower intersystem sales, less usage by industrial customers, and lower residential space heating.

Power Supply Costs:

	In Millions		
June 30	**2000**	**1999**	**Change**
Three months ended	$294	$293	$ 1
Six months ended	594	571	23

Power supply costs were essentially unchanged for the three month ended June 30, 2000 from the comparable period in 1999 but increased for the six month period, primarily due to higher interchange power costs. Consumers had to purchase more external power because internal generation decreased due to scheduled and unscheduled outages.

GAS UTILITY RESULTS OF OPERATIONS

Gas Pretax Operating Income:

			In Millions
June 30	**2000**	**1999**	**Change**
Three months ended	$(28)	$16	$(44)
Six months ended	$ 35	$94	$(59)

Gas pretax operating income decreased in the three months ended June 30, 2000 by $44 million. The earnings decrease primarily reflects sharply higher gas prices in 2000 and the establishment of a $45 million regulatory obligation related to the higher prices above the frozen gas customer rate. These decreases are partially offset by higher gas deliveries due to cooler temperatures in the three months ended June 30, 2000. Gas pretax operating income decreased in the six months ended June 30, 2000 by $59 million. The earnings decrease primarily reflects decreased gas deliveries in the six months ended June 30, 2000 due to warmer temperatures during the heating season and the higher gas prices purchased for the next heating season as described for the three month period. Due to a temporary change in regulation, differences in gas costs directly impact Consumers' earnings. This change in regulation relates to the gas industry restructuring initiatives, which provide Consumers the opportunity to temporarily benefit or lose from changes in commodity gas prices. 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
	Three Months Ended June 30	**Six Months Ended June 30**
Change Compared to Prior Year	**2000 vs 1999**	**2000 vs 1999**
Gas deliveries	$ 4	$ (6)
Gas commodity costs and related revenue	(50)	(61)
Gas wholesale and retail services	2	4
Operation and maintenance expense	1	3
General taxes and depreciation expense	(1)	1
Total change	$(44)	$(59)

Gas Deliveries: Gas system deliveries for the three months ended June 30, 2000, including miscellaneous transportation totaled 66 bcf, an increase of 4 bcf or 6 percent compared with 1999. The increased deliveries

reflect cooler temperatures during the second quarter of 2000. Gas system deliveries for the six months ended

June 30, 2000, including miscellaneous transportation totaled 227 bcf, a decrease of 1 bcf or .5 percent compared with 1999.

Cost of Gas Sold:

June 30	2000	1999	In Millions Change
Three months ended	$ 95	$ 78	$17
Six months ended	$390	$384	$ 6

The cost of gas sold increased for the three months ended June 30, 2000 due to higher gas prices and increased gas deliveries due to cooler than normal temperature. Higher gas prices also impacted the cost of gas sold for the six months ended June 30, 2000. These higher gas costs were partially offset by decreased sales from warmer than normal temperatures during the first quarter of 2000.

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 $367 million and $460 million for the first six months of 2000 and 1999, respectively. The $93 million decrease was primarily due to lower gas and electric revenues, and higher gas commodity and electric power costs as discussed in the results of operations. Included in net income but which had no effect on cash flow was the recognition of a $45 million regulatory obligation ($30 million after tax) related to the impact of sharply higher gas prices above the frozen gas customer rate. The decrease in cash was also affected by other temporary changes in working capital items due to timing of cash receipts and payments. 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 $293 million and $238 million for the first six months of 2000 and 1999, respectively. The change of $55 million is primarily the result of a $41 million increase in capital expenditures and the absence of $7 million of proceeds from the FMLP.

Financing Activities: Cash used in financing activities totaled $82 million and $218 million for the first six months of 2000 and 1999, respectively. The change of $136 million is primarily the result of the absence of $200 million retirement of preferred stock and the absence of $150 million contribution from Consumers' common stockholder. The change was also affected by a $65 million reduction in the payment of common 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 sources of funds, see Note 3, Short-Term Financing and Capitalization.

Outlook

CAPITAL EXPENDITURES OUTLOOK

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

Years Ended December 31	2000	2001	In Millions 2002
Construction	$528	$669	$639
Nuclear fuel lease	3	26	26
Capital leases other than nuclear fuel	24	25	25
	$555	$720	$690
Electric utility operations (a)(b)	$438	$580	$545
Gas utility operations (a)	117	140	145
	$555	$720	$690

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

(b) These amounts include estimates for capital expenditures possibly required for compliance 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 approximately two and one half percent per year in electric system deliveries for the years 2000 to 2005 based on a steadily growing customer base. This growth rate does not take into account the possible impact on the industry of restructuring or changing regulation. Abnormal weather, changing economic conditions or the developing competitive market for electricity may affect actual electric deliveries 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. 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. During the period from 2000 through 2005, depending on future business and regulatory circumstances, these contracts can be terminated or restructured. These contracts involve 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.

Since 1997, there have been repeated efforts made in the Michigan Legislature to enact electric restructuring legislation. On June 3, 2000, these efforts resulted in the passage of the "Customer Choice and Electricity Reliability Act," which became effective June 5, 2000.

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: Prior to June 5, 2000 there were several pending rate issues that could have affected Consumers' electric business. As a result of the passage of the Customer Choice and Electricity Reliability Act, certain MPSC rate proceedings and a complaint by ABATE seeking a reduction in rates have been dismissed.

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 Restructuring" and "Electric Rate Matters – Electric Proceedings," incorporated by reference herein.

Uncertainties: Several electric business trends or uncertainties may affect Consumers' financial results and condition. These trends or uncertainties have, or Consumers reasonably expects could have, a material impact on net sales, revenues, or income from continuing electric operations. Such trends and uncertainties include: 1) 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) electric industry restructuring, including the ability to offset the 5 percent reduction in residential rates with savings from Securitization and the ability to recover Stranded Costs; 4) the ability to meet peak electric demand loads at a reasonable cost and without market disruption and initiatives undertaken to reduce exposure to energy price increases; and 5) ongoing issues relating to the storage of spent nuclear 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 anticipates 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 per customer.

Gas Restructuring: In December 1997, the MPSC approved Consumers' application to implement, effective April 1, 1998, a gas customer choice pilot program that was designed to encourage Consumers to minimize its purchased natural gas commodity costs while providing rate stability for its customers. The program allows 300,000 residential, commercial and industrial retail gas sales customers to choose an alternative gas commodity supplier in direct competition with Consumers. Unless some other arrangements are made, when this pilot program ends on March 31, 2001, these customers will again become Consumers' gas commodity customers. 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 June 30, 2000, more than 160,000 customers chose alternative gas suppliers, representing approximately 11 bcf of gas load. Customers choosing to remain as sales customers of Consumers will not see a rate change in their gas rates. This three-year program: 1) freezes gas distribution rates through March 31, 2001, establishing a delivered 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. The Attorney General filed with the Michigan Supreme Court an application for leave to appeal the Court of Appeals' decision. Subsequent to June 30, 2000, the MPSC issued an order directing Consumers and certain other Michigan gas utilities to undertake a collaborative process, including public meetings with MPSC staff and other interested parties during

August and September 2000, for the purpose of developing uniform terms and conditions for the future provision of gas customer choice to all Michigan customers.

During the first two years of the pilot program, Consumers realized a benefit of $45 million as delivered gas commodity prices were below the $2.84 per mcf level collected from customers. Recent significant increases in gas prices have exposed Consumers to gas commodity losses during the last year of the program that ends March 31, 2001. Estimated loss of earnings for this last year of the program could range from $45 million to $135 million, of which Consumers has already recognized $45 million in the second quarter 2000 as a regulatory obligation. Under the provisions of the pilot program, Consumers has the right to request termination of the program at any time and to return to a GCR mechanism, pursuant to which the customer gas commodity prices would increase significantly from the current frozen rate. As an alternative to exercising that right, Consumers is considering an approach that, if approved by the MPSC, would potentially avoid further losses any greater than the $45 million already recognized and mitigate the customer rate increases that would otherwise result. It is expected that such an approach could be implemented this fall.

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 involving these bills. They 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 have 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 timing or 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 the success or failure of initiatives undertaken to protect against gas commodity price increases.

OTHER OUTLOOK

The Union represents Consumers' operating, maintenance and construction employees. Consumers and the Union negotiated a new collective bargaining agreement that became effective as of June 1, 2000. By its terms, that agreement will continue in full force and effect until June 1, 2005. Consumers is evaluating the financial effect of changes in the agreement.

Consumers 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. Consumers continues to look for additional growth opportunities in energy-related services for Consumers' customers.

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.* In June 2000, the FASB also issued SFAS 138, *Accounting for Certain Derivative Instruments and Certain Hedging Activities an amendment 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, and SFAS 138 clarifies certain issues pertaining to SFAS 133. Consumers will adopt SFAS 133 on January 1, 2001 and is currently analyzing the effects of adoption on its financial statements.

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 gains or 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 $9 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.

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 June 30, 2000, Consumers had outstanding $975 million of variable-rate debt. Assuming a hypothetical 10 percent adverse change in market interest rates, Consumers' exposure to earnings is limited to $7 million. As of June 30, 2000, Consumers has outstanding long-term fixed-rate debt of $2.061 billion with a fair value of $1.934 billion. Assuming a hypothetical 10 percent adverse change in market rates, Consumers would have an exposure of $130 million to its fair value if it had to refinance all of its long-term fixed-rate debt. 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.

Consumers Energy Company
Consolidated Statements of Income
(Unaudited)

	Three Months Ended		Six Months Ended	
June 30	**2000**	**1999**	**2000**	**1999**
				In Millions
Operating Revenue				
Electric	$647	$663	$1,287	$1,299
Gas	148	175	623	681
Other	13	12	24	27
	808	850	1,934	2,007
Operating Expenses				
Operation				
Fuel for electric generation	85	88	146	164
Purchased power — related parties	143	139	290	278
Purchased and interchange power	66	66	158	129
Cost of gas sold	95	78	390	384
Other	146	152	264	281
	535	523	1,248	1,236
Maintenance	44	41	92	79
Depreciation, depletion and amortization	93	92	216	213
General taxes	44	45	99	103
	716	701	1,655	1,631
Pretax Operating Income				
Electric	109	122	224	256
Gas	(28)	16	35	94
Other	11	11	20	26
	92	149	279	376
Other Income (Deductions)				
Dividends and interest from affiliates	2	3	5	6
Accretion income	1	1	1	2
Accretion expense	(2)	(4)	(4)	(7)
Other, net	1	7	3	8
	2	7	5	9
Interest Charges				
Interest on long-term debt	35	35	69	70
Other interest	10	9	18	17
	45	44	87	87
Net Income Before Income Taxes	49	112	197	298
Income Taxes	16	39	69	107
Net Income	33	73	128	191
Preferred Stock Dividends	—	—	1	5
Preferred Securities Distributions	9	5	18	9

Net Income Available to Common Stockholder	$ 24	$ 68	$ 109	$ 177

The accompanying condensed notes are an integral part of these statements.

Consumers Energy Company
Consolidated Statements of Cash Flows
(Unaudited)

	Six Months Ended	
June 30	**2000**	**1999**
		In Millions
Cash Flows from Operating Activities		
Net income	$ 128	$ 191
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation, depletion and amortization (includes nuclear		
decommissioning of $19 and $24 respectively)	216	213
Capital lease and other amortization	15	20
Accretion expense	4	7
Accretion income — abandoned Midland project	(1)	(2)
Undistributed earnings of related parties	(21)	(27)
Deferred income taxes and investment tax credit	(22)	6
MCV power purchases	(28)	(28)
Regulatory obligation – gas choice	45	—
Changes in other assets and liabilities	31	80
Net cash provided by operating activities	367	460
Cash Flows from Investing Activities		
Capital expenditures (excludes assets placed under capital lease)	(233)	(192)
Cost to retire property, net	(45)	(39)
Investments in nuclear decommissioning trust funds	(19)	(24)
Investment in Electric Restructuring Implementation Plan	(13)	(11)
Proceeds from nuclear decommissioning trust funds	17	21
Proceeds from FMLP	—	7
Net cash used in investing activities	(293)	(238)
Cash Flows from Financing Activities		
Payment of common stock dividends	(109)	(173)
Preferred securities distributions	(18)	(9)
Payment of capital lease obligations	(14)	(18)
Payment of preferred stock dividends	(1)	(9)
Retirement of bonds and other long-term debt	(1)	(23)
Increase (decrease) in notes payable, net	61	49
Retirement of preferred stock	—	(200)
Contribution from (return of equity to) stockholder	—	150
Proceeds from bank loans	—	15
Net cash provided by (used in) financing activities	(82)	(218)
Net Increase (Decrease) in Cash and Temporary Cash Investments	(8)	4
Cash and Temporary Cash Investments, Beginning of Period	18	25
Cash and Temporary Cash Investments, End of Period	$ 10	$ 29
Other cash flow activities and non-cash investing and financing activities were:		
Cash transactions		
Interest paid (net of amounts capitalized)	$ 78	$ 82
Income taxes paid (net of refunds)	76	95
Non-cash transactions		
Nuclear fuel placed under capital lease	$ 3	$ (2)
Other assets placed under capital leases	7	7

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

The accompanying condensed notes are an integral part of these statements.

Consumers Energy Company
Consolidated Balance Sheets

ASSETS	June 30 2000 (Unaudited)	December 31 1999	June 30 1999 (Unaudited)
			In Millions
Plant (At original cost)			
Electric	$7,073	$6,981	$6,832
Gas	2,497	2,461	2,394
Other	25	25	25
	9,595	9,467	9,251
Less accumulated depreciation, depletion and amortization	5,776	5,643	5,493
	3,819	3,824	3,758
Construction work-in-progress	297	199	171
	4,116	4,023	3,929
Investments			
Stock of affiliates	111	139	222
First Midland Limited Partnership	246	240	238
Midland Cogeneration Venture Limited Partnership	261	247	230
	618	626	690
Current Assets			
Cash and temporary cash investments at cost, which approximates market	10	18	29
Accounts receivable and accrued revenue, less allowances of $3, $4 and $4, respectively	36	98	102
Accounts receivable — related parties	70	67	59
Inventories at average cost			
Gas in underground storage	153	216	166
Materials and supplies	64	62	51
Generating plant fuel stock	48	46	32
Postretirement benefits	25	25	25
Deferred income taxes	—	8	—
Prepaid property taxes and other	112	159	82
	518	699	546
Non-current Assets			
Regulatory assets			
Unamortized nuclear costs	490	519	521
Postretirement benefits	325	341	356
Abandoned Midland Project	35	48	60
Other	119	125	116
Nuclear decommissioning trust funds	612	602	581
Other	205	187	206
	1,786	1,822	1,840
Total Assets	$7,038	$7,170	$7,005

STOCKHOLDERS' INVESTMENT AND LIABILITIES	June 30 2000 (Unaudited)	December 31 1999	June 30 1999 (Unaudited)
			In Millions
Capitalization			
Common stockholder's equity			
Common stock	$ 841	$ 841	$ 841
Paid-in capital	645	645	645
Revaluation capital	19	37	57
Retained earnings since December 31, 1992	485	485	438
	1,990	2,008	1,981
Preferred stock	44	44	44
Company-obligated mandatorily redeemable preferred securities of:			
Consumers Power Company Financing I (a)	100	100	100
Consumers Energy Company Financing II (a)	120	120	120
Consumers Energy Company Financing III (a)	175	175	—
Long-term debt	2,008	2,006	2,008
Non-current portion of capital leases	85	85	88
	4,522	4,538	4,341
Current Liabilities			
Current portion of long-term debt and capital leases	86	90	148
Notes payable	275	214	264
Accounts payable	175	224	157
Accrued taxes	161	232	160
Accounts payable — related parties	69	82	82
Power purchases – MCV Partnership	47	47	47
Accrued interest	41	37	35
Deferred income taxes	1	—	9
Accrued refunds	—	11	14
Other	126	139	151
	981	1,076	1,067
Non-current Liabilities			
Deferred income taxes	646	700	641
Postretirement benefits	402	420	436
Power purchases – MCV Partnership	50	73	101
Deferred investment tax credit	121	125	129
Regulatory liabilities for income taxes, net	82	64	115
Other	234	174	175
	1,535	1,556	1,597
Commitments and Contingencies (Notes 1 and 2)			
Total Stockholders' Investment and Liabilities	$7,038	$7,170	$7,005

(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 contained in Consumers' 1999 Form 10-K.

The accompanying condensed notes are an integral part of these Balance Sheets.

Consumers Energy Company
Consolidated Statements of Common Stockholder's Equity
(Unaudited)

June 30	Three Months Ended 2000	Three Months Ended 1999	Six Months Ended 2000	Six Months Ended 1999
				In Millions
Common Stock				
At beginning and end of period	$ 841	$ 841	$ 841	$ 841
Other Paid-in Capital				
At beginning of period	645	495	645	502
Stockholder's contribution	—	150	—	150
Capital stock expense	—	—	—	(7)
At end of period	645	645	645	645
Revaluation Capital				
At beginning of period	12	54	37	68
Change in unrealized investment-gain (loss) (b)	7	3	(18)	(11)
At end of period	19	57	19	57
Retained Earnings				
At beginning of period	491	446	485	434
Net income	33	73	128	191
Cash dividends declared- Common Stock	(30)	(76)	(109)	(173)
Cash dividends declared- Preferred Stock	—	—	(1)	(5)
Preferred securities distributions	(9)	(5)	(18)	(9)
At end of period	485	438	485	438
Total Common Stockholder's Equity	$1,990	$1,981	$1,990	$1,981

(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 $4, $2, $(10) and $(6), respectively	$ 7	$ 3	$ (18)	$ (11)
Net income	33	73	128	191
Total Comprehensive Income	$ 40	$ 76	$ 110	$ 180

The accompanying condensed notes are an integral part of these statements.

Consumers Energy Company
Condensed Notes to Consolidated Financial Statements

These Condensed Notes and their related Consolidated Financial Statements should be read along with the Consolidated Financial Statements and Notes contained in the Consumers 1999 Form 10-K that includes the Report of Independent Public Accountants. In the opinion of management, the unaudited information herein reflects all adjustments necessary to assure the fair presentation of financial position, results of operations and cash flows for the periods presented.

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.

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. 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. 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 June 30, 2000, Consumers had a net investment in energy supply facilities of $1.017 billion included in electric plant and property. See Note 2, Uncertainties, "Electric Rate Matters – Electric Restructuring."

Reportable Segments: Consumers has two reportable segments: electric and gas. The electric segment consists of activities associated with the generation, transmission and distribution of electricity. The gas segment consists of activities associated with the production, 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 Consumers' 1999 Form 10-K. Consumers' management evaluates performance based on pretax operating income. The Consolidated Statements of Income show operating revenue and pretax operating income by reportable segment. Intersegment sales and transfers are accounted for at current market prices and are eliminated in consolidated pretax operating income by segment.

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. As of June 30, 2000, Consumers has a deferred asset of $38 million for electric call option contracts, and commitments to purchase additional call options in the amount of $20 million.

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.

1997 EPA Revised NOx and Small Particulate Emissions Standards — In 1997, the EPA revised these standards to impose further limitations on nitrogen oxide and small particulate-related emissions. After a United States Court of Appeals found the revision an unconstitutional delegation of legislative power, the EPA suspended the standards under the 1997 rule and reinstated the pre-1997 standards. In January 2000, the Department of Justice filed a petition for the United States Supreme Court to review the case. In May 2000, the Supreme Court agreed to hear the appeal.

1998 EPA Plan for NOx Emissions — In September 1998, based in part upon the 1997 standards, the EPA Administrator issued final regulations requiring the state of Michigan to further limit 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 has filed a petition with the United States Supreme Court appealing this ruling. During this time period, the state of Michigan established alternative less stringent nitrogen oxide emission reduction requirements. At this time the state of Michigan has decided to draft new rules to comply with the EPA requirements in parallel with its appeal to the supreme court.

Section 126 Petitions — 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 all air quality targets are conclusively established, the estimated cost of compliance discussed below is subject to revision.

Cost of Environmental Law Compliance — 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 2000 dollars. If Consumers has to meet the EPA's 1998 and/or Section 126 petition requirements, the estimated cost to Consumers would be between $290 million and $500 million, calculated in 2000 dollars. In both 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. In addition, Consumers expects to incur cost of removal related to this effort, but is unable to predict the amount at this time.

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. Beginning in 1992 and continuing into 2000, Consumers incurred capital expenditures totaling $72 million to install equipment at certain generating units to comply with the acid rain provisions of the Clean Air Act. Management believes that these expenditures will not materially affect Consumers' annual operating costs.

Cleanup and Solid Waste — Under the Michigan Natural Resources and Environmental Protection Act, Consumers expects that it will ultimately incur investigation and remedial action costs at a number of sites. Nevertheless, it believes that these costs are 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 June 30, 2000, Consumers has accrued the minimum amount of the range for its estimated Superfund liability.

During routine maintenance activities, Consumers identified PCB as a component in certain paint, grout and sealant materials at the Ludington Pumped Storage Facility. Consumers removed and replaced part of the PCB material. Consumers is studying the remaining materials and determining options and their related costs.

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. In March 1999, the court issued an opinion and order granting Consumers' motion for summary judgment, resulting in the dismissal of the case. The plaintiffs appealed this decision. Consumers cannot predict the outcome of this appeal.

Electric Rate Matters

Electric Restructuring: Since 1997, there have been repeated efforts made in the Michigan Legislature to enact electric restructuring legislation. On June 3, 2000, these efforts resulted in the passage of the "Customer Choice and Electricity Reliability Act," which became effective June 5, 2000. This act: 1) permits all customers to exercise choice of electric generation suppliers by January 1, 2002; 2) cuts residential electric rates by 5 percent; 3) freezes all electric rates through December 31, 2003, and establishes a rate cap for residential customers through at least December 31, 2005, and a rate cap for small commercial and industrial customers through at least December 31, 2004; 4) allows for the use of Securitization to refinance stranded costs as a means of offsetting the earnings impact of the 5 percent residential rate reduction; 5) establishes a market power test which may require the transfer of control of a portion of generation resources in excess of that required to serve firm retail sales load; 6) requires Michigan utilities to join a FERC approved RTO or divest its interest in transmission facilities to an independent transmission owner; 7) requires the expansion of available transmission capability by at least 2,000 MW by January 1 of 2003; and 8) allows for the recovery of stranded costs and implementation costs incurred as a result of the passage of the act.

In September 1999, Consumers began implementing a plan for electric retail customer open access. Consumers submitted this plan to the MPSC in 1998, and the MPSC issued electric restructuring orders in March 1999 that generally supported the plan. The Customer Choice and Electricity Reliability Act states that orders issued by the MPSC before the date of this act that; 1) allow electric customers to choose their supplier, 2) authorize recovery of net stranded costs and implementation costs, and 3) confirm any voluntary commitments of electric utilities, are in compliance with this act and enforceable by the MPSC. On June 19, 2000, the MPSC issued an order requiring Consumers to file tariffs governing its retail open access program and any revisions appropriate to comply with the Customer Choice and Electricity Reliability Act. Consumers cannot predict how the MPSC will modify the tariffs or enforce the existing restructuring orders.

On June 9, 2000, the Court of Appeals issued an opinion relating to a number of consolidated MPSC restructuring orders. The opinion primarily involved issues that the Customer Choice and Electricity Reliability Act has rendered moot. In a separate pending case, ABATE and the Attorney General each appealed an August 1999 order in which the MPSC found that it had jurisdiction to approve rates, terms and conditions for electric retail wheeling (also known as electric customer choice) if a utility voluntarily chooses to offer that service. Consumers believes that the Customer Choice and Electricity Reliability Act has rendered the issue moot, but cannot predict how the Court of Appeals will resolve the issue.

During periods when electric demand is high, the cost of purchasing energy on the spot market can be substantial. To reduce Consumers' exposure to the fluctuating cost of electricity, and to ensure adequate supply to meet demand, Consumers is planning to maintain sufficient generation and to purchase electricity from others to create a power reserve (also called a reserve margin). Consumers plans a reserve margin of approximately 15 percent. The reserve margin provides Consumers with additional power above its anticipated peak power demands. It also allows Consumers to provide reliable service to its electric service customers and to protect itself against unscheduled plant outages and unanticipated demand. Consumers estimates the actual reserve margin for summer 2000 is in the range of 13 percent to 16 percent. The

ultimate reserve margin will depend on summer weather conditions and on the level of retail open access load being served by others this summer. (Consumers offered other electric service providers with the opportunity to serve up to 600 MW of nominal retail open access load during summer 2000. As of June 30, 2000, no other electric service provider is serving the retail open access load.) To reduce the risk of high energy prices during peak demand periods and to achieve its reserve margin target, Consumers has

employed a strategy of purchasing electric call option contracts for the physical delivery of electricity during the months of June through September. Consumers expects to use a similar strategy in the future. As of June 30, 2000, Consumers had purchased or had commitments to purchase electric call option contracts for summer 2000 at a cost of approximately $51 million, of which $6 million had expired. Additionally, as of June 30, 2000 Consumers had purchased or had commitments to purchase electric call option contracts partially covering the reserve margin requirements for summer 2001, 2002 and 2003 at a cost of $13 million with expected total future purchases to reach $56 million this year.

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. 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 structure of Alliance, its rates and its geographic configuration. Consumers and the Alliance companies sought rehearing of the Alliance order. Additionally, in a February 2000 compliance filing, the Alliance companies addressed some of the concerns expressed in the December 1999 Alliance order. Consumers is uncertain about the outcome of the Alliance matter before the FERC and its continued participation in Alliance.

On the same day as the December 1999 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.

In May 2000, the FERC issued an order on compliance filing and request for rehearing and clarification. The order concluded that the Alliance RTO's proposed structure is not in the proper scope and configuration. The FERC rejected the Alliance companies' proposal to allow 25 percent cumulative active ownership of the Alliance RTO by the transmission owners. The May 2000 order also required the applicants to make a rate compliance filing. The FERC did not substantively address Consumers' alternative governance structure. In June 2000, Consumers filed a request for hearing of the May 2000 order and also separately sought once again approval of its alternative governance structure. Consumers also filed a petition for review of the May 2000 order in the United States Court of Appeals for the District of Columbia Circuit.

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. The Attorney General, ABATE, the MCV Partnership and other parties filed appeals with the Court of Appeals challenging the MPSC's 1996 order. In 1999, the Court of Appeals affirmed the MPSC's 1996 order in all respects. The Attorney General, however, filed an application for leave to appeal this decision to the Michigan Supreme Court. In June 2000, the Michigan Supreme Court denied the application for leave to appeal.

In 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 that approximated $189 million annually. As a result of the passage of the rate freeze imposed by the Customer Choice and Electricity Reliability Act, the MPSC issued an order on June 19,

2000 dismissing the ABATE complaint. On July 12, 2000 ABATE filed a rehearing petition with the MPSC. Consumers cannot predict the outcome of the rehearing process.

Before 1998, the PSCR process provided for the reconciliation of actual power supply costs with power supply revenues. This process assured recovery of all reasonable and prudent power supply costs actually incurred by Consumers, such as, the actual cost of fuel, interchange power and purchased power. In 1998, as part of the electric restructuring efforts, the MPSC suspended the PSCR process through December 31, 2001. Under the suspension, the MPSC would not grant adjustment of customer rates through 2001. In March 2000, Consumers filed an application with the MPSC requesting reinstatement of the PSCR clause, approval of a PSCR plan, and authorization of monthly PSCR factors from July 2000 through June 2001. As a result of the rate freeze imposed by the Customer Choice and Electricity Reliability Act, the MPSC issued an order on June 19, 2000 dismissing this application.

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

June 30	Six Months Ended 2000	1999
Pretax operating income	$20	$26
Income taxes and other	6	8
Net income	$14	$18

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. 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. Implementation of the agreement is contingent upon regulatory treatment satisfactory to Consumers. Such treatment is not yet assured. Under the terms of the agreement, 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 file for approval of a revised capacity solicitation process (which Consumers filed). 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 uncertainties associated with electric industry restructuring legislation in Michigan, Consumers and PECO entered into an interim arrangement for the sale of 125 MW of PPA capacity and associated energy to PECO during 2000. Prices in the interim arrangement are identical to the March 1999 power sales agreement. Consumers is currently evaluating its options associated with the PECO agreement due to the recent electric restructuring legislation and related MPSC decisions.

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 June 30, 2000 and June 30, 1999, the remaining after-tax present value of the estimated future PPA liability associated with the 1992 loss totaled $63 million and $96 million, respectively. The annual 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. In March 1999, Consumers and the MCV Partnership reached an agreement effective January 1, 1999 that capped availability payments to the MCV Partnership at 98.5 percent. If the MCV Facility generates electricity at the maximum 98.5 percent level during the next five years, Consumers' after-tax cash underrecoveries associated with the PPA could be as follows:

	In Millions				
	2000	2001	2002	2003	2004
Estimated cash underrecoveries at 98.5%, net of tax	$36	$39	$38	$37	$36

If the MCV Facility operates at availability levels above management's 91.5 percent estimate made in 1992 for the remainder of the PPA, the estimated PPA liability would be deficient and Consumers will need to recognize additional operating expenses for current underrecoveries. For further discussion on the impact of the frozen PSCR, see "Electric Rate Matters" in this Note. Management continues to evaluate the adequacy of the contract loss liability considering actual MCV Facility operations, and resolution of the electric restructuring effort.

In February 1998, the MCV Partnership filed a claim of appeal from the January 1998 and February 1998 MPSC orders related to 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 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 31, 2000 in which the NRC stated that no significant performance issues existed during the assessment period in the reactor safety, radiation safety, and safeguards strategic performance areas. The NRC stated that Palisades continues to operate in a safe manner. Further, it stated that the NRC plans to conduct only routine inspections at Palisades over the next year. The NRC implemented the revised reactor oversight process industry-wide, including for Palisades, on April 2, 2000. As part of that process, Palisades submitted required NRC performance data in April 2000 that indicated that Consumers was within the limits of acceptable performance for which no NRC response is required.

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 June 30, 2000, Consumers had loaded 18 dry storage casks with spent nuclear fuel at Palisades. Palisades will need to load more casks by 2004 in order to continue operation. Palisades only has three additional storage-only casks available for loading. Consumers anticipates, however, that licensed transportable casks will be available prior to 2004.

Consumers maintains insurance against property damage, debris removal, personal injury liability and other risks that are present at its nuclear facilities. Consumers also maintains coverage for replacement power 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. On February 21, 2000, Consumers submitted an analysis to the NRC that shows that the NRC's screening criteria will not be reached until 2014. Accordingly, 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.

In May 2000, Consumers requested that the NRC modify the operating license for the Palisades nuclear plant to recapture the four year construction period. This modification would extend the plant's operation to March of 2011 and allow a full 40-year operating period, consistent with current NRC practice.

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 June 30, 2000, Consumers had a recorded liability to the DOE of $126 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, intended to produce specific relief for the DOE's failure to comply, has not been successful to date. In April 2000, the U.S. Senate and House of Representatives approved federal legislation that would advance the cause of moving nuclear waste to a permanent repository. The President of the United States vetoed this legislation.

On July 20, 2000, the DOE announced that an agreement had been reached with a utility to address the DOE's delay in accepting spent fuel. The DOE stated that the agreement, which is in the form of a contract amendment, is intended to be a framework that can be applied to all Nuclear Power Plants. Consumers is evaluating this matter further.

Capital Expenditures: Consumers estimates electric capital expenditures, including new lease commitments and environmental costs under the Clean Air Act, of $438 million for 2000, $580 million for 2001, and $545 million for 2002. For further information, see the Capital Expenditures Outlook section in the MD&A.

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 June 30, 2000, after consideration of prior years' expenses, Consumers has a remaining accrued liability of $59 million and a regulatory asset of $64 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, effective April 1, 1998, a gas customer choice pilot program that was designed to encourage Consumers to minimize its purchased natural gas commodity costs while providing rate stability for its customers. The program allows 300,000 residential, commercial and industrial retail gas sales customers to choose an alternative gas commodity supplier in direct competition with Consumers. Unless some other arrangements are made, when this pilot program ends on March 31, 2001, these customers will again become Consumers' gas commodity customers. 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 June 30, 2000, more than 160,000 customers chose alternative gas suppliers, representing approximately 11 bcf of gas load. Customers choosing to remain as sales customers of Consumers will not see a rate change in their gas rates. This three-year program: 1) freezes gas distribution rates through March 31, 2001, establishing a delivered 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. The Attorney General filed with the Michigan Supreme Court an application for leave to appeal the Court of Appeals' decision. Subsequent to June 30, 2000, the MPSC issued an order directing Consumers and certain other Michigan gas utilities to undertake a collaborative process, including public meetings with MPSC staff and other interested parties during August and September 2000, for the purpose of developing uniform terms and conditions for the future provision of gas customer choice to all Michigan customers.

During the first two years of the pilot program, Consumers realized a benefit of $45 million as delivered gas commodity prices were below the $2.84 per mcf level collected from customers. Recent significant increases in gas prices have exposed Consumers to gas commodity losses during the last year of the program that ends March 31, 2001. Estimated loss of earnings for this last year of the program could range from $45 million to $135 million, of which Consumers has already recognized $45 million in the second quarter 2000 as a regulatory obligation. Under the provisions of the pilot program, Consumers has the right to request termination of the program at any time and to return to a GCR mechanism, pursuant to which the customer gas commodity prices would increase significantly from the current frozen rate. As an alternative to exercising that right, Consumers is considering an approach that, if approved by the MPSC, would potentially avoid further losses any greater than $45 million already recognized and mitigate the customer rate increases that would otherwise result. It is expected that such an approach could be implemented this fall.

Other Gas Uncertainties

Capital Expenditures: Consumers estimates gas capital expenditures, including new lease commitments, of $117 million for 2000, $140 million for 2001, and $145 million for 2002. For further information, see the Capital Expenditures Outlook section in the MD&A.

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 Financing and Capitalization

Authorization: At July 1, 2000, Consumers had FERC authorization to issue or guarantee through June 2002, up to $900 million of short-term securities outstanding at any one time. Consumers also had remaining FERC authorization to issue through June 2002 up to $250 million and $800 million of long-term securities with maturities up to 30 years for refinancing purposes and for general corporate purposes, respectively.

Short-Term Financing: Consumers has an unsecured $300 million credit facility and unsecured lines of credit aggregating $145 million. These facilities are available to finance seasonal working capital requirements and to pay for capital expenditures between long-term financings. At June 30, 2000, a total of $275 million was outstanding at a weighted average interest rate of 7.8 percent, compared with $264 million outstanding at June 30, 1999, at a weighted average interest rate of 6.1 percent.

Consumers currently has in place a $325 million trade receivables sale program. At June 30, 2000 and 1999, receivables sold under the program totaled $283 million and $266 million, respectively. Accounts receivable and accrued revenue in the Consolidated Balance Sheets have been reduced to reflect receivables sold.

Other: Under the provisions of its Articles of Incorporation, Consumers had $360 million of unrestricted retained earnings available to pay common dividends at June 30, 2000. In January 2000, Consumers declared and paid a $79 million common dividend, in April 2000, Consumers declared a $30 million common dividend which was paid in May 2000. In July 2000, Consumers declared a $17 million common dividend payable in August 2000.

Report of Independent Public Accountants

To Consumers Energy Company:

We have reviewed the accompanying consolidated balance sheets of CONSUMERS ENERGY COMPANY (a Michigan corporation and wholly owned subsidiary of CMS Energy Corporation) and subsidiaries as of June 30, 2000 and 1999, the related consolidated statements of income and common stockholder's equity for the three-month and six-month periods then ended and the related consolidated statements of cash flows for the six-month periods then ended. These financial statements are the responsibility of the Company's management.

We conducted our review in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the financial statements referred to above for them to be in conformity with accounting principles generally accepted in the United States.

We have previously audited, in accordance with auditing standards generally accepted in the United States, the consolidated balance sheet of Consumers Energy Company and subsidiaries as of December 31, 1999, and, in our report dated February 4, 2000, we expressed an unqualified opinion on that statement. In our opinion, the information set forth in the accompanying consolidated balance sheet as of December 31, 1999, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ Arthur Andersen LLP

Detroit, Michigan,
July 28, 2000.

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, 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.

The MD&A of this Form 10-Q should be read along with the MD&A and other parts of Panhandle's 1999 Form 10-K. This MD&A also refers to, and in some sections specifically incorporates by reference, Panhandle's Condensed Notes to Consolidated Financial Statements and should be read in conjunction with such Statements and Notes. This report and other written and oral statements made by Panhandle 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 Panhandle's actual results to differ materially from those anticipated in such statements. Panhandle disclaims any obligation to update or revise forward-looking statements, whether from new information, future events or otherwise. Panhandle details certain risk factors, uncertainties and assumptions in this MD&A and particularly in the section entitled "CMS Energy, Consumers, and Panhandle Forward-Looking Statements Cautionary Factors" in CMS Energy's 1999 Form 10-K, Item 1 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 Panhandle's outlook. This report also describes material contingencies in the Condensed Notes to Consolidated Financial Statements and the readers are encouraged to read such Notes.

In March 2000, Trunkline, a subsidiary of Panhandle, acquired the Sea Robin pipeline from El Paso Energy Corporation for cash of $74 million. Sea Robin is a 1 bcf per day capacity pipeline system located in the Gulf of Mexico. On March 27, 2000, Panhandle issued $100 million of 8.25 percent senior notes due 2010. Panhandle used the funds primarily to finance the purchase of Sea Robin (See Note 1).

In March 2000, Trunkline refiled its abandonment application with the FERC regarding its 26-inch pipeline with a planned conversion of the line from natural gas service to a refined products pipeline. Panhandle will own one-third interest in the project, called the Centennial Pipeline, which if approved is planned to go into service at the end of 2001 (See Note 2).

The acquisition of Panhandle by CMS Panhandle Holding in March 1999 was accounted for using the purchase method of accounting in accordance with generally accepted accounting principles. Panhandle allocated the purchase price paid by CMS Panhandle Holding to Panhandle's net assets as of the acquisition date based on an appraisal completed in December 1999. Accordingly, the post-acquisition financial statements reflect a new basis of accounting. 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 consolidated financial statements and accompanying notes of Panhandle and should be read in conjunction with these financial statements. Because all of the outstanding common stock of Panhandle is owned by a wholly-owned subsidiary of CMS Energy, the following discussion uses the reduced disclosure format permitted by Form 10-Q for issuers that are wholly-owned subsidiaries of reporting companies.

Results of Operations

Net Income:

			In Millions
June 30	**2000**	**1999**	**Change**
Six Months Ended	$41	$48	$(7)

For the three months ended June 30, 2000, net income was $9 million, down $5 million from the same period in 1999, due primarily to decreased reservation revenues and higher corporate charges in 2000, partially offset by higher liquefied natural gas (LNG) terminalling revenues in 2000. For the six months ended June 30, 2000, net income was $41 million, down $7 million from the corresponding period in 1999 due primarily to decreased reservation revenues and higher corporate charges in 2000, partially offset by higher LNG terminalling revenues in 2000. Total natural gas transportation volumes delivered for the six months ended June 30, 2000 increased 16 percent from 1999 primarily due to the addition of Sea Robin.

Revenues for the three months and the six months ended June 30, 2000 increased $2 million and $6 million respectively, from the corresponding periods in 1999 due primarily to increased LNG terminalling revenues and revenues from Sea Robin in 2000, partially offset by lower reservation revenues in 2000.

Operating expenses for the three months and the six months ended June 30, 2000 increased $10 million and $13 million respectively, from the corresponding period in 1999 due primarily to the increased corporate charges and the acquisition of Sea Robin.

Other income for the three months ended June 30, 2000 increased $1 million, from the corresponding period in 1999, due to interest income on a related party Note Receivable. For the six months ended June 30, 2000 other income decreased $2 million from the corresponding period in 1999 primarily due to non-recurring transition surcharge recoveries recorded in 1999.

Interest on long-term debt for the three months and the six months ended June 30, 2000 increased $2 million and $16 million respectively, from the corresponding period in 1999 primarily due to interest on the additional debt incurred by Panhandle in 2000 and 1999 (See Note 1 and 6). Other interest expense was flat for the three months ended June 30, 2000. Other interest expense decreased $13 million for the six months ended June 30, 2000 from the corresponding period in 1999, primarily due to interest on an intercompany note with PanEnergy. The note was eliminated with the sale of Panhandle to CMS Panhandle Holding (See Note 1 and Note 3).

Pretax Operating Income:

	In Millions
Change Compared to Prior Year	**Six Months Ended June 30 2000 vs 1999**
Reservation revenue	$(12)
LNG terminalling revenue	9
Commodity revenue	7
Other revenue	2
Operations and maintenance	(13)
Depreciation and amortization	(2)
General taxes	2
Total Change	$ (7)

Outlook

CMS Energy intends to use Panhandle as a platform for expansion in the United States. The growth strategy around Panhandle includes enhancing the opportunities to extract value for other CMS businesses involved in electric power generation and distribution, gathering, processing, exploration and production. 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.

Other Matters

Environmental Matters

PCB (Polychlorinated Biphenyl) Assessment and Clean-up Programs: Panhandle identified environmental contamination at certain sites on its systems and undertook clean-up programs at these sites. The contamination was caused by the past use of lubricants containing PCB's in compressed air systems and resulted in contamination of the on-site air systems, wastewater collection facilities and on-site disposal areas. Soil and sediment testing to date detected no significant off-site contamination. Panhandle 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. Panhandle expects these clean-up programs to continue through 2001.

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Panhandle Eastern Pipe Line Company
Consolidated Statement of Income
(In millions)
(Unaudited)

	Three Months Ended June 30		Six Months Ended June 30, 2000	March 29 - June 30, 1999	January 1 - March 28, 1999
	2000	1999			
Operating Revenue					
Transportation and storage of natural gas	$ 92	$ 97	$ 217	$101	$123
Other	13	6	24	6	5
Total operating revenue	105	103	241	107	128
Operating Expenses					
Operation and maintenance	49	38	93	40	40
Depreciation and amortization	16	16	32	16	14
General taxes	6	7	12	7	7
Total operating expenses	71	61	137	63	61
Pretax Operating Income	34	42	104	44	67
Other Income, Net	2	1	3	1	4
Interest Charges					
Interest on long-term debt	22	20	41	20	5
Other interest	—	—	—	—	13
Total interest charges	22	20	41	20	18
Net Income Before Income Taxes	14	23	66	25	53
Income Taxes	5	9	25	10	20
Consolidated Net Income	$ 9	$ 14	$ 41	$ 15	$ 33

The accompanying condensed notes are an integral part of these statements.

Panhandle Eastern Pipe Line Company
Consolidated Statements of Cash Flows
(In millions)
(Unaudited)

	Six Months Ended June 30, 2000	March 29 - June 30, 1999	January 1 - March 28, 1999
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$ 41	$ 15	$ 33
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	32	16	14
Deferred income taxes	26	8	—
Changes in current assets and liabilities	(23)	25	(29)
Other, net	4	(4)	3
Net cash provided by operating activities	80	60	21
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of Panhandle	—	(1,900)	—
Capital and investment expenditures	(89)	(8)	(4)
Net increase in advances receivable — PanEnergy	—	—	(17)
Net cash used in investing activities	(89)	(1,908)	(21)
CASH FLOWS FROM FINANCING ACTIVITIES			
Contribution from parent	—	1,116	—
Proceeds from senior notes	99	785	—
Net increase in note receivable — CMS	(36)	(40)	—
Dividends paid	(39)	(13)	—
Net cash provided by financing activities	24	1,848	—
Net Increase (Decrease) in Cash and Temporary Cash Investments	15	—	—
Cash and Temporary Cash Investments, Beginning of Period	—	—	—
Cash and Temporary Cash Investments, End of Period	$ 15	$ —	$ —
Other cash flow activities were:			
Interest paid (net of amounts capitalized)	$ 38	$ —	$ 12
Income taxes paid (net of refunds)	5	2	37

The accompanying condensed notes are an integral part of these statements.

Panhandle Eastern Pipe Line Company
Consolidated Balance Sheets

(In millions)
(Unaudited)

	June 30, 2000	December 31, 1999
ASSETS		
Property, Plant and Equipment		
Cost	$1,622	$1,492
Less accumulated depreciation and amortization	76	37
Sub-total	1,546	1,455
Construction work-in-progress	31	45
Net property, plant and equipment	1,577	1,500
Investments		
Investment in affiliates	2	2
Total investments and other assets	2	2
Current Assets		
Cash and temporary cash investments	15	—
Receivables, less allowances of $1 as of June 30, 2000 and Dec. 31, 1999	106	112
Inventory and supplies	70	34
Deferred income taxes	12	11
Note receivable — CMS Capital	121	85
Other	57	30
Total current assets	381	272
Non-current Assets		
Goodwill, net	764	774

Debt issuance cost	11	11
Other	5	1
Total non-current assets	780	786
Total Assets	$2,740	$2,560

The accompanying condensed notes are an integral part of these statements.

Panhandle Eastern Pipe Line Company
Consolidated Balance Sheets

(In millions)
(Unaudited)

	June 30, 2000	December 31, 1999
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	1,127
Retained earnings	2	—
Total common stockholder's equity	1,130	1,128
Long-term debt	1,193	1,094
Total capitalization	2,323	2,222
Current Liabilities		
Accounts payable	10	28
Accrued taxes	9	8
Accrued interest	31	29
Other	204	139
Total current liabilities	254	204
Non-current Liabilities		
Deferred income taxes	72	45
Other	91	89
Total non-current liabilities	163	134
Total Common Stockholder's Equity and Liabilities	$2,740	$2,560

The accompanying condensed notes are an integral part of these statements.

Panhandle Eastern Pipe Line Company
Consolidated Statements of Common Stockholder's Equity

(In millions)
(Unaudited)

	Six Months Ended June 30, 2000	March 29 - June 30, 1999	January 1 - March 28, 1999
Common Stock			
At beginning and end of period	$ 1	$ 1	$ 1
Other Paid-in Capital			
At beginning of period	1,127	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	1,127	466

Retained Earnings			
At beginning of period	—	101	92
Acquisition adjustment to eliminate original retained earnings	—	(101)	—
Net Income	41	15	33
Assumption of net liability by PanEnergy	—	—	57
Common stock dividends	(39)	(13)	(81)
At end of period	2	2	101
Total Common Stockholder's Equity	$1,130	$1,130	$568

The accompanying condensed notes are an integral part of these statements.

Panhandle Eastern Pipe Line Company

Condensed Notes to Consolidated Financial Statements

These Condensed Notes and their related Consolidated Financial Statements should be read along with the Consolidated Financial Statements and Notes contained in the 1999 Form 10-K of Panhandle, which include the Reports of Independent Public Accountants. Certain prior year amounts have been reclassified to conform with the presentation in the current year. In the opinion of management, the unaudited information herein reflects all adjustments necessary to assure the fair presentation of financial position, results of operations and cash flows for the periods presented.

1. CORPORATE STRUCTURE

Panhandle is a wholly owned subsidiary of CMS Gas Transmission. Panhandle Eastern Pipe Line Company was incorporated in Delaware in 1929. Panhandle is engaged primarily in interstate transportation and storage of natural gas, and is 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 and its affiliates, are 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. Panhandle allocated the purchase price paid by CMS Panhandle Holding to Panhandle's net assets as of the acquisition date based on an appraisal completed December 1999. Accordingly, the post-acquisition financial statements reflect a new basis of accounting. 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 fair values. Panhandle allocated the excess purchase price over the 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

In March 2000, Trunkline, a subsidiary of Panhandle, acquired the Sea Robin pipeline from El Paso Energy Corporation for cash of approximately $74 million (See Note 6). Sea Robin is a 1 bcf per day capacity pipeline system located in the Gulf of Mexico.

2. 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. FERC approved this settlement February 1, 2000 and required refunds of approximately $2 million which were made in April 2000, with supplemental refunds of $1.3 million in June 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, FERC required certain natural gas producers to refund previously collected Kansas ad-valorem taxes to interstate natural gas pipelines. FERC ordered these pipelines to refund these amounts to their customers. The pipelines must make all payments in compliance with prescribed FERC requirements. At June 30, 2000 and December 31, 1999, Accounts Receivable included $56 million and $54 million, respectively, due from natural gas producers, and Other Current Liabilities included $56 million and $54 million, respectively, for related obligations.

On March 9, 2000, Trunkline filed an abandonment application with FERC seeking to abandon 720 miles of its 26-inch diameter pipeline that extends from Longville, Louisiana to Bourbon, Illinois. This filing is in

conjunction with a plan for a limited liability corporation to convert the line from natural gas transmission service to a refined products pipeline, called Centennial Pipeline, by the end of 2001. Panhandle will own a one third interest in the venture along with TEPPCO Partners L.P. and Marathon Ashland Petroleum LLC.

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 required 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 a portion of the LNG terminal was transferred to an unaffiliated entity. The Commission approved the LNG settlement to be effective April 1,1999. Trunkline's refunds, which were made in April 2000, included $12 million to Consumers Energy, $4 million to Panhandle Eastern Pipe Line Company, and $1 million to other Trunkline customers. In conjunction with the acquisition of Panhandle by CMS Energy, Duke Energy indemnified Panhandle for this refund obligation and reimbursed Trunkline for the refunds in April 2000. On May 31, 2000, the FERC approved Panhandle Eastern Pipe Line Company's flow through of its portion of the settlement amounts to its customers.

3. RELATED PARTY TRANSACTIONS

Interest charges include $13 million for the six months ended June 30, 1999 for interest associated with notes payable to a subsidiary of Duke Energy. Other income includes $3 million for the six months ended June 30, 2000 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	
	June 30,	December 31,
	2000	1999
Receivables	$29	$ 8
Accounts payable	5	16

4. GAS IMBALANCES

The Consolidated Balance Sheets include in-kind balances as a result of differences in gas volumes received and delivered. At June 30, 2000 and December 31, 1999, other current assets included $40 million and $22 million, respectively, and other current liabilities included $86 million and $30 million, respectively, related to gas imbalances. Panhandle values gas imbalances at the lower of cost or market.

5. INCOME TAXES

As described in Note 1, CMS Panhandle Holding acquired the stock of Panhandle from subsidiaries of Duke Energy for a total of $2.2 billion in cash and acquired debt. Panhandle treated the acquisition 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.

6. LONG TERM DEBT

On March 27, 2000, Panhandle issued $100 million of 8.25 percent senior notes due 2010. Panhandle used the funds primarily to finance the purchase of Sea Robin (See Note 1). In July, these notes were exchanged for substantially identical SEC registered notes.

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 merged into Panhandle and Panhandle assumed the obligations of CMS Panhandle Holding under the notes and the indenture. 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 revalued its existing notes totaling $300 million. This resulted in a net premium recorded of approximately $5 million.

7. INVESTMENT IN AFFILIATES

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.

8. SFAS 71

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).

9. COMMITMENTS AND CONTINGENCIES

CAPITAL EXPENDITURES: Panhandle estimates capital expenditures and investments, including allowance for funds used during construction, to be $60 million in 2001 and 2002. Panhandle prepared these estimates for planning purposes and they are subject to revision. Panhandle satisfies capital expenditures using 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 and its

affiliates 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 $24 million for the remainder of 2000 through the third quarter of 2001. Management believes the probability that Panhandle will be required to perform under this guarantee is remote.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Panhandle Eastern Pipe Line Company:

We have reviewed the accompanying consolidated balance sheet of Panhandle Eastern Pipe Line Company (a Delaware corporation) and subsidiaries as of June 30, 2000, and the related consolidated statements of income, common stockholder's equity and cash flows for the three-month and six-month periods ended June 30, 2000 and 1999. These financial statements are the responsibility of the company's management.

We conducted our review in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the consolidated financial statements referred to above for them to be in conformity with accounting principles generally accepted in the United States.

We have previously audited, in accordance with auditing standards generally accepted in the United States, the consolidated balance sheet of Panhandle Eastern Pipe Line Company and subsidiaries as of December 31, 1999, and, in our report dated February 25, 2000, we expressed an unqualified opinion on that statement. In our opinion, the information set forth in the accompanying consolidated balance sheet as of December 31, 1999, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ Arthur Andersen LLP

Houston, Texas
July 31, 2000

Quantitative and Qualitative Disclosures about Market Risk

CMS Energy

Quantitative and Qualitative Disclosures about Market Risk is contained in PART I: CMS Energy Corporation's Management's Discussion and Analysis, which is incorporated by reference herein.

Consumers

Quantitative and Qualitative Disclosures about Market Risk is contained in PART I: Consumers' Energy Company's Management's Discussion and Analysis, which is incorporated by reference herein.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The discussion below is limited to an update of developments that have occurred in various judicial and administrative proceedings, many of which are more fully described in CMS Energy's, Consumers' and Panhandle's Form 10-K for the year ended December 31, 1999, and in their Form 10-Q for the quarter ended March 31, 2000. Reference is made to the CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, in particular Note 2 — Uncertainties for CMS Energy and Consumers, and Note 9 — Commitments and Contingencies for Panhandle, included herein for additional information regarding various pending administrative and judicial proceedings involving rate, operating, regulatory and environmental matters.

CMS ENERGY

Oxford Tire Recycling: CMS Generation and the Attorney General of California are negotiating an interim settlement to partially comply with the administrative order in an effort to stop the running of the penalties. The settlement is estimated at $800,000 of clean up.

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, Consumers and Panhandle believe that it is unlikely that these actions, individually or in total, will have a material adverse effect on their financial condition. See CMS Energy's, Consumers' and Panhandle's MANAGEMENT'S DISCUSSION AND ANALYSIS; and CMS Energy's, Consumers' and Panhandle's CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

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

At the CMS Energy Annual Meeting of Shareholders held on May 26, 2000, the shareholders ratified the appointment of Arthur Andersen LLP as independent auditors of CMS Energy for the year ended December 31, 2000. The vote was 94,835,175 shares in favor and 720,742 against, with 553,624 abstaining. The CMS Energy shareholders voted on a proposal to permit awards under CMS Energy Corporation's Executive Incentive Compensation Plan to be income tax deductible by CMS Energy. The vote was 88,209,892 shares in favor and 4,844,496 against, with 3,055,169 abstaining. The CMS Energy shareholders also elected all eleven nominees for the office of director. The votes for individual nominees were as follows:

CMS ENERGY CORPORATION

Number of Votes:	For	Against	Total
William T. McCormick, Jr.	84,193,755	11,915,806	96,109,561
John M. Deutch	90,144,887	5,964,674	96,109,561
James J. Duderstadt	93,140,821	2,968,740	96,109,561
Kathleen R. Flaherty	93,218,928	2,890,633	96,109,561
Victor J. Fryling	84,161,537	11,948,024	96,109,561
Earl D. Holton	93,203,245	2,906,316	96,109,561
William U. Parfet	93,214,415	2,895,146	96,109,561
Percy A. Pierre	93,207,514	2,902,407	96,109,561
Kenneth L. Way	90,418,236	5,691,325	96,109,561
Kenneth Whipple	93,196,005	2,913,556	96,109,561
John B. Yasinsky	93,233,393	2,876,168	96,109,561

Consumers did not solicit proxies for the matters submitted to votes at the contemporaneous May 26, 2000 Consumers' Annual Meeting of Shareholders. All 84,108,789 shares of Consumers Common Stock were voted in favor of re-electing the above-named individuals as directors of Consumers, in favor of ratifying the appointment of Arthur Andersen LLP as independent auditors of Consumers for the year ended December 31, 2000, and in favor of a proposal to amend and restate the Restated Articles of Incorporation to (a) delete the current Article VIII to remove the requirement that members of the Board must own stock of Consumers to remain a member of the Board, (b) add a new Article VIII to provide authority for written consents of the shareholders for annual and special meetings, and (c) eliminate obsolete material. None of the 441,599 shares of Consumers Preferred Stock were voted at the Annual Meeting.

ITEM 5. OTHER INFORMATION

A shareholder who intends to submit a proposal for a vote at CMS Energy's 2001 Annual Meeting of Shareholders but which will not be included in CMS Energy's 2001 proxy statement must send the proposal to reach CMS Energy on or before March 1, 2001. The proposals should be addressed to: Mr. Thomas A. McNish, Corporate Secretary, Fairlane Plaza South, Suite 1100, 330 Town Center Drive, Dearborn, Michigan 48126. Failure to timely submit the proposal will allow management to use discretionary voting authority when the proposal is raised at the Annual Meeting.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a)	**List of Exhibits**		
(4)		Credit Agreement, dated as of June 27, 2000 among CMS Energy, as Borrower, and the Banks named therein, as Banks, and The Chase Manhattan Bank, as Administrative Agent and Collateral Agent, and Bank of America, N.A. and Barclays Bank plc as Co-Syndication Agents, and Citibank, N.A. as Documentation Agent.	
(12)	- -	CMS Energy:	Statements regarding computation of Ratio of Earnings to Fixed Charges
(15)(a)	- -	CMS Energy:	Letter of Independent Public Accountant
(15)(b)	- -	Consumers:	Letter of Independent Public Accountant
(27)(a)	- -	CMS Energy:	Financial Data Schedule
(27)(b)	- -	Consumers:	Financial Data Schedule
(27)(c)	- -	Panhandle:	Financial Data Schedule
(b)	**Reports on Form 8-K**		

CMS ENERGY

Current Reports filed May 1, 2000, June 5, 2000 and July 6, 2000 covering matters pursuant to ITEM 5. OTHER EVENTS.

CONSUMERS

Current Reports filed June 6, 2000 and July 6, 2000 covering matters pursuant to ITEM 5. OTHER EVENTS.

PANHANDLE

No Current Reports on Form 8-K filed during the second quarter.

SIGNATURES

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

CMS ENERGY CORPORATION
(Registrant)

Dated: August 11, 2000

By: /s/ A.M. Wright
Alan M. Wright
Senior Vice President and
Chief Financial Officer

CONSUMERS ENERGY COMPANY
(Registrant)

Dated: August 11, 2000

By: /s/ A.M. Wright
Alan M. Wright
Senior Vice President and
Chief Financial Officer

PANHANDLE EASTERN PIPE LINE COMPANY
(Registrant)

Dated: August 11, 2000

By: /s/ A.M. Wright
Alan M. Wright
Senior Vice President,
Chief Financial Officer and Treasurer

Exhibit Number		Description
(4)		Credit Agreement, dated as of June 27, 2000 among CMS Energy, as Borrower, and the Banks named therein, as Banks, and The Chase Manhattan Bank, as Administrative Agent and Collateral Agent, and Bank of America, N.A. and Barclays Bank plc as Co-Syndication Agents, and Citibank, N.A. as Documentation Agent.
(12)	-	CMS Energy: Statements regarding computation of Ratio of Earnings to Fixed Charges
(15)(a)	-	CMS Energy: Letter of Independent Public Accountant
(15)(b)	-	Consumers: Letter of Independent Public Accountant
(27)(a)	-	CMS Energy: Financial Data Schedule
(27)(b)	-	Consumers: Financial Data Schedule
(27)(c)	-	Panhandle: Financial Data Schedule

EXHIBIT 4

- ---

$1,000,000,000

CREDIT AGREEMENT

Dated as of June 27, 2000,

Among

CMS ENERGY CORPORATION
as Borrower

and

THE BANKS NAMED HEREIN
as Banks

and

THE CHASE MANHATTAN BANK
as Administrative Agent and Collateral Agent

and

BANK OF AMERICA, N.A.
and
BARCLAYS BANK PLC
as Co-Syndication Agents

and

CITIBANK, N.A.
as Documentation Agent

CHASE SECURITIES INC.
as Advisor, Arranger and Book Manager

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CREDIT AGREEMENT

Dated as of June 27, 2000

THIS CREDIT AGREEMENT is made by and among:

(i) CMS Energy Corporation, a Michigan corporation(the "BORROWER"),

(ii) the banks (the "BANKS") listed on the signature pages hereof and the other Lenders (as hereinafter defined) from time to time party hereto,

(iii) The Chase Manhattan Bank ("CHASE"), as administrative agent (the "ADMINISTRATIVE AGENT") and collateral agent (the "COLLATERAL AGENT") for the Lenders hereunder, and

(iv) Bank of America, N.A. and Barclays Bank plc, as co-syndication agents (the "CO-SYNDICATION AGENTS"), and Citibank, N.A., as documentation agent (the "DOCUMENTATION AGENT").

PRELIMINARY STATEMENTS

The Borrower has requested the Banks to provide the credit facility hereinafter described in the amount and on the terms and conditions set forth herein. The Banks have so agreed on the terms and conditions set forth herein, and the Agents have agreed to act as agents for the Lenders on such terms and conditions.

The parties hereto acknowledge and agree that neither Consumers (as hereinafter defined) nor any of its Subsidiaries (as hereinafter defined) will be a party to, or will in any way be bound by any provision of, this Agreement or any other Loan Document (as hereinafter defined), and that no Loan Document will be enforceable against Consumers or any of its Subsidiaries or their respective assets.

Accordingly, the parties hereto agree as follows:

ARTICLE I
DEFINITIONS AND ACCOUNTING TERMS

SECTION 1.01. CERTAIN DEFINED TERMS. As used in this Agreement, the following terms shall have the following meanings:

"ABR", when used in reference to any Loan or Borrowing, refers to whether such Loan, or the Loans comprising such Borrowing, are bearing interest at a rate determined by reference to the Alternate Base Rate.

"ABR LOAN" means a Loan that bears interest as provided in Section 3.05(b)(i).

"ADJUSTED LIBO RATE" means, for each Interest Period for each Eurodollar Rate Loan made as part of the same Borrowing, an interest rate per annum (rounded upwards, if necessary, to the next 1/16 of 1%) equal to (a) the LIBO Rate for such Interest Period multiplied by (b) the Statutory Reserve Rate.

"ADMINISTRATIVE QUESTIONNAIRE" means an Administrative Questionnaire in a form supplied by the Administrative Agent.

"AFFILIATE" means, with respect to any Person, any other Person directly or indirectly controlling (including but not limited to all directors and officers of such Person), controlled by, or under direct or indirect common control with such Person. A Person shall be deemed to control another entity if such Person possesses, directly or indirectly, the power to direct or cause the direction of the management and policies of such entity, whether through the ownership of voting securities, by contract, or otherwise.

"AGENT" means, as the context may require, the Administrative Agent, the Collateral Agent, any Co-Syndication Agent or the Documentation Agent, and "AGENTS" means any or all of the foregoing.

"ALTERNATE BASE RATE" means, for any day, a rate per annum equal to the greatest of (a) the Prime Rate in effect on such day, (b) the Base CD Rate in effect on such day plus 1% and (c) the Federal Funds Effective Rate in effect on such day plus 1/2 of 1%. Any change in the Alternate Base Rate due to a change in the Prime Rate, the Base CD Rate or the Federal Funds Effective Rate shall be effective from and including the effective date of such change in the Prime Rate, the Base CD Rate or the Federal Funds Effective Rate, respectively.

"APPLICABLE LENDING OFFICE" means, with respect to each Lender, (i) such Lender's Domestic Lending Office, in the case of an ABR Loan, and (ii) such Lender's Eurodollar Lending Office, in the case of a Eurodollar Rate Loan.

"APPLICABLE MARGIN" means, on any date of determination with respect to any Loans, (i) 0.50% per annum in the case of ABR Loans and (ii) 1.50% per annum in the case of Eurodollar Rate Loans.

Notwithstanding the foregoing, each of the foregoing Applicable Margins shall be (i) 1.00% per annum in the case of ABR Loans and 2.00% per annum in the case of Eurodollar Rate Loans, in the event that, and at all times during which, the Index Debt shall be rated BB- (or its equivalent) or lower by any two of S&P, Fitch, Moody's and D&P, provided that one of such two rating agencies is S&P or Moody's, and (ii) 0.25% per annum in the case of ABR Loans and 1.25% per annum in the case of Eurodollar Rate Loans, in the event that, and at all times during which, the Index Debt shall be rated BBB- (or its equivalent) or higher by any two of S&P, Fitch, Moody's and D&P, provided that one of such two rating agencies is S&P or Moody's. The Applicable Margins shall be increased or decreased in accordance with this definition upon any change in the applicable ratings of the Index Debt, and such increased or decreased

Applicable Margins shall be effective from the date of announcement of any such new ratings. The Borrower agrees to notify the Administrative Agent promptly after each change in any rating of the Index Debt.

"APPLICABLE RATE" means:

(i) in the case of each ABR Loan, a rate per annum equal at all times to the sum of the Alternate Base Rate in effect from time to time plus the Applicable Margin; and

(ii) in the case of each Eurodollar Rate Loan comprising part of the same Borrowing, a rate per annum during each Interest Period equal at all times to the sum of the Adjusted LIBO Rate for such Interest Period plus the Applicable Margin.

"ARRANGER" means Chase Securities Inc.

"ASSESSMENT RATE" means, for any day, the annual assessment rate in effect on such day that is payable by a member of the Bank Insurance Fund classified as "well capitalized" and within supervisory subgroup "B" (or a comparable successor risk classification) within the meaning of 12 C.F.R. Part 327 (or any successor provision) to the Federal Deposit Insurance Corporation for insurance by such Corporation of time deposits made in Dollars at the offices of such member in the United States; provided that if, as a result of any change in law, rule or regulation, it is no longer possible to determine the Assessment Rate as aforesaid, then the Assessment Rate shall be such annual rate as shall be determined by the Administrative Agent to be representative of the cost of such insurance to the Lenders.

"AVAILABLE COMMITMENT" means, for each Lender on any day, the unused portion of such Lender's Commitment, computed after giving effect to all Extensions of Credit or prepayments to be made on such day and the application of proceeds therefrom. "AVAILABLE COMMITMENTS" means the aggregate of the Lenders' Available Commitments.

"BASE CD RATE" means the sum of (i) the Three-Month Secondary CD Rate multiplied by the Statutory Reserve Rate plus (ii) the Assessment Rate.

"BOARD" means the Board of Governors of the Federal Reserve System of the United States of America.

"BORROWER INTEREST EXPENSE" means at any date, the total interest expense in respect of Debt of the Borrower for the four calendar quarters immediately preceding such date, including, without duplication, (i) interest expense attributable to capital leases, (ii) amortization of debt discount, (iii) capitalized interest, (iv) cash and noncash payments, (v) commissions, discounts and other fees and charges owed with respect to letters of credit and bankers' acceptance financing, (vi) net costs under interest rate swap, "cap", "collar" or other hedging agreements (including amortization of discount) and (vii) interest expense in respect of obligations of Persons deemed to be Debt of the Borrower under clause (viii) of the definition of Debt, provided, however that Borrower Interest

Expense shall exclude any costs otherwise included in interest expense recognized on early retirement of debt.

"BORROWING" means a borrowing consisting of Loans of the same Type, having the same Interest Period and made or Converted on the same day by the Lenders, ratably in accordance with their respective Percentages. Any Borrowing consisting of Loans of a particular Type may be referred to as being a Borrowing of such "TYPE". All Loans of the same Type, having the same Interest Period and made or Converted on the same day shall be deemed a single Borrowing hereunder until repaid or next Converted.

"BUSINESS DAY" means a day of the year on which banks are not required or authorized to close in New York City and Detroit, Michigan, and, if the applicable Business Day relates to any Eurodollar Rate Loan, on which dealings are carried on in the London interbank market.

"CASH COLLATERAL AGREEMENT" means the Cash Collateral Agreement, dated as of the date hereof, between the Borrower and the Collateral Agent, for the benefit of the Lenders, substantially in the form of Exhibit C.

"CASH DIVIDEND INCOME" means, for any period, the amount of all cash dividends received by the Borrower from its Subsidiaries during such period that are paid out of the net income (without giving effect to: any extraordinary gains in excess of $25,000,000, the amount of any write-off or write-down of assets, and up to $200,000,000 of other non-cash write-offs) of such Subsidiaries during such period.

"CLOSING DATE" means the date of the initial Borrowing hereunder. All transactions contemplated by the Closing Date shall take place on or before June 30, 2000, or such other time as the parties hereto may mutually agree.

"COLLATERAL" means the "Collateral" under the Cash Collateral Agreement.

"COMMITMENT" means, for each Lender, the obligation of such Lender to make Loans to the Borrower and to participate in Extensions of Credit resulting from the issuance (or extension, modification or amendment) of any Letter of Credit in an aggregate amount no greater than the amount set forth opposite such Lender's name on the signature pages hereof under the heading "Commitment" or, if such Lender has entered into one or more Lender Assignments, set forth for such Lender in the Register maintained by the Administrative Agent pursuant to Section 11.07(c), in each such case as such amount may be reduced from time to time pursuant to Section 2.03. "COMMITMENTS" means the total of the Lenders' Commitments hereunder. The Commitments shall in no event exceed $1,000,000,000.

"CONFIDENTIAL INFORMATION" has the meaning assigned to that term in Section 11.08.

"CONSOLIDATED DEBT" means, without duplication, at any date of determination, the sum of the aggregate Debt of the Borrower plus the aggregate debt (as such term is

construed in accordance with GAAP) of the Consolidated Subsidiaries; provided, however, that:

(a) Consolidated Debt shall not include any Support Obligation described in clause (iv) or (v) of the definition thereof if such Support Obligation or the primary obligation so supported is not fixed or conclusively determined or is not otherwise reasonably quantifiable as of the date of determination;

(b) Consolidated Debt shall not include (i) any Junior Subordinated Debt owned by any Hybrid Preferred Securities Subsidiary or (ii) any guaranty by the Borrower of payments with respect to any Hybrid Preferred Securities, provided that such guaranty is subordinated to the rights of the Lenders hereunder and under the other Loan Documents pursuant to terms of subordination substantially similar to those set forth in Exhibit I, or pursuant to other terms and conditions satisfactory to the Required Lenders;

(c) for purposes of this definition only, the percentage of the Net Proceeds from any issuance of hybrid debt/equity securities (other than Junior Subordinated Debt and Hybrid Preferred Securities) by the Borrower or any Consolidated Subsidiary that shall be considered Consolidated Debt shall be agreed by the Administrative Agent and the Borrower (and consented to by the Required Lenders) and shall be based on, among other things, the treatment (if any) given to such hybrid securities by the rating agencies;

(d) with respect to any Support Obligations provided by the Borrower in connection with a purchase or sale by MS&T, its Subsidiaries or PremStar Energy Canada Ltd. ("PREMSTAR") of natural gas, natural gas liquids, gas condensates, electricity, oil, propane, coal, any other commodity, weather derivatives or any derivative instrument with respect to any commodity with any other Person (a "COUNTERPARTY"), Consolidated Debt shall include only the excess, if any, of (A) the aggregate amount of any Support Obligations provided by the Borrower in respect of MS&T's, any of its Subsidiary's or PremStar's obligations under any such purchase or sale transaction (a "COVERING TRANSACTION") entered into by MS&T, any of its Subsidiaries or PremStar in connection with such purchase or sale over (B) the aggregate amount of (i) any Support Obligations provided by the direct or indirect parent company of such Counterparty (the "COUNTERPARTY GUARANTOR") and (ii) any irrevocable letter of credit provided by any financial institution for the account of such Counterparty or Counterparty Guarantor, in each case for the benefit of MS&T, any of its Subsidiaries or PremStar in support of such Counterparty's payment obligations to MS&T, such Subsidiary or PremStar arising from such purchase or sale, provided that (x) the senior, unsecured, non-credit enhanced indebtedness of such Counterparty Guarantor or such financial institution (as the case may be) is rated BBB- (or its equivalent) or higher by any two of S&P, Fitch, Moody's and D&P (provided that one of such two rating agencies is S&P or Moody's), provided that in the event that such Counterparty Guarantor has no such rated indebtedness, Dun & Bradstreet Inc. has rated such Counterparty Guarantor at least investment grade,

(y) no default by such Counterparty Guarantor in respect of any such Support Obligations provided by such Counterparty Guarantor has occurred and is continuing and (z) such Counterparty Guarantor is not the Borrower or any Affiliate of the Borrower or any of its Subsidiaries; and

(e) Consolidated Debt shall not include any Project Finance Debt of the Borrower or any Consolidated Subsidiary.

"CONSOLIDATED EBITDA" means, with reference to any period, the pretax operating income of the Borrower and its Subsidiaries ("PRETAX OPERATING INCOME") for such period plus, to the extent deducted in determining Pretax Operating Income (without duplication), (i) depreciation, depletion and amortization, and (ii) any non-cash write-offs and write-downs contained in the Borrower's Pretax Operating Income, all calculated for the Borrower and its Subsidiaries on a consolidated basis for such period.

"CONSOLIDATED SUBSIDIARY" means any Subsidiary whose accounts are or are required to be consolidated with the accounts of the Borrower in accordance with GAAP.

"CONSUMERS" means Consumers Energy Company, a Michigan corporation, all of whose common stock is on the date hereof owned by the Borrower.

"CONSUMERS DIVIDEND RESTRICTION" means any restriction enacted or imposed after October 1, 1992 upon the ability of Consumers to pay cash dividends to the Borrower in respect of Consumers' capital stock, whether such restriction is imposed by statute, regulation, decisions or rulings by the Michigan Public Service Commission or the Federal Energy Regulatory Commission (or any successor agency or agencies), final judgments of any court of competent jurisdiction, indentures, agreements, contracts or restrictions to which Consumers is a party or by which it is bound or otherwise; provided, that no restriction on such dividends existing on October 1, 1992 shall be a Consumers Dividend Restriction at any time.

"CONVERSION", "CONVERT" or "CONVERTED" refers to a conversion of Loans of one Type into Loans of another Type, or to the selection of a new, or the renewal of the same, Interest Period for Loans, as the case may be, pursuant to Section 3.02 or 3.03.

"D&P" means Duff & Phelps, Inc. or any successor thereto.

"DEBT" means, for any Person, without duplication, any and all indebtedness, liabilities and other monetary obligations of such Person (whether for principal, interest, fees, costs, expenses or otherwise, and whether contingent or otherwise) (i) for borrowed money or evidenced by bonds, debentures, notes or other similar instruments, (ii) to pay the deferred purchase price of property or services (except trade accounts payable arising in the ordinary course of business which are not overdue), (iii) as lessee under leases which shall have been or should be, in accordance with GAAP, recorded as capital leases, (iv) under reimbursement or similar agreements with respect to letters of credit issued thereunder, (v) under any interest rate swap, "cap", "collar" or other hedging agreements; provided, however, for purposes of the calculation of Debt for this clause (v) only, the actual amount of Debt of such Person shall be determined on a net basis to the extent

such agreements permit such amounts to be calculated on a net basis, (vi) to pay rent or other amounts under leases entered into in connection with sale and leaseback transactions involving assets of such Person being sold in connection therewith, (vii) arising from any accumulated funding deficiency (as defined in Section 412(a) of the Internal Revenue Code of 1986, as amended) for a Plan, (viii) arising in connection with any withdrawal liability under ERISA to any Multiemployer Plan and (ix) arising from (A) direct or indirect guaranties in respect of, and obligations to purchase or otherwise acquire, or otherwise to warrant or hold harmless, pursuant to a legally binding agreement, a creditor against loss in respect of, Debt of others referred to in clauses (i) through (viii) above and (B) other guaranty or similar financial obligations in respect of the performance of others, including Support Obligations. Notwithstanding the foregoing, solely for purposes of the calculation required under Section 8.01(j)(ii), Debt shall not include any Junior Subordinated Debt issued by the Borrower and owned by any Hybrid Preferred Securities Subsidiary.

"DEFAULT" means an event that, with the giving of notice or lapse of time or both, would constitute an Event of Default.

"DEFAULT RATE" means a rate per annum equal at all times to (i) in the case of any amount of principal of any Loan that is not paid when due, 2% per annum above the Applicable Rate required to be paid on such Loan immediately prior to the date on which such amount became due, and (ii) in the case of any amount of interest, fees or other amounts payable hereunder that is not paid when due, 2% per annum above the Applicable Rate for an ABR Loan in effect from time to time.

"DIVIDEND COVERAGE RATIO" means, at any date, the ratio of (i) Pro Forma Dividend Amounts to (ii) Borrower Interest Expense.

"DOLLARS" and the sign "$" each means lawful money of the United States.

"DOMESTIC LENDING OFFICE" means, with respect to any Lender, the office or affiliate of such Lender specified as its "Domestic Lending Office" opposite its name on Schedule I hereto or in the Lender Assignment pursuant to which it became a Lender, or such other office or affiliate of such Lender as such Lender may from time to time specify in writing to the Borrower and the Administrative Agent.

"ELIGIBLE ASSIGNEE" means (a) a commercial bank or trust company organized under the laws of the United States, or any State thereof; (b) a commercial bank organized under the laws of any other country that is a member of the OECD, or a political subdivision of any such country, provided that such bank is acting through a branch or agency located in the United States; (c) the central bank of any country that is a member of the OECD; and (d) any other commercial bank or other financial institution engaged generally in the business of extending credit or purchasing debt instruments; provided, however, that (A) any such Person shall also (i) have outstanding unsecured indebtedness that is rated A- or better by S&P or A3 or better by Moody's (or an equivalent rating by another nationally-recognized credit rating agency of similar standing if neither of such corporations is then in the business of rating unsecured

indebtedness of entities engaged in such businesses) or (ii) have combined capital and surplus (as established in its most recent report of condition to its primary regulator) of not less than $250,000,000 (or its equivalent in foreign currency), (B) any Person described in clause (b), (c), or (d) above, shall, on the date on which it is to become a Lender hereunder, (1) be entitled to receive payments hereunder without deduction or withholding of any United States Federal income taxes (as contemplated by Section 5.06) and (2) not be incurring any losses, costs or expenses of the type for which such Person could demand payment under Section 5.04(a) or (c) (except to the extent that, in the absence of the making of an assignment to such Person, the assigning Lender would have incurred an equal or greater amount of such losses, costs or expenses and such losses, costs or expenses would have been payable by the Borrower to such assigning Lender hereunder), (C) any Person described in clauses (a), (b), (c) and (d) above, which is not a Lender shall, in addition, be acceptable to any Issuing Bank based upon its then-existing credit criteria and (D) any Person described in clause (d) above shall, in addition, be acceptable to the Administrative Agent.

"ENTERPRISES" means CMS Enterprises Company, a Michigan corporation, all of whose common stock is on the date hereof owned by the Borrower.

"ENTERPRISES SIGNIFICANT SUBSIDIARY" means CMS Oil & Gas Co., CMS Generation Co., CMS Gas Transmission and Storage Company, Panhandle Eastern Pipe Line Company ("PANHANDLE"), any direct or indirect subsidiary of Panhandle and any other direct subsidiary of Enterprises having a net worth in excess of $50 million.

"ENVIRONMENTAL LAWS" means all laws, rules, regulations, codes, ordinances, orders, decrees, judgments, injunctions, notices or binding agreements issued, promulgated or entered into by any governmental agency or authority, relating in any way to the environment, preservation or reclamation of natural resources, the management, release or threatened release of any Hazardous Substance or to health and safety matters.

"ENVIRONMENTAL LIABILITY" means any liability, contingent or otherwise (including any liability for damages, costs of environmental remediation, fines, penalties or indemnities), of the Borrower or any of its Subsidiaries directly or indirectly resulting from or based upon (a) violation of any Environmental Law, (b) the generation, use, handling, transportation, storage, treatment or disposal of any Hazardous Substances, (c) exposure to any Hazardous Substances, (d) the release or threatened release of any Hazardous Substances into the environment or (e) any contract, agreement or other consensual arrangement pursuant to which liability is assumed or imposed with respect to any of the foregoing.

"EQUITY DISTRIBUTIONS" shall mean, for any period, the aggregate amount of cash received by the Borrower from its Subsidiaries during such period that are paid out of proceeds from the sale of common equity of Subsidiaries of the Borrower.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended from time to time.

"ERISA AFFILIATE" means, with respect to any Person, any trade or business (whether or not incorporated) that is a "commonly controlled entity" within the meaning of the regulations under Section 414 of the Internal Revenue Code of 1986, as amended.

"EURODOLLAR", when used in reference to any Loan or Borrowing, refers to whether such Loan, or the Loans comprising such Borrowing, are bearing interest at a rate determined by reference to the Adjusted LIBO Rate.

"EURODOLLAR LENDING OFFICE" means, with respect to any Lender, the office or affiliate of such Lender specified as its "Eurodollar Lending Office" opposite its name on Schedule I hereto or in the Lender Assignment pursuant to which it became a Lender (or, if no such office or affiliate is specified, its Domestic Lending Office), or such other office or affiliate of such Lender as such Lender may from time to time specify in writing to the Borrower and the Administrative Agent.

"EURODOLLAR RATE LOAN" means a Loan that bears interest as provided in Section 3.05(b)(ii).

"EVENT OF DEFAULT" has the meaning specified in Section 9.01.

"EXCHANGE ACT" means the Securities Exchange Act of 1934, as amended.

"EXISTING BANKS" means the Banks party to the Existing Credit Agreement.

"EXISTING CREDIT AGREEMENT" means the Credit Agreement, dated as of July 2, 1997, among the Borrower, the lenders party thereto, Chase, as Administrative Agent, and the other co-agents party thereto, as the same may have been amended, restated, supplemented or otherwise modified from time to time.

"EXISTING LETTERS OF CREDIT" means those letters of credit identified on Schedule III hereto. The Existing Letters of Credit shall each constitute a Letter of Credit hereunder.

"EXTENSION OF CREDIT" means (i) the making of a Borrowing (including any Conversion), (ii) the issuance of a Letter of Credit, or (iii) the amendment of any Letter of Credit having the effect of extending the stated termination date thereof, increasing the LC Outstandings thereunder, or otherwise altering any of the material terms or conditions thereof.

"FEDERAL FUNDS EFFECTIVE RATE" means, for any day, the weighted average (rounded upwards, if necessary, to the next 1/100 of 1%) of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers, as published on the next succeeding Business Day by the Federal Reserve Bank of New York, or, if such rate is not so published for any day that is a Business Day, the average (rounded upwards, if necessary, to the next 1/100 of 1%) of the quotations for such day for such transactions received by the Administrative Agent from three Federal funds brokers of recognized standing selected by it.

"FEE LETTER" has the meaning assigned to that term in Section 2.02(c).

"FITCH" means Fitch IBCA, Inc. or any successor thereto.

"FOREIGN LENDER" means any Lender that is organized under the laws of a jurisdiction other than that in which the Borrower is located. For purposes of this definition, the United States of America, each State thereof and the District of Columbia shall be deemed to constitute a single jurisdiction.

"GAAP" has the meaning assigned to that term in Section 1.03.

"GOVERNMENTAL APPROVAL" means any authorization, consent, approval, license, permit, certificate, exemption of, or filing or registration with, any governmental authority or other legal or regulatory body, required in connection with either (i) the execution, delivery, or performance of any Loan Document by the Borrower, (ii) the grant and perfection of any Lien contemplated by the Cash Collateral Agreement or (iii) the exercise by any Agent (on behalf of the Lenders) of any right or remedy provided for under the Cash Collateral Agreement.

"HAZARDOUS SUBSTANCE" means any waste, substance, or material identified as hazardous, dangerous or toxic by any office, agency, department, commission, board, bureau, or instrumentality of the United States or of the State or locality in which the same is located having or exercising jurisdiction over such waste, substance or material.

"HYBRID PREFERRED SECURITIES" means any preferred securities issued by a Hybrid Preferred Securities Subsidiary, where such preferred securities have the following characteristics:

(i) such Hybrid Preferred Securities Subsidiary lends substantially all of the proceeds from the issuance of such preferred securities to the Borrower or a wholly-owned direct or indirect Subsidiary of the Borrower in exchange for Junior Subordinated Debt issued by the Borrower or such wholly-owned direct or indirect Subsidiary, respectively;

(ii) such preferred securities contain terms providing for the deferral of interest payments corresponding to provisions providing for the deferral of interest payments on the Junior Subordinated Debt; and

(iii) the Borrower or a wholly-owned direct or indirect Subsidiary of the Borrower (as the case may be) makes periodic interest payments on the Junior Subordinated Debt, which interest payments are in turn used by the Hybrid Preferred Securities Subsidiary to make corresponding payments to the holders of the preferred securities.

"HYBRID PREFERRED SECURITIES SUBSIDIARY" means any Delaware business trust (or similar entity) (i) all of the common equity interest of which is owned (either directly or indirectly through one or more wholly-owned Subsidiaries of the Borrower or Consumers) at all times by the Borrower or a wholly-owned direct or indirect Subsidiary

of the Borrower, (ii) that has been formed for the purpose of issuing Hybrid Preferred Securities and (iii) substantially all of the assets of which consist at all times solely of Junior Subordinated Debt issued by the Borrower or a wholly-owned direct or indirect Subsidiary of the Borrower (as the case may be) and payments made from time to time on such Junior Subordinated Debt.

"INDEMNIFIED PERSON" has the meaning assigned to that term in Section 11.04(b).

"INDENTURE" means that certain Indenture, dated as of September 15, 1992, between the Borrower and the Trustee, as supplemented by the First Supplemental Indenture, dated as of October 1, 1992, the Second Supplemental Indenture, dated as of October 1, 1992, the Third Supplemental Indenture, dated as of May 6, 1997, the Fourth Supplemental Indenture, dated as of September 26, 1997, the Fifth Supplemental Indenture, dated as of November 4, 1997, the Sixth Supplemental Indenture, dated as of January 13, 1998, the Seventh Supplemental Indenture, dated as of January 25, 1999, the Eighth Supplemental Indenture, dated as of February 3, 1999, and the Ninth Supplemental Indenture, dated as of June 22, 1999, as said Indenture may be further amended or otherwise modified from time to time in accordance with its terms.

"INDEX DEBT" means senior, unsecured indebtedness for borrowed money of the Borrower that is not guaranteed by any other Person or subject to any other credit enhancement.

"INTEREST PERIOD" has the meaning assigned to that term in Section 3.03.

"ISSUING BANK" means (i) any Lender designated by the Borrower in accordance with Section 4.01(a) as the issuer of a Letter of Credit pursuant to an Issuing Bank Agreement and (ii) any other financial institution that has issued an Existing Letter of Credit pursuant to an Issuing Bank Agreement (provided, however, that unless such other financial institution is a Lender hereunder, it shall not be permitted to issue any Letters of Credit after the date hereof). As of the date hereof, the Borrower has designated Chase as an Issuing Bank, and the Administrative Agent has accepted such designee pursuant to Section 4.01.

"ISSUING BANK AGREEMENT" means an agreement between an Issuing Bank and the Borrower, in form and substance satisfactory to the Administrative Agent, providing for the issuance of one or more Letters of Credit, in form and substance satisfactory to the Administrative Agent, in support of a general corporate activity of the Borrower.

"JUNIOR SUBORDINATED DEBT" means any unsecured Debt of the Borrower or a Subsidiary of the Borrower (i) issued in exchange for the proceeds of Hybrid Preferred Securities and (ii) subordinated to the rights of the Lenders hereunder and under the other Loan Documents pursuant to terms of subordination substantially similar to those set forth in Exhibit H, or pursuant to other terms and conditions satisfactory to the Required Lenders.

"LC PAYMENT NOTICE" has the meaning assigned to that term in Section 4.04(b).

"LC OUTSTANDINGS" means, for any Letter of Credit on any date of determination, the maximum amount available to be drawn under such Letter of Credit (assuming the satisfaction of all conditions for drawing enumerated therein) plus any amount which has been drawn on such Letter of Credit which has neither been reimbursed by the Borrower nor converted into an ABR Loan pursuant to the terms of Section 4.04.

"LENDER ASSIGNMENT" means an assignment and agreement entered into by a Lender and an Eligible Assignee, and accepted by the Administrative Agent, in substantially the form of Exhibit G.

"LENDERS" means the Banks listed on the signature pages hereof, each Eligible Assignee that shall become a party hereto pursuant to Section 11.07 and, if and to the extent so provided in Section 4.04(c), each Issuing Bank.

"LETTER OF CREDIT" means a letter of credit issued by an Issuing Bank pursuant to Section 4.02, as such letter of credit may from time to time be amended, modified or extended in accordance with the terms of this Agreement and the Issuing Bank Agreement to which it relates.

"LIBO RATE" means, with respect to any Eurodollar Borrowing for any Interest Period, the rate appearing on Page 3750 of the Telerate Service (or on any successor or substitute page of such Service, or any successor to or substitute for such Service, providing rate quotations comparable to those currently provided on such page of such Service, as determined by the Administrative Agent from time to time for purposes of providing quotations of interest rates applicable to dollar deposits in the London interbank market) at approximately 11:00 a.m., London time, two Business Days prior to the commencement of such Interest Period, as the rate for dollar deposits with a maturity comparable to such Interest Period. In the event that such rate is not available at such time for any reason, then the "LIBO Rate" with respect to such Eurodollar Borrowing for such Interest Period shall be the rate at which dollar deposits of $5,000,000 and for a maturity comparable to such Interest Period are offered by the principal London office of the Administrative Agent in immediately available funds in the London interbank market at approximately 11:00 a.m., London time, two Business Days prior to the commencement of such Interest Period.

"LIEN" has the meaning assigned to that term in Section 8.02(a).

"LOAN" means a loan by a Lender to the Borrower, and refers to an ABR Loan or a Eurodollar Rate Loan (each of which shall be a "TYPE" of Loan). All Loans by a Lender of the same Type having the same Interest Period and made or Converted on the same day shall be deemed to be a single Loan by such Lender until repaid or next Converted.

"LOAN DOCUMENTS" means this Agreement, any Promissory Notes, the Cash Collateral Agreement, the Fee Letter, the Issuing Bank Agreement(s) and all other agreements, instruments and documents now or hereafter executed and/or delivered pursuant hereto or thereto.

"MATERIAL ADVERSE CHANGE" means any event, development or circumstance that has had or could reasonably be expected to have a material adverse effect on (a) the business, assets, property, financial condition or results of operations of the Borrower and its Subsidiaries, considered as a whole, (b) the Borrower's ability to perform its obligations under this Agreement or any other Loan Document to which it is or will be a party or (c) the validity or enforceability of any Loan Document or the rights and remedies of any Agent or the Lenders thereunder.

"MEASUREMENT QUARTER" has the meaning assigned to that term in Section 8.01(i).

"MOODY'S" means Moody's Investors Service, Inc. or any successor thereto.

"MS&T" means CMS Marketing, Services and Trading Company, a Michigan corporation, all of whose capital stock is on the date hereof owned by Enterprises.

"MULTIEMPLOYER PLAN" means a multiemployer plan as defined in Section 4001(a)(3) of ERISA.

"NET PROCEEDS" means, with respect to any sale or issuance of securities or incurrence of Debt by any Person, the excess of (i) the gross cash proceeds received by or on behalf of such Person in respect of such sale, issuance or incurrence (as the case may be) over (ii) customary underwriting commissions, auditing and legal fees, printing costs, rating agency fees and other customary and reasonable fees and expenses incurred by such Person in connection therewith.

"NET WORTH" means, with respect to any Person, the excess of such Person's total assets over its total liabilities, total assets and total liabilities each to be determined in accordance with GAAP consistently applied, excluding, however, from the determination of total assets (i) goodwill, organizational expenses, research and development expenses, trademarks, trade names, copyrights, patents, patent applications, licenses and rights in any thereof, and other similar intangibles, (ii) cash held in a sinking or other analogous fund established for the purpose of redemption, retirement or prepayment of capital stock or Debt, and (iii) any items not included in clauses (i) or (ii) above, that are treated as intangibles in conformity with GAAP.

"NOTEHOLDERS" means, collectively, the owners of record from time to time of the Senior Notes.

"NOTICE OF BORROWING" has the meaning assigned to that term in Section 3.01(a).

"NOTICE OF CONVERSION" has the meaning assigned to that term in Section 3.02.

"OECD" means the Organization for Economic Cooperation and Development.

"OWNERSHIP INTEREST" of the Borrower in any Consolidated Subsidiary means, at any date of determination, the percentage determined by dividing (i) the aggregate amount of Project Finance Equity in such Consolidated Subsidiary owned or controlled, directly or indirectly, by the Borrower and any other Consolidated Subsidiary on such

date, by (ii) the aggregate amount of Project Finance Equity in such Consolidated Subsidiary owned or controlled, directly or indirectly, by all Persons (including the Borrower and the Consolidated Subsidiaries) on such date. Notwithstanding anything to the contrary set forth above, if the "Ownership Interest," calculated as set forth above, is 50% or less, such percentage shall be deemed to equal 0%.

"PARTICIPANT" has the meaning assigned to that term in Section 11.07(e).

"PBGC" means the Pension Benefit Guaranty Corporation (or any successor entity) established under ERISA.

"PERCENTAGE" means, for any Lender on any date of determination, the percentage obtained by dividing such Lender's Commitment on such day by the total of the Lenders' Commitments on such date, and multiplying the quotient so obtained by 100%. In the event that the Commitments have been terminated, each Lender's Percentage shall be calculated on the basis of the Commitments in effect immediately prior to such termination.

"PERMITTED INVESTMENTS" means each of the following so long as no such Permitted Investment shall have a final maturity later than six months from the date of investment therein:

(i) direct obligations of the United States, or of any agency thereof, or obligations guaranteed as to principal and interest by the United States or any agency thereof;

(ii) certificates of deposit or bankers' acceptances issued, or time deposits held, or investment contracts guaranteed, by any Lender, any nationally-recognized securities dealer or any other commercial bank, trust company, savings and loan association or savings bank organized under the laws of the United States, or any State thereof, or of any other country which is a member of the OECD, or a political subdivision of any such country, and in each case having outstanding unsecured indebtedness that (on the date of acquisition thereof) is rated AA- or better by S&P or Aa3 or better by Moody's (or an equivalent rating by another nationally-recognized credit rating agency of similar standing if neither of such corporations is then in the business of rating unsecured bank indebtedness);

(iii) obligations with any Lender, any other bank or trust company described in clause (ii), above, or any nationally-recognized securities dealer, in respect of the repurchase of obligations of the type described in clause (i), above, provided that such repurchase obligations shall be fully secured by obligations of the type described in said clause (i) and the possession of such obligations shall be transferred to, and segregated from other obligations owned by, such Lender, such other bank or trust company or such securities dealer;

(iv) commercial paper rated (on the date of acquisition thereof) A-1 or P-1 or better by S&P or Moody's, respectively (or an equivalent rating by another

nationally-recognized credit rating agency of similar standing if neither of such corporations is then in the business of rating commercial paper); and

(v) any eurodollar certificate of deposit issued by any Lender or any other commercial bank, trust company, savings and loan association or savings bank organized under the laws of the United States, or any State thereof, or of any country which is a member of the OECD, or a political subdivision of any such country, and in each case having outstanding unsecured indebtedness that (on the date of acquisition thereof) is rated AA- or better by S&P or Aa3 or better by Moody's (or an equivalent rating by another nationally-recognized credit rating agency of similar standing if neither of such corporations is then in the business of rating unsecured bank indebtedness).

"PERSON" means an individual, partnership, corporation (including a business trust), joint stock company, limited liability company, trust, unincorporated association, joint venture or other entity, or a government or any political subdivision or agency thereof.

"PLAN" means, with respect to any Person, an employee benefit plan (other than a Multiemployer Plan) maintained for employees of such Person or any ERISA Affiliate of such Person and covered by Title IV of ERISA.

"PLAN TERMINATION EVENT" means, with respect to any Person, (i) a Reportable Event described in Section 4043 of ERISA and the regulations issued thereunder (other than a Reportable Event not subject to the provision for 30-day notice to the PBGC under such regulations), or (ii) the withdrawal of such Person or any of its ERISA Affiliates from a Plan during a plan year in which it was a "substantial employer" as defined in Section 4001(a)(2) of ERISA, or (iii) the filing of a notice of intent to terminate a Plan or the treatment of a Plan under Section 4041 of ERISA, or (iv) the institution of proceedings to terminate a Plan by the PBGC, or (v) any other event or condition which is reasonably likely to constitute grounds under Section 4042 of ERISA for the termination of, or the appointment of a trustee to administer, any Plan.

"PRIME RATE" means the rate of interest per annum publicly announced from time to time by Chase as its prime rate in effect at its principal office in New York City; each change in the Prime Rate shall be effective from and including the date such change is publicly announced as being effective.

"PRO FORMA DIVIDEND AMOUNT" means, from and after any date of any Consumers Dividend Restriction, the sum of (a) the aggregate amount which Consumers could have paid to the Borrower during the four calendar quarters immediately preceding such date had such Consumers Dividend Restriction been in effect during such quarters plus (b) cash dividends received by the Borrower from any other Subsidiary during such quarters.

"PROJECT FINANCE DEBT" means Debt of any Person that is non-recourse to such Person (unless such Person is a special-purpose entity) and any Affiliate of such Person,

other than with respect to the interest of the holder of such Debt in the collateral, if any, securing such Debt.

"PROJECT FINANCE EQUITY" means, at any date of determination, consolidated equity of the common, preference and preferred stockholders of the Borrower and the Consolidated Subsidiaries relating to any obligor with respect to Project Finance Debt.

"PROMISSORY NOTE" means any promissory note of the Borrower payable to the order of a Lender (and, if requested, its registered assigns) issued pursuant to Section 3.01(d); and "PROMISSORY NOTES" means any or all of the foregoing.

"RECIPIENT" has the meaning assigned to that term in Section 11.08.

"REGISTER" has the meaning specified in Section 11.07(c).

"RELATED PARTIES" means, with respect to any specified Person, such Person's Affiliates and the respective directors, officers, employees, agents and advisors of such Person and such Person's Affiliates.

"REQUEST FOR ISSUANCE" has the meaning assigned to that term in Section 4.02(a).

"REQUIRED LENDERS" means, on any date of determination, Lenders that, collectively, on such date (i) hold at least 51% of the then aggregate unpaid principal amount of the Loans owing to Lenders and (ii) if no Loans are then outstanding, have Percentages in the aggregate of at least 51%. Any determination of those Lenders constituting the Required Lenders shall be made by the Administrative Agent and shall be conclusive and binding on all parties absent manifest error.

"RESTRICTED SUBSIDIARY" means (i) Enterprises and (ii) any other Subsidiary of the Borrower (other than Consumers and its Subsidiaries) that, on a consolidated basis with any of its Subsidiaries as of any date of determination, accounts for more than 10% of the consolidated assets of the Borrower and its Consolidated Subsidiaries.

"S&P" means Standard & Poor's Ratings Group, a division of The McGraw Hill Companies, Inc., or any successor thereto.

"SENIOR NOTE DEBT" means, collectively, all principal indebtedness of the Borrower to the Noteholders now or hereafter existing under the Senior Notes, together with interest and premiums, if any, thereon and other amounts payable in respect thereof or in connection therewith in accordance with the terms of the Senior Notes or the Indenture.

"SENIOR NOTES" means the 8-1/8% Senior Unsecured Notes Due 2002, issued by the Borrower pursuant to the Indenture.

"STATUTORY RESERVE RATE" means a fraction (expressed as a decimal), the numerator of which is the number one and the denominator of which is the number one minus the aggregate of the maximum reserve percentages (including any marginal,

special, emergency or supplemental reserves) expressed as a decimal established by the Board to which the Administrative Agent is subject (a) with respect to the Base CD Rate, for new negotiable nonpersonal time deposits in Dollars of over $100,000 with maturities approximately equal to three months and (b) with respect to the Adjusted LIBO Rate, for eurocurrency funding (currently referred to as "Eurocurrency Liabilities" in Regulation D of the Board). Such reserve percentages shall include those imposed pursuant to such Regulation D. Eurodollar Rate Loans shall be deemed to constitute eurocurrency funding and to be subject to such reserve requirements without benefit of or credit for proration, exemptions or offsets that may be available from time to time to any Lender under such Regulation D or any comparable regulation. The Statutory Reserve Rate shall be adjusted automatically on and as of the effective date of any change in any reserve percentage.

"SUBSIDIARY" means, with respect to any Person, any corporation or unincorporated entity of which more than 50% of the outstanding capital stock (or comparable interest) having ordinary voting power (irrespective of whether at the time capital stock (or comparable interest) of any other class or classes of such corporation or entity shall or might have voting power upon the occurrence of any contingency) is at the time directly or indirectly owned by said Person (whether directly or through one or more other Subsidiaries). In the case of an unincorporated entity, a Person shall be deemed to have more than 50% of interests having ordinary voting power only if such Person's vote in respect of such interests comprises more than 50% of the total voting power of all such interests in the unincorporated entity.

"SUPPORT OBLIGATIONS" means, for any Person, without duplication, any financial obligation, contingent or otherwise, of such Person guaranteeing or otherwise supporting any Debt or other obligation of any other Person in any manner, whether directly or indirectly, and including any obligation of such Person, direct or indirect, (i) to purchase or pay (or advance or supply funds for the purchase or payment of) such Debt or to purchase (or to advance or supply funds for the purchase of) any security for the payment of such Debt, (ii) to purchase property, securities or services for the purpose of assuring the owner of such Debt of the payment of such Debt, (iii) to maintain working capital, equity capital, available cash or other financial statement condition of the primary obligor so as to enable the primary obligor to pay such Debt, (iv) to provide equity capital under or in respect of equity subscription arrangements (to the extent that such obligation to provide equity capital does not otherwise constitute Debt), or (v) to perform, or arrange for the performance of, any non-monetary obligations or non-funded debt payment obligations of the primary obligor.

"TAX SHARING AGREEMENT" means the Amended and Restated Agreement for the Allocation of Income Tax Liabilities and Benefits, dated as of January 1, 1994, by and among the Borrower, each of the members of the Consolidated Group (as defined therein), and each of the corporations that become members of the Consolidated Group.

"TERMINATION DATE" means the earlier to occur of (i) June 26, 2001 and (ii) the date of termination or reduction in whole of the Commitments pursuant to Section 2.03 or 9.02.

"THREE-MONTH SECONDARY CD RATE" means, for any day, the secondary market rate for three-month certificates of deposit reported as being in effect on such day (or, if such day is not a Business Day, the next preceding Business Day) by the Board through the public information telephone line of the Federal Reserve Bank of New York (which rate will, under the current practices of the Board, be published in the Federal Reserve Statistical Release H.15(519) during the week following such day) or, if such rate is not so reported on such day or such next preceding Business Day, the average of the secondary market quotations for three-month certificates of deposit of major money center banks in New York City received at approximately 10:00 a.m. on such day (or, if such day is not a Business Day, on the next preceding Business Day) by the Administrative Agent from three negotiable certificate of deposit dealers of recognized standing selected by it.

"TRUSTEE" has the meaning assigned to that term in the Indenture.

"TYPE" has the meaning assigned to such term (i) in the definition of "Loan" when used in such context and (ii) in the definition of "Borrowing" when used in such context.

SECTION 1.02. COMPUTATION OF TIME PERIODS; CONSTRUCTION.

(a) Unless otherwise indicated, each reference in this Agreement to a specific time of day is a reference to New York City time. In the computation of periods of time under this Agreement, any period of a specified number of days or months shall be computed by including the first day or month occurring during such period and excluding the last such day or month. In the case of a period of time "from" a specified date "to" or "until" a later specified date, the word "from" means "from and including" and the words "to" and "until" each means "to but excluding".

(b) The definitions of terms herein shall apply equally to the singular and plural forms of the terms defined. Whenever the context may require, any pronoun shall include the corresponding masculine, feminine and neuter forms. The words "include", "includes", and "including" shall be deemed to be followed by the phrase "without limitation". The word "will" shall be construed to have the same meaning and effect as the word "shall". Unless the context requires otherwise (i) any definition of or reference to any agreement, instrument or other document herein shall be construed as referring to such agreement, instrument or other document as from time to time amended, supplemented or otherwise modified (subject to any restrictions on such amendments, supplements or modifications set forth herein), (ii) any reference herein to any Person shall be construed to include such Person's successors and assigns, (iii) the words "herein", "hereof" and "hereunder", and words of similar import, shall be construed to refer to this Agreement in its entirety and not to any particular provision hereof, (iv) all references herein to Articles, Sections, Exhibits and Schedules shall be construed to refer to Articles and Sections of, and Exhibits and Schedules to, this Agreement and (v) the words "asset" and "property" shall be construed to have the same meaning and effect and to refer to any and all tangible and intangible assets and properties, including cash, securities, accounts and contract rights.

SECTION 1.03. ACCOUNTING TERMS. All accounting terms not specifically defined herein shall be construed in accordance with generally accepted accounting principles consistent with those applied in the preparation of the financial statements referred to in Section 7.01(e) ("GAAP").

ARTICLE II
COMMITMENTS

SECTION 2.01. THE COMMITMENTS. Each Lender severally agrees, on the terms and conditions hereinafter set forth to make Loans to the Borrower and to participate in the issuance of Letters of Credit (and the LC Outstandings thereunder) during the period from the Closing Date until the Termination Date in an aggregate outstanding amount not to exceed on any day such Lender's Available Commitment (after giving effect to all Extensions of Credit to be made on such day and the application of the proceeds thereof). Within the limits hereinafter set forth, the Borrower may request Extensions of Credit hereunder, prepay Loans or reduce or cancel Letters of Credit, and use the resulting increase in the Available Commitments for further Extensions of Credit in accordance with the terms hereof.

SECTION 2.02. FEES.

(a) The Borrower agrees to pay to the Administrative Agent for the account of each Lender a commitment fee on the average daily amount of such Lender's Available Commitment at the rate of 0.375% per annum, from the Closing Date, in the case of each Bank, and from the effective date specified in the Lender Assignment pursuant to which it became a Lender, in the case of each other Lender, until the Termination Date, payable quarterly in arrears on the last day of each January, April, July and October, commencing the first such date to occur following the date hereof, and on the Termination Date.

(b) The Borrower agrees to pay to the Administrative Agent for the account of each Lender a commission on the average daily aggregate amount of the LC Outstandings from the Closing Date until the Termination Date at a rate per annum equal to the Applicable Margin with respect to Eurodollar Rate Loans, payable quarterly in arrears on the last day of each January, April, July and October, commencing on the first such date to occur following the date hereof, and on the Termination Date;

(c) In addition to the fees provided for in subsections (a) and (b) above, the Borrower shall pay to the Administrative Agent, for the account of Chase, such other fees as are provided for in that certain letter agreement, dated May 12, 2000, among the Borrower, the Arranger and Chase (the "FEE LETTER"), in the amounts and at the times specified therein.

SECTION 2.03. REDUCTION OF THE COMMITMENTS.

(a) The Borrower may, upon at least three (3) Business Days' notice to the Administrative Agent (which shall promptly distribute copies thereof to the Lenders), terminate in whole or reduce ratably in part the unused portions of the Commitments; provided that any such partial reduction shall be in the aggregate amount of $10,000,000 or an integral multiple of $1,000,000 in excess thereof.

(b) On each date that the Borrower repurchases Senior Notes from any Noteholder as the result of a Change in Control (as defined in the Indenture), the Commitments of the Lenders shall automatically be ratably reduced by an amount equal in the aggregate to the product of (i) the Commitments on such date (whether used or unused) and (ii) the percentage obtained by dividing (A) the aggregate principal amount of such Senior Notes being repurchased by (B) the aggregate principal amount of the Senior Note Debt then outstanding.

SECTION 2.04. COMPUTATIONS OF OUTSTANDINGS. Whenever reference is made in this Agreement to the principal amount outstanding on any date under this Agreement, such reference shall refer to the sum of (i) the aggregate principal amount of all Loans outstanding on such date under this Agreement plus (ii) the aggregate LC Outstandings of all Letters of Credit outstanding on such date, in each case after giving effect to all Extensions of Credit to be made on such date and the application of the proceeds thereof. At no time shall the principal amount outstanding under this Agreement exceed the aggregate amount of the Commitments hereunder. References to the unused portion of the Commitments under this Agreement shall refer to the excess, if any, of the Commitments hereunder over the principal amount outstanding hereunder; and references to the unused portion of any Lender's Commitment under this Agreement shall refer to such Lender's Percentage of the unused Commitments hereunder.

ARTICLE III
LOANS

SECTION 3.01. LOANS.

(a) The Borrower may request a Borrowing (other than a Conversion) by delivering a notice (a "NOTICE OF BORROWING") to the Administrative Agent no later than 12:00 noon on the third Business Day or, in the case of ABR Loans, on the first Business Day, prior to the date of the proposed Borrowing. The Administrative Agent shall give each Lender prompt notice of each Notice of Borrowing. Each Notice of Borrowing shall be in substantially the form of Exhibit A and shall specify the requested (i) date of such Borrowing, (ii) Type of Loans to be made in connection with such Borrowing, (iii) Interest Period, if any, for such Loans and (iv) amount of such Borrowing. Each proposed Borrowing shall conform to the requirements of Sections 3.03 and 3.04.

(b) Each Lender shall, before 12:00 noon on the date of such Borrowing, make available for the account of its Applicable Lending Office to the Administrative Agent at the Administrative Agent's offices at 1 Chase Manhattan Plaza, 8th Floor, New York, New York, in same day funds, such Lender's Percentage of such Borrowing. After the Administrative Agent's receipt of such funds and upon fulfillment of the applicable conditions set forth in Article VI, the Administrative Agent will make such funds available to the Borrower at the Administrative Agent's aforesaid address; provided, however, that the proceeds of the initial Extension of Credit shall be applied first directly by the Administrative Agent on the Closing Date to the prepayment in full of all outstanding principal, accrued interest and other amounts then owing under the Existing Credit Agreement and then, to the extent the proceeds of such initial Extension of Credit exceeds the amount necessary to prepay in full all outstanding principal, accrued interest and other amounts then owing under the Existing Credit Agreement, to the Borrower at the Administrative Agent's aforesaid address for general corporate purposes. Notwithstanding the

foregoing, unless the Administrative Agent shall have received notice from a Lender prior to the date of any Borrowing that such Lender will not make available to the Administrative Agent such Lender's Percentage of such Borrowing, the Administrative Agent may assume that such Lender has made such Percentage available to the Administrative Agent on the date of such Borrowing in accordance with the first sentence of this subsection (b), and the Administrative Agent may, in reliance upon such assumption, make available to the Borrower on such date a corresponding amount.

(c) If and to the extent that any Lender (a "NON-PERFORMING LENDER") shall not have made available to the Administrative Agent, in accordance with subsection (b) above, such Lender's Percentage of any Borrowing, the non-performing Lender and the Borrower severally agree to repay to the Administrative Agent forthwith on demand corresponding amounts, together with interest thereon for each day from the date such amount is made available to the Borrower until the date such amount is repaid to the Administrative Agent, at (i) in the case of the Borrower, the interest rate applicable at the time to Loans made in connection with such Borrowing and (ii) in the case of such Lender, the Federal Funds Effective Rate. Within the limits of each Lender's Available Commitment and subject to the other terms and conditions set forth in this Agreement for the making of Loans (including Section 8.01(h)), the Borrower may request (and the Lenders shall honor) one or more additional Borrowings from the performing Lenders to fund such repayment to the Administrative Agent. If a non-performing Lender shall repay to the Administrative Agent such corresponding amount in full (with interest as above provided), (x) the Administrative Agent shall apply such corresponding amount and interest to the repayment to the Administrative Agent (or repayment of Loans made to fund such repayment to the Administrative Agent), and shall make any remainder available to the Borrower and (y) such amount so repaid shall be deemed to constitute such Lender's Loan, made as part of such Borrowing for purposes of this Agreement as if funded concurrently with the other Loans made as part of such Borrowing, and such Lender shall forthwith cease to be deemed a non-performing Lender; if and so long as such non-performing Lender shall not repay such amount, and unless and until an Eligible Assignee shall have assumed and performed the obligations of such non-performing Lender, all computations by the Administrative Agent of Percentages, Commitments and payments hereunder shall be made without regard to the Commitment, or outstanding Loans, of such non-performing Lender, and any amounts paid to the Administrative Agent for the account of such non-performing Lender shall be held by the Administrative Agent in trust for such non-performing Lender in a non-interest-bearing special purpose account. Nothing herein shall in any way limit, waive or otherwise reduce any claims that any party hereto may have against any non-performing Lender. The failure of any Lender to make the Loan to be made by it as part of any Borrowing shall not relieve any other Lender of its obligation, if any, hereunder to make its Loan on the date of such Borrowing, but no Lender shall be responsible for the failure of any other Lender to make the Loan to be made by such other Lender on the date of any Borrowing.

(d) Any Lender may request that Loans made by it be evidenced by a Promissory Note. In such event, the Borrower shall prepare, execute and deliver to such Lender a Promissory Note payable to the order of such Lender (or, if requested by such Lender, to such Lender and its registered assigns) and in a form approved by the Administrative Agent. Thereafter, the Loans evidenced by such Promissory Note and interest thereon shall at all times (including after assignment pursuant to Section 11.07) be represented by one or more Promissory

Notes in such form payable to the order of the payee named therein (or, if such Promissory Note is a registered note, to such payee and its registered assigns).

SECTION 3.02. CONVERSION OF LOANS. The Borrower may from time to time Convert any Loan (or portion thereof) of any Type to one or more Loans of the same or any other Type by delivering a notice of such Conversion (a "NOTICE OF CONVERSION") to the Administrative Agent no later than 12:00 noon on (x) the third Business Day prior to the date of any proposed Conversion into a Eurodollar Rate Loan and (y) the first Business Day prior to the date of any proposed Conversion into an ABR Loan. The Administrative Agent shall give each Lender prompt notice of each Notice of Conversion. Each Notice of Conversion shall be in substantially the form of Exhibit B and shall specify (i) the requested date of such Conversion, (ii) the Type of, and Interest Period, if any, applicable to, the Loans (or portions thereof) proposed to be Converted, (iii) the requested Type of Loans to which such Loans (or portions thereof) are proposed to be Converted, (iv) the requested initial Interest Period, if any, to be applicable to the Loans resulting from such Conversion and (v) the aggregate amount of Loans (or portions thereof) proposed to be Converted. Each proposed Conversion shall be subject to the provisions of Sections 3.03 and 3.04.

SECTION 3.03. INTEREST PERIODS. The period between the date of each Eurodollar Rate Loan and the date of payment in full of such Loan shall be divided into successive periods of months ("INTEREST PERIODS") for purposes of computing interest applicable thereto. The initial Interest Period for each such Loan shall begin on the day such Loan is made, and each subsequent Interest Period shall begin on the last day of the immediately preceding Interest Period for such Loan. The duration of each Interest Period shall be 1, 2, 3, or 6 months, as the Borrower may, in accordance with Section 3.01 or 3.02, select; provided, however, that:

(i) the Borrower may not select any Interest Period for a Eurodollar Rate Loan that ends after the Termination Date;

(ii) whenever the last day of any Interest Period would otherwise occur on a day other than a Business Day, the last day of such Interest Period shall occur on the next succeeding Business Day, provided that if such extension would cause the last day of such Interest Period to occur in the next following calendar month, the last day of such Interest Period shall occur on the next preceding Business Day; and

(iii) any Interest Period that commences on the last Business Day of a calendar month (or on a day for which there is no numerically corresponding day in the last calendar month of such Interest Period) shall end on the last Business Day of the last calendar month of such Interest Period.

SECTION 3.04. OTHER TERMS RELATING TO THE MAKING AND CONVERSION OF LOANS.

(a) Notwithstanding anything in Section 3.01 or 3.02 to the contrary:

(i) each Borrowing (other than a Borrowing deemed made under Section 4.04(d)) shall be in an aggregate amount not less than $10,000,000, or an integral multiple of $1,000,000 in excess thereof (or such lesser amount as shall be equal to the total amount of the Available Commitments on such date, after giving effect to all other

Extensions of Credit to be made on such date), and shall consist of Loans of the same Type, having the same Interest Period and made or Converted on the same day by the Lenders ratably according to their respective Percentages; provided, however, that the initial Borrowing shall be in an aggregate amount sufficient to repay in full all outstanding principal, accrued interest and other amounts owing under the Existing Credit Agreement as of the Closing Date;

(ii) the Borrower may request that more than one Borrowing be made on the same day;

(iii) at no time shall more than fifteen (15) different Borrowings comprising Eurodollar Rate Loans be outstanding hereunder;

(iv) no Eurodollar Rate Loan may be Converted on a date other than the last day of the Interest Period applicable to such Loan unless the corresponding amounts, if any, payable to the Lenders pursuant to Section 5.04(b) are paid contemporaneously with such Conversion;

(v) if the Borrower shall either fail to give a timely Notice of Conversion pursuant to Section 3.02 in respect of any Loans or fail, in any Notice of Conversion that has been timely given, to select the duration of any Interest Period for Loans to be Converted into Eurodollar Rate Loans in accordance with Section 3.03, such Loans shall, on the last day of the then existing Interest Period therefor, automatically Convert into, or remain as, as the case may be, ABR Loans; and

(vi) if, on the date of any proposed Conversion, any Event of Default or Default shall have occurred and be continuing, all Loans then outstanding shall, on such date, automatically Convert into, or remain as, as the case may be, ABR Loans; provided, however, that with respect to any Default that occurs and is continuing as a result of the failure of the Borrower to comply with the ratio set forth in Section 8.01(j), any such Loans may be Converted into Eurodollar Rate Loans with an Interest Period not to exceed three months in duration.

(b) If any Lender shall notify the Administrative Agent that the introduction of or any change in or in the interpretation of any law or regulation makes it unlawful, or that any central bank or other governmental authority asserts that it is unlawful, for such Lender or its Applicable Lending Office to perform its obligations hereunder to make, or to fund or maintain, Eurodollar Rate Loans hereunder, (i) the obligation of such Lender to make, or to Convert Loans into, Eurodollar Rate Loans for such Borrowing or any subsequent Borrowing from such Lender shall be forthwith suspended until the earlier to occur of the date upon which (A) such Lender shall cease to be a party hereto and (B) it is no longer unlawful for such Lender to make, fund or maintain Eurodollar Rate Loans, and (ii) if the maintenance of Eurodollar Rate Loans then outstanding through the last day of the Interest Period therefor would cause such Lender to be in violation of such law, regulation or assertion, the Borrower shall either prepay or Convert all Eurodollar Rate Loans from such Lender within five days after such notice. Promptly upon becoming aware that the circumstances that caused such Lender to deliver such notice no longer exist, such Lender shall deliver notice thereof to the Administrative Agent (but the failure to do

so shall impose no liability upon such Lender). Promptly upon receipt of such notice from such Lender (or upon such Lender's assigning all of its Commitment, Loans, participation and other rights and obligations hereunder to an Eligible Assignee), the Administrative Agent shall deliver notice thereof to the Borrower and the Lenders and such suspension shall terminate.

(c) If the Required Lenders shall, at least one Business Day before the date of any requested Borrowing, notify the Administrative Agent that the Adjusted LIBO Rate for Eurodollar Rate Loans to be made in connection with such Borrowing will not adequately reflect the cost to such Required Lenders of making, funding or maintaining their respective Eurodollar Rate Loans for such Borrowing, or that they are unable to acquire funding in a reasonable manner so as to make available Eurodollar Rate Loans in the amount and for the Interest Period requested, or if the Administrative Agent shall determine that adequate and reasonable means do not exist to be able to determine the Adjusted LIBO Rate, then the right of the Borrower to select Eurodollar Rate Loans for such Borrowing and any subsequent Borrowing shall be suspended until the Administrative Agent shall notify the Borrower and the Lenders that the circumstances causing such suspension no longer exist, and each Loan to be made or Converted in connection with such Borrowing shall be an ABR Loan.

(d) If any Lender shall have delivered a notice to the Administrative Agent described in Section 3.04(b), or shall become a non-performing Lender under Section 3.01(c) or Section 4.04(c), and if and so long as such Lender shall not have withdrawn such notice or corrected such non-performance in accordance with said Section 3.04(b), Section 3.01(c) or Section 4.04(c), the Borrower or the Administrative Agent may demand that such Lender assign in accordance with Section 11.07, to one or more Eligible Assignees designated by the Borrower or the Administrative Agent, all (but not less than all) of such Lender's Commitment, Loans, participation and other rights and obligations hereunder; provided that any such demand by the Borrower during the continuance of an Event of Default or Default shall be ineffective without the consent of the Required Lenders. If, within 30 days following any such demand by the Administrative Agent or the Borrower, any such Eligible Assignee so designated shall fail to consummate such assignment on terms reasonably satisfactory to such Lender, or the Borrower and the Administrative Agent shall have failed to designate any such Eligible Assignee, then such demand by the Borrower or the Administrative Agent shall become ineffective, it being understood for purposes of this provision that such assignment shall be conclusively deemed to be on terms reasonably satisfactory to such Lender, and such Lender shall be compelled to consummate such assignment forthwith, if such Eligible Assignee (i) shall agree to such assignment in substantially the form of the Lender Assignment attached hereto as Exhibit G and (ii) shall tender payment to such Lender in an amount equal to the full outstanding dollar amount accrued in favor of such Lender hereunder (as computed in accordance with the records of the Administrative Agent), including, without limitation, all accrued interest and fees and, to the extent not paid by the Borrower, any payments required pursuant to Section 5.04(b).

(e) Each Notice of Borrowing and Notice of Conversion shall be irrevocable and binding on the Borrower. In the case of any Borrowing which the related Notice of Borrowing or Notice of Conversion specifies is to be comprised of Eurodollar Rate Loans, the Borrower shall indemnify each Lender against any loss, cost or expense incurred by such Lender as a result of any failure to fulfill, on or before the date specified in such Notice of Borrowing or Notice of Conversion for such Borrowing, the applicable conditions (if any) set forth in this Article III

(other than failure pursuant to the provisions of Section 3.04(b) or (c) hereof) or in Article VI, including any such loss (including loss of anticipated profits), cost or expense incurred by reason of the liquidation or reemployment of deposits or other funds acquired by such Lender to fund the Loan to be made by such Lender when such Loan, as a result of such failure, is not made on such date.

SECTION 3.05. REPAYMENT OF LOANS; INTEREST

(a) Principal. The Borrower shall repay the outstanding principal amount of the Loans on the Termination Date.

(b) Interest. The Borrower shall pay interest on the unpaid principal amount of each Loan owing to each Lender from the date of such Loan until such principal amount shall be paid in full, at the Applicable Rate for such Loan (except as otherwise provided in this subsection (b)), payable as follows:

(i) ABR Loans. If such Loan is an ABR Loan, interest thereon shall be payable quarterly in arrears on the last day of each January, April, July and October, on the date of any Conversion of such ABR Loan and on the date such ABR Loan shall become due and payable or shall otherwise be paid in full; provided that any amount of principal that is not paid when due (whether at stated maturity, by acceleration or otherwise) shall bear interest, from the date on which such amount is due until such amount is paid in full, payable on demand, at a rate per annum equal at all times to the Default Rate.

(ii) Eurodollar Rate Loans. If such Loan is a Eurodollar Rate Loan, interest thereon shall be payable on the last day of such Interest Period and, if the Interest Period for such Loan has a duration of more than three months, on that day of each third month during such Interest Period that corresponds to the first day of such Interest Period (or, if any such month does not have a corresponding day, then on the last day of such month); provided that any amount of principal that is not paid when due (whether at stated maturity, by acceleration or otherwise) shall bear interest, from the date on which such amount is due until such amount is paid in full, payable on demand, at a rate per annum equal at all times to the Default Rate.

ARTICLE IV
LETTERS OF CREDIT

SECTION 4.01. ISSUING BANKS. Subject to the terms and conditions hereof, the Borrower may from time to time identify and arrange for one or more Lenders to act as Issuing Banks hereunder. Any such designation by the Borrower shall be notified to the Administrative Agent at least five Business Days prior to the first date upon which the Borrower proposes that such Issuing Bank issue its first Letter of Credit. Nothing contained herein shall be deemed to require any Lender to agree to act as an Issuing Bank, if it does not so desire.

SECTION 4.02. LETTERS OF CREDIT.

(a) Each Letter of Credit shall be issued (or the stated maturity thereof extended or terms thereof modified or amended) on not less than three Business Days' prior written notice thereof to the Administrative Agent (which shall promptly distribute copies thereof to the Lenders) and the relevant Issuing Bank. Each such notice (a "REQUEST FOR ISSUANCE") shall specify (i) the date (which shall be a Business Day) of issuance of such Letter of Credit (or the date of effectiveness of such extension, modification or amendment) and the stated expiry date thereof (which shall be no later than the date that is five Business Days prior to the Termination Date, subject to the other terms and conditions contained herein (including the satisfaction of the conditions precedent set forth in Section 6.02)), (ii) the proposed stated amount of such Letter of Credit (which shall not be less than $500,000) and (iii) such other information as shall demonstrate compliance of such Letter of Credit with the requirements specified therefor in this Agreement and the relevant Issuing Bank Agreement. Each Request for Issuance shall be irrevocable unless modified or rescinded by the Borrower not less than two days prior to the proposed date of issuance (or effectiveness) specified therein. Not later than 12:00 noon on the proposed date of issuance (or effectiveness) specified in such Request for Issuance, and upon fulfillment of the applicable conditions precedent and the other requirements set forth herein and in the relevant Issuing Bank Agreement, such Issuing Bank shall issue (or extend, amend or modify) such Letter of Credit and provide notice and a copy thereof to the Administrative Agent, which shall promptly furnish copies thereof to the Lenders.

(b) Each Lender severally agrees with such Issuing Bank to participate in the Extension of Credit resulting from the issuance (or extension, modification or amendment) of such Letter of Credit, in the manner and the amount provided in Section 4.04(b), and the issuance of such Letter of Credit shall be deemed to be a confirmation by such Issuing Bank and each Lender of such participation in such amount.

(c) Notwithstanding anything herein to the contrary, the aggregate stated amount of all Letters of Credit outstanding at any one time shall not exceed $200,000,000.

SECTION 4.03. ISSUING BANK FEES. The Borrower shall pay directly to each Issuing Bank such fees and expenses, if any, specified to be paid to such Issuing Bank pursuant to the Issuing Bank Agreement to which it is a party, at the times, and in the manner, specified in such Issuing Bank Agreement.

SECTION 4.04. REIMBURSEMENT TO ISSUING BANKS.

(a) The Borrower hereby agrees to pay to the Administrative Agent for the account of each Issuing Bank, on demand made by such Issuing Bank to the Borrower and the Administrative Agent, on and after each date on which such Issuing Bank shall pay any amount under the Letter of Credit issued by such Issuing Bank, a sum equal to the amount so paid plus interest on such amount from the date so paid by such Issuing Bank until repayment to such Issuing Bank in full at a fluctuating interest rate per annum equal at all times to the Applicable Rate for ABR Loans.

(b) If any Issuing Bank shall not have been reimbursed in full for any payment made by such Issuing Bank under the Letter of Credit issued by such Issuing Bank on the date of such payment, such Issuing Bank shall give the Administrative Agent and each Lender prompt notice thereof (an "LC PAYMENT NOTICE") no later than 12:00 noon on the Business Day immediately succeeding the date of such payment by such Issuing Bank. Each Lender severally agrees to purchase from each Issuing Bank a participation in the reimbursement obligation of the Borrower to such Issuing Bank under subsection (a) above, by paying to the Administrative Agent for the account of such Issuing Bank an amount equal to such Lender's Percentage of such unreimbursed amount paid by such Issuing Bank, plus interest on such amount at a rate per annum equal to the Federal Funds Effective Rate from the date of such payment by such Issuing Bank to the date of payment to such Issuing Bank by such Lender. Each such payment by a Lender shall be made not later than 3:00 P.M. on the later to occur of (i) the Business Day immediately following the date of such payment by such Issuing Bank and (ii) the Business Day on which such Lender shall have received an LC Payment Notice from such Issuing Bank. Each Lender's obligation to make each such payment to the Administrative Agent for the account of such Issuing Bank shall be several and shall not be affected by the occurrence or continuance of any Default or Event of Default or the failure of any other Lender to make any payment under this Section 4.04. Each Lender further agrees that each such payment shall be made without any offset, abatement, withholding or reduction whatsoever.

(c) The failure of any Lender to make any payment to the Administrative Agent for the account of an Issuing Bank in accordance with subsection (b) above, shall not relieve any other Lender of its obligation to make payment, but no Lender shall be responsible for the failure of any other Lender. If any Lender (a "NON-PERFORMING LENDER") shall fail to make any payment to the Administrative Agent for the account of an Issuing Bank in accordance with subsection (b) above, within five Business Days after the LC Payment Notice relating thereto, then, for so long as such failure shall continue, such Issuing Bank shall be deemed, for purposes of Section 5.05 and Article IX hereof and the Cash Collateral Agreement, to be a Lender hereunder owed a Loan in an amount equal to the outstanding principal amount due and payable by such Lender to the Administrative Agent for the account of such Issuing Bank pursuant to subsection (b) above.

(d) Each participation purchased by a Lender under subsection (b) above, shall constitute an ABR Loan deemed made by such Lender to the Borrower on the date of such payment by the relevant Issuing Bank under the Letter of Credit issued by such Issuing Bank (irrespective of the Borrower's noncompliance, if any, with the conditions precedent for Loans hereunder); and all such payments by the Lenders in respect of any one such payment by such Issuing Bank shall constitute a single Borrowing hereunder.

SECTION 4.05. OBLIGATIONS ABSOLUTE. The payment obligations of each Lender under Section 4.04(b) and of the Borrower under this Agreement in respect of any payment under any Letter of Credit and any Loan made under Section 4.04(d) shall be unconditional and irrevocable, and shall be paid strictly in accordance with the terms of this Agreement under all circumstances, including the following circumstances:

(i) any lack of validity or enforceability of any Loan Document or any other agreement or instrument relating thereto or to such Letter of Credit;

(ii) any amendment or waiver of, or any consent to departure from, all or any of the Loan Documents;

(iii) the existence of any claim, set-off, defense or other right which the Borrower may have at any time against any beneficiary, or any transferee, of such Letter of Credit (or any Persons for whom any such beneficiary or any such transferee may be acting), any Issuing Bank, or any other Person, whether in connection with this Agreement, the transactions contemplated herein or by such Letter of Credit, or any unrelated transaction;

(iv) any statement or any other document presented under such Letter of Credit proving to be forged, fraudulent, invalid or insufficient in any respect or any statement therein being untrue or inaccurate in any respect;

(v) payment in good faith by any Issuing Bank under the Letter of Credit issued by such Issuing Bank against presentation of a draft or certificate which does not comply with the terms of such Letter of Credit; or

(vi) any other circumstance or happening whatsoever, whether or not similar to any of the foregoing.

SECTION 4.06. LIABILITY OF ISSUING BANKS AND THE LENDERS. The Borrower assumes all risks of the acts and omissions of any beneficiary or transferee of any Letter of Credit. Neither the Issuing Bank that has issued such Letter of Credit, the Lenders nor any of their respective officers, directors, employees, agents or Affiliates shall be liable or responsible for (a) the use that may be made of such Letter of Credit or any acts or omissions of any beneficiary or transferee thereof in connection therewith; (b) the validity, sufficiency or genuineness of documents, or of any endorsement thereon, even if such documents should prove to be in any or all respects invalid, insufficient, fraudulent or forged; (c) payment by such Issuing Bank against presentation of documents that do not comply with the terms of such Letter of Credit, including failure of any documents to bear any reference or adequate reference to such Letter of Credit; or (d) any other circumstances whatsoever in making or failing to make payment under such Letter of Credit, except that the Borrower shall have the right to bring suit against such Issuing Bank, and such Issuing Bank shall be liable to the Borrower and any Lender, to the extent of any direct, as opposed to consequential, damages suffered by the Borrower or such Lender which the Borrower or such Lender proves were caused by such Issuing Bank's willful misconduct or gross negligence, including such Issuing Bank's willful failure to make timely payment under such Letter of Credit following the presentation to it by the beneficiary thereof of a draft and accompanying certificate(s) which strictly comply with the terms and conditions of such Letter of Credit. In furtherance and not in limitation of the foregoing, any Issuing Bank may accept sight drafts and accompanying certificates presented under the Letter of Credit issued by such Issuing Bank that appear on their face to be in order, without responsibility for further investigation, regardless of any notice or information to the contrary. Notwithstanding the foregoing, no Lender shall be obligated to indemnify the Borrower for damages caused by any Issuing Bank's willful misconduct or gross negligence, and the obligation of the Borrower to reimburse the Lenders hereunder shall be absolute and unconditional, notwithstanding the gross negligence or willful misconduct of any Issuing Bank.

ARTICLE V
PAYMENTS, COMPUTATIONS AND
YIELD PROTECTION

SECTION 5.01. PAYMENTS AND COMPUTATIONS.

(a) The Borrower shall make each payment hereunder and under the other Loan Documents not later than 2:00 P.M. on the day when due in Dollars to the Administrative Agent at its offices at 1 Chase Manhattan Plaza, 8th Floor, New York, New York, in same day funds, except payments to be made directly to any Issuing Bank as expressly provided herein; any payment received after 3:00 P.M. shall be deemed to have been received at the start of business on the next succeeding Business Day, unless the Administrative Agent shall have received from, or on behalf of, the Borrower a Federal Reserve reference number with respect to such payment before 4:00 P.M. The Administrative Agent will promptly thereafter cause to be distributed like funds relating to the payment of principal, interest, fees or other amounts payable to the Lenders, to the respective Lenders to which the same are payable, for the account of their respective Applicable Lending Offices, in each case to be applied in accordance with the terms of this Agreement. If and to the extent that any distribution of any payment from the Borrower required to be made to any Lender pursuant to the preceding sentence shall not be made in full by the Administrative Agent on the date such payment was received by the Administrative Agent, the Administrative Agent shall pay to such Lender, upon demand, interest on the unpaid amount of such distribution, at a rate per annum equal to the Federal Funds Effective Rate, from the date of such payment by the Borrower to the Administrative Agent to the date of payment in full by the Administrative Agent to such Lender of such unpaid amount. Upon the Administrative Agent's acceptance of a Lender Assignment and recording of the information contained therein in the Register pursuant to Section 11.07, from and after the effective date specified in such Lender Assignment, the Administrative Agent shall make all payments hereunder and under any Promissory Notes in respect of the interest assigned thereby to the Lender assignee thereunder, and the parties to such Lender Assignment shall make all appropriate adjustments in such payments for periods prior to such effective date directly between themselves.

(b) The Borrower hereby authorizes the Administrative Agent, each Lender and each Issuing Bank, if and to the extent payment owed to the Administrative Agent, such Lender or such Issuing Bank, as the case may be, is not made when due hereunder (or, in the case of a Lender, under any Promissory Note held by such Lender), to charge from time to time against any or all of the Borrower's accounts with the Administrative Agent, such Lender or such Issuing Bank, as the case may be, any amount so due.

(c) All computations of interest based on the Alternate Base Rate (when the Alternate Base Rate is based on the Prime Rate) shall be made by the Administrative Agent on the basis of a year of 365 or 366 days, as the case may be. All other computations of interest and fees hereunder (including computations of interest based on the Adjusted LIBO Rate, the Base CD Rate and the Federal Funds Effective Rate) shall be made by the Administrative Agent on the basis of a year of 360 days. In each such case, such computation shall be made for the actual number of days (including the first day but excluding the last day) occurring in the period for which such interest or fees are payable. Each such determination by the Administrative Agent or a Lender shall be conclusive and binding for all purposes, absent manifest error.

(d) Whenever any payment hereunder or under any other Loan Document shall be stated to be due on a day other than a Business Day, such payment shall be made on the next succeeding Business Day, and such extension of time shall in such case be included in the computation of payment of interest and fees hereunder; provided, however, that if such extension would cause payment of interest on or principal of Eurodollar Rate Loans to be made in the next following calendar month, such payment shall be made on the next preceding Business Day and such reduction of time shall in such case be included in the computation of payment of interest hereunder.

(e) Unless the Administrative Agent shall have received notice from the Borrower prior to the date on which any payment is due to the Lenders hereunder that the Borrower will not make such payment in full, the Administrative Agent may assume that the Borrower has made such payment in full to the Administrative Agent on such date, and the Administrative Agent may, in reliance upon such assumption, cause to be distributed to each Lender on such due date an amount equal to the amount then due such Lender. If and to the extent the Borrower shall not have so made such payment in full to the Administrative Agent, such Lender shall repay to the Administrative Agent forthwith on demand such amount distributed to such Lender, together with interest thereon, for each day from the date such amount is distributed to such Lender until the date such Lender repays such amount to the Administrative Agent, at the Federal Funds Effective Rate.

(f) Any amount payable by the Borrower hereunder or under any of the Promissory Notes that is not paid when due (whether at stated maturity, by acceleration or otherwise) shall (to the fullest extent permitted by law) bear interest, from the date when due until paid in full, at a rate per annum equal at all times to the Default Rate, payable on demand.

(g) If at any time insufficient funds are received by and available to the Administrative Agent to pay fully all amounts of principal, interest and fees then due hereunder, such funds shall be applied (i) first, towards payment of interest and fees then due hereunder, ratably among the parties entitled thereto in accordance with the amounts of interest and fees then due to such parties, and (ii) second, towards payment of principal then due hereunder, ratably among the parties entitled thereto.

SECTION 5.02. INTEREST RATE DETERMINATION.

(a) The Administrative Agent shall give prompt notice to the Borrower and the Lenders of the applicable interest rate determined by the Administrative Agent for purposes of Section 3.05(b)(i) or (ii).

SECTION 5.03. PREPAYMENTS.

The Borrower shall have no right to prepay any principal amount of any Loans other than as provided in subsections (a) and (b) below.

(a) The Borrower may, upon at least three (3) Business Days' notice to the Administrative Agent stating the proposed date and the aggregate principal amount of the prepayment, and if such notice is given, the Borrower shall, prepay the outstanding principal amounts of Loans made as part of the same Borrowing, in whole or ratably in part, together with (i) accrued interest to the date of such prepayment on the principal amount prepaid and (ii) in the

case of Eurodollar Rate Loans, any amount payable to the Lenders pursuant to Section 5.04(b); provided, however, that each partial prepayment shall be in an aggregate principal amount of not less than $10,000,000 or an integral multiple of $1,000,000 in excess thereof.

(b) On the date of any termination or optional or mandatory reduction of the Commitments pursuant to Section 2.03, the Borrower shall pay or prepay so much of the principal amount outstanding as shall be necessary in order that the aggregate principal amount outstanding (after giving effect to all Extensions of Credit to be made on such date and the application of the proceeds thereof) will not exceed the Commitments following such termination or reduction, together with (i) accrued interest to the date of such prepayment on the principal amount repaid and (ii) in the case of prepayments of Eurodollar Rate Loans, any amount payable to the Lenders pursuant to Section 5.04(b). Any prepayments required by this subsection (b) shall be applied to outstanding ABR Loans up to the full amount thereof before they are applied, first, to outstanding Eurodollar Rate Loans and, second, as cash collateral, pursuant to the Cash Collateral Agreement, to secure LC Outstandings.

SECTION 5.04. YIELD PROTECTION.

(a) Increased Costs. If, due to either (i) the introduction of or any change in or in the interpretation of any law or regulation after the date hereof, or (ii) the compliance with any guideline or request from any central bank or other governmental authority (whether or not having the force of law) issued or made after the date hereof, there shall be reasonably incurred any increase in (A) the cost to any Lender of agreeing to make or making, funding or maintaining Eurodollar Rate Loans, or of participating in the issuance, maintenance or funding of any Letter of Credit, or (B) the cost to any Issuing Bank of issuing or maintaining any Letter of Credit, then the Borrower shall from time to time, upon demand by such Lender or Issuing Bank, as the case may be (with a copy of such demand to the Administrative Agent), pay to the Administrative Agent for the account of such Lender or Issuing Bank, as the case may be, additional amounts sufficient to compensate such Lender or Issuing Bank, as the case may be, for such increased cost. A certificate as to the amount of such increased cost and giving a reasonable explanation thereof, submitted to the Borrower and the Administrative Agent by such Lender or such Issuing Bank, as the case may be, shall constitute such demand and shall be conclusive and binding for all purposes, absent manifest error.

(b) Breakage. If, due to any prepayment pursuant to Section 5.03, an acceleration of maturity of the Loans pursuant to Section 9.02, or any other reason, any Lender receives payments of principal of any Eurodollar Rate Loan other than on the last day of the Interest Period relating to such Loan, or if the Borrower shall Convert any Eurodollar Rate Loans on any day other than the last day of the Interest Period therefor, or if the Borrower shall fail to prepay a Eurodollar Rate Loan on the date specified in a notice of prepayment, the Borrower shall, promptly after demand by such Lender (with a copy of such demand to the Administrative Agent), pay to the Administrative Agent for the account of such Lender any amounts required to compensate such Lender for additional

losses, costs, or expenses (including anticipated lost profits) that such Lender may reasonably incur as a result of such payment, Conversion or failure to prepay, including any loss, cost or expense incurred by reason of the liquidation or reemployment of deposits or other funds acquired by such Lender to fund or maintain such Loan. For purposes of this subsection (b), a certificate setting forth the amount of such additional losses, costs, or expenses and giving a reasonable explanation thereof, submitted to the Borrower and the Administrative Agent by such Lender, shall constitute such demand and shall be conclusive and binding for all purposes, absent manifest error.

(c) Capital. If any Lender or Issuing Bank determines that (i) compliance with any law or regulation or any guideline or request from any central bank or other governmental authority (whether or not having the force of law) affects or would affect the amount of capital required or expected to be maintained by such Lender or Issuing Bank, whether directly, or indirectly as a result of commitments of any corporation controlling such Lender or Issuing Bank (but without duplication), and (ii) the amount of such capital is increased by or based upon (A) the existence of such Lender's or Issuing Bank's commitment to lend or issue or participate in any Letter of Credit hereunder, or (B) the participation in or issuance or maintenance of any Letter of Credit or Loan and (C) other similar such commitments, then, upon demand by such Lender or Issuing Bank, the Borrower shall immediately pay to the Administrative Agent for the account of such Lender or Issuing Bank from time to time as specified by such Lender or Issuing Bank additional amounts sufficient to compensate such Lender or Issuing Bank in the light of such circumstances, to the extent that such Lender or Issuing Bank reasonably determines such increase in capital to be allocable to the transactions contemplated hereby. A certificate as to such amounts and giving a reasonable explanation thereof (to the extent permitted by law), submitted to the Borrower and the Administrative Agent by such Lender or Issuing Bank, shall be conclusive and binding for all purposes, absent manifest error.

(d) Notices. Each Lender hereby agrees to use its best efforts to notify the Borrower of the occurrence of any event referred to in subsection (a), (b) or (c) of this Section 5.04 promptly after becoming aware of the occurrence thereof. The failure of any Lender to provide such notice or to make demand for payment under said subsection shall not constitute a waiver of such Lender's rights hereunder; provided that, notwithstanding any provision to the contrary contained in this Section 5.04, the Borrower shall not be required to reimburse any Lender for any amounts or costs incurred under subsection (a), (b) or (c) above, more than 90 days prior to the date that such Lender notifies the Borrower in writing thereof, in each case unless, and to the extent that, any such amounts or costs so incurred shall relate to the retroactive application of any event notified to the Borrower which entitles such Lender to such compensation. If any Lender shall subsequently determine that any amount demanded and collected under this Section 5.04 was done so in error, such Lender will promptly return such amount to the Borrower.

(e) Survival of Obligations. Subject to subsection (d) above, the Borrower's obligations under this Section 5.04 shall survive the repayment of all other amounts owing to the Lenders, the Agents and the Issuing Banks under the Loan Documents and the termination of the Commitments. If and to the extent that the obligations of the Borrower under this Section 5.04 are unenforceable for any reason, the Borrower agrees to make the maximum contribution to the payment and satisfaction thereof which is permissible under applicable law.

SECTION 5.05. SHARING OF PAYMENTS, ETC. If any Lender shall obtain any payment (whether voluntary, involuntary, through the exercise of any right of set-off, or otherwise) on account of the Loans owing to it (other than pursuant to Section 5.04) in excess of its ratable share of payments obtained by all the Lenders on account of the Loans of such Lenders, such Lender shall forthwith purchase from the other Lenders such participation in the Loans owing to

them as shall be necessary to cause such purchasing Lender to share the excess payment ratably with each of them; provided, however, that if all or any portion of such excess payment is thereafter recovered from such purchasing Lender, such purchase from each Lender shall be rescinded and such Lender shall repay to the purchasing Lender the purchase price to the extent of such recovery together with an amount equal to such Lender's ratable share (according to the proportion of (i) the amount of such Lender's required repayment to (ii) the total amount so recovered from the purchasing Lender) of any interest or other amount paid or payable by the purchasing Lender in respect of the total amount so recovered. The Borrower agrees that any Lender so purchasing a participation from another Lender pursuant to this Section 5.05 may, to the fullest extent permitted by law, exercise all its rights of payment (including the right of set-off) with respect to such participation as fully as if such Lender were the direct creditor of the Borrower in the amount of such participation. Notwithstanding the foregoing, if any Lender shall obtain any such excess payment involuntarily, such Lender may, in lieu of purchasing participations from the other Lenders in accordance with this Section 5.05, on the date of receipt of such excess payment, return such excess payment to the Administrative Agent for distribution in accordance with Section 5.01(a).

SECTION 5.06. TAXES.

(a) All payments by the Borrower hereunder and under the other Loan Documents shall be made in accordance with Section 5.01, free and clear of and without deduction for all present or future taxes, levies, imposts, deductions, charges or withholdings, and all liabilities with respect thereto, excluding, in the case of each Lender, each Issuing Bank and each Agent, taxes imposed on its overall net income, and franchise taxes imposed on it by the jurisdiction under the laws of which such Lender, Issuing Bank or Agent (as the case may be) is organized or any political subdivision thereof and, in the case of each Lender, taxes imposed on its overall net income, and franchise taxes imposed on it by the jurisdiction of such Lender's Applicable Lending Office or any political subdivision thereof (all such non-excluded taxes, levies, imposts, deductions, charges, withholdings and liabilities being hereinafter referred to as "TAXES"). If the Borrower shall be required by law to deduct any Taxes from or in respect of any sum payable hereunder or under any other Loan Document to any Lender, Issuing Bank or Agent, (i) the sum payable shall be increased as may be necessary so that after making all required deductions (including deductions applicable to additional sums payable under this Section 5.06) such Lender, Issuing Bank or Agent (as the case may be) receives an amount equal to the sum it would have received had no such deductions been made, (ii) the Borrower shall make such deductions and (iii) the Borrower shall pay the full amount deducted to the relevant taxation authority or other authority in accordance with applicable law.

(b) In addition, the Borrower agrees to pay any present or future stamp or documentary taxes or any other excise or property taxes, charges or similar levies that arise from any payment made hereunder or under any other Loan Document or from the execution, delivery or registration of, or otherwise with respect to, this Agreement or any other Loan Document (hereinafter referred to as "OTHER TAXES").

(c) The Borrower will indemnify each Lender, Issuing Bank and Agent for the full amount of Taxes and Other Taxes (including any Taxes and any Other Taxes imposed by any jurisdiction on amounts payable under this Section 5.06) paid by such Lender, Issuing Bank or

Agent (as the case may be) and any liability (including penalties, interest and expenses) arising therefrom or with respect thereto, whether or not such Taxes or Other Taxes were correctly or legally asserted. This indemnification shall be made within 30 days from the date such Lender, Issuing Bank or Agent (as the case may be) makes written demand therefor; provided, that such Lender, Issuing Bank or Agent (as the case may be) shall not be entitled to demand payment under this Section 5.06 for an amount if such demand is not made within one year following the date upon which such Lender, Issuing Bank or Agent (as the case may be) shall have been required to pay such amount.

(d) Within 30 days after the date of any payment of Taxes, the Borrower will furnish to the Administrative Agent, at its address referred to in Section 11.02, the original or a certified copy of a receipt evidencing payment thereof.

(e) Each Bank represents and warrants that either (i) it is organized under the laws of a jurisdiction within the United States or (ii) it has delivered to the Borrower or the Administrative Agent duly completed copies of such form or forms prescribed by the United States Internal Revenue Service indicating that such Bank is entitled to receive payments without deduction or withholding of any United States federal income taxes, as permitted by the Internal Revenue Code of 1986, as amended. Each other Lender agrees that, on or prior to the date upon which it shall become a party hereto, and upon the reasonable request from time to time of the Borrower or the Administrative Agent, such Lender will deliver to the Borrower and the Administrative Agent (to the extent that it is not prohibited by law from doing so) either (A) a statement that it is organized under the laws of a jurisdiction within the United States or (B) duly completed copies of such form or forms as may from time to time be prescribed by the United States Internal Revenue Service, indicating that such Lender is entitled to receive payments without deduction or withholding of any United States federal income taxes, as permitted by the Internal Revenue Code of 1986, as amended. Each Bank that has delivered, and each other Lender that hereafter delivers, to the Borrower and the Administrative Agent the form or forms referred to in the two preceding sentences further undertakes to deliver to the Borrower and the Administrative Agent, to the extent that it is not prohibited by law from doing so, further copies of such form or forms, or successor applicable form or forms, as the case may be, as and when any previous form filed by it hereunder shall expire or shall become incomplete or inaccurate in any respect. Each Lender represents and warrants that each such form supplied by it to the Administrative Agent and the Borrower pursuant to this subsection (e), and not superseded by another form supplied by it, is or will be, as the case may be, complete and accurate.

ARTICLE VI
CONDITIONS PRECEDENT

SECTION 6.01. CONDITIONS PRECEDENT TO THE INITIAL EXTENSION OF CREDIT. The obligation of each Lender to make its initial Extension of Credit is subject to the fulfillment of the following conditions precedent:

(a) The Administrative Agent shall have received, on or before the day of the initial Extension of Credit, the following, each dated such day (except where specified otherwise below), in form and substance satisfactory to each Lender (except where otherwise specified below) and (except for any Promissory Notes) in sufficient copies for each Lender:

(i) Certified copies of the resolutions of the Board of Directors, or of the Executive Committee of the Board of Directors, of the Borrower authorizing the Borrower to enter into this Agreement and the other Loan Documents to which it is, or is to be, a party, and of all documents evidencing other necessary corporate action and Governmental Approvals, if any, with respect to this Agreement and such Loan Documents.

(ii) A certificate of the Secretary or an Assistant Secretary of the Borrower certifying the names, true signatures and incumbency of (A) the officers of the Borrower authorized to sign this Agreement and the other Loan Documents to which it is, or is to be, a party, and the other documents to be delivered hereunder and thereunder and (B) the representatives of the Borrower authorized to sign notices to be provided under this Agreement and the other Loan Documents to which it is, or is to be, a party, which representatives shall be acceptable to the Administrative Agent.

(iii) Copies of the Certificate of Incorporation (or comparable charter document) and by-laws of the Borrower, together with all amendments thereto, certified by the Secretary or an Assistant Secretary of the Borrower.

(iv) An irrevocable notice from the Borrower requesting termination of the "Commitments" under the Existing Credit Agreement effective automatically on such date upon the satisfaction (or waiver) of the other conditions precedent set forth in this Section 6.01.

(v) The Promissory Notes (if requested by any Lender pursuant to Section 3.01(d)), duly executed by the Borrower.

(vi) The Cash Collateral Agreement duly executed by the Borrower together with evidence of the completion of all other actions as may be necessary or, in the opinion of the Administrative Agent and counsel for the Administrative Agent, desirable to perfect the security interests and liens created thereby.

(vii) A certified copy of Schedule II hereto, in form and substance reasonably satisfactory to the Administrative Agent setting forth:

(A) all Project Finance Debt of the Consolidated Subsidiaries, together with the Borrower's Ownership Interest in each such Consolidated Subsidiary; and

(B) debt (as such term is construed in accordance with GAAP) of Enterprises as of the Closing Date.

(viii) Favorable opinions of:

(A) Michael D. VanHemert, Esq., Assistant General Counsel of the Borrower, in substantially the form of Exhibit D and as to such other matters as the Required Lenders, through the Administrative Agent, may reasonably request; and

(B) Sidley & Austin, counsel to the Administrative Agent, in substantially the form of Exhibit E and as to such other matters as the Administrative Agent may reasonably request.

(ix) A letter from The Chase Manhattan Bank, confirming that the participation obligations of each Existing Bank have been terminated with respect to each Existing Letter of Credit.

(b) The Existing Credit Agreement has been (or will have been, upon the first Extension of Credit and the application of the proceeds thereof) paid in full, the commitments thereunder terminated and all letters of credit issued thereunder (other than Existing Letters of Credit) either cash collateralized, canceled or replaced.

(c) The following statements shall be true and the Administrative Agent shall have received a certificate of a duly authorized officer of the Borrower, dated the Closing Date and in sufficient copies for each Lender stating that:

(i) the representations and warranties set forth in Section 7.01 of this Agreement and Section 7 of the Cash Collateral Agreement are true and correct on and as of the Closing Date as though made on and as of such date, and

(ii) no event has occurred and is continuing that constitutes a Default or an Event of Default.

(d) The Borrower shall have paid all fees under or referenced in Section 2.02 and all expenses referenced in Section 11.04(a), in each case to the extent then due and payable.

(e) All Governmental Approvals necessary in connection with the Loan Documents and the transactions contemplated thereby shall have been obtained and be in full force and effect. All third party approvals necessary or, in the judgment of the Administrative Agent, advisable in connection with the Loan Documents and the transactions contemplated thereby shall have been obtained and be in full force and effect.

(f) The Lenders shall have received (i) audited consolidated financial statements of the Borrower for the two most recent fiscal years ended prior to the Closing Date as to which such financial statements are available and (ii) unaudited financial statements of the Borrower for each fiscal quarterly period ended subsequent to the date of the latest financial statements delivered pursuant to clause (i) of this paragraph as to which such financial statements are available. The business, assets, property and financial condition of the Borrower and its Subsidiaries as reflected in such financial statements shall be satisfactory to the Lenders.

SECTION 6.02. CONDITIONS PRECEDENT TO EACH EXTENSION OF CREDIT. The obligation of each Lender or Issuing Bank, as the case may be, to make an Extension of Credit (including the initial Extension of Credit) shall be subject to the further conditions precedent that, on the date of such Extension of Credit and after giving effect thereto:

(a) The following statements shall be true (and each of the giving of the applicable notice or request with respect thereto and the making of such Extension of Credit without prior

correction by the Borrower shall (to the extent that such correction has been previously consented to by the Lenders and the Issuing Banks) constitute a representation and warranty by the Borrower that, on the date of such Extension of Credit, such statements are true):

(i) the representations and warranties contained in Section 7.01 of this Agreement (other than those contained in subsections (e)(ii) and (f) thereof) and in Section 7 of the Cash Collateral Agreement are correct on and as of the date of such Extension of Credit, before and after giving effect to such Extension of Credit and to the application of the proceeds thereof, as though made on and as of such date; and

(ii) no Default or Event of Default has occurred and is continuing, or would result from such Extension of Credit or the application of the proceeds thereof.

(b) The Administrative Agent shall have received such other approvals, opinions and documents as any Lender or Issuing Bank, through the Administrative Agent, may reasonably request as to the legality, validity, binding effect or enforceability of the Loan Documents or the financial condition, results of operations, properties or business of the Borrower and its Consolidated Subsidiaries.

SECTION 6.03. CONDITIONS PRECEDENT TO CERTAIN EXTENSIONS OF CREDIT. The obligation of each Lender or Issuing Bank, as the case may be, to make an Extension of Credit (including the initial Extension of Credit) that would (after giving effect to all Extensions of Credit on such date and the application of proceeds thereof) increase the principal amount outstanding hereunder, or to make an Extension of Credit of the type described in clause (ii) or (iii) of the definition thereof (except any amendment of a Letter of Credit the sole effects of which are to extend the stated termination date thereof and/or to make nonmaterial modifications thereto), shall be subject to the further conditions precedent that, on the date of such Extension of Credit and after giving effect thereto:

(a) the following statements shall be true (and each of the giving of the applicable notice or request with respect thereto and the making of such Extension of Credit without prior correction by the Borrower shall (to the extent that such correction has been previously consented to by the Lenders and the Issuing Banks) constitute a representation and warranty by the Borrower that, on the date of such Extension of Credit, such statements are true):

(i) the representations and warranties contained in subsections (e)(ii) and (f) of Section 7.01 of this Agreement are correct on and as of the date of such Extension of Credit, before and after giving effect to such Extension of Credit and to the application of the proceeds thereof, as though made on and as of such date; and

(ii) no Default or Event of Default has occurred and is continuing, or would result from such Extension of Credit or the application of the proceeds thereof; and

(b) the Administrative Agent shall have received such other approvals, opinions and documents as any Lender or Issuing Bank, through the Administrative Agent, may reasonably request.

SECTION 6.04. RELIANCE ON CERTIFICATES. The Lenders, the Issuing Banks and each Agent shall be entitled to rely conclusively upon the certificates delivered from time to time by officers of the Borrower as to the names, incumbency, authority and signatures of the respective persons named therein until such time as the Administrative Agent may receive a replacement certificate, in form acceptable to the Administrative Agent, from an officer of such Person identified to the Administrative Agent as having authority to deliver such certificate, setting forth the names and true signatures of the officers and other representatives of such Person thereafter authorized to act on behalf of such Person.

ARTICLE VII
REPRESENTATIONS AND WARRANTIES

SECTION 7.01. REPRESENTATIONS AND WARRANTIES OF THE BORROWER. The Borrower represents and warrants as follows:

(a) Each of the Borrower, Consumers and each of the Restricted Subsidiaries is a corporation duly organized, validly existing and in good standing under the laws of the state of its incorporation and is duly qualified to do business in, and is in good standing in, all other jurisdictions where the nature of its business or the nature of property owned or used by it makes such qualification necessary.

(b) The execution, delivery and performance by the Borrower of each Loan Document to which it is or will be a party (i) are within the Borrower's corporate powers, (ii) have been duly authorized by all necessary corporate action and (iii) do not and will not (A) require any consent or approval of the stockholders of the Borrower, (B) violate any provision of the charter or by-laws of the Borrower or of law, (C) violate any legal restriction binding on or affecting the Borrower, (D) result in a breach of, or constitute a default under, any indenture or loan or credit agreement or any other agreement, lease or instrument to which the Borrower is a party or by which it or its properties may be bound or affected, or (E) result in or require the creation of any Lien (other than pursuant to the Loan Documents) upon or with respect to any of its properties.

(c) No Governmental Approval is required.

(d) This Agreement is, and each other Loan Document to which the Borrower will be a party when executed and delivered hereunder will be, legal, valid and binding obligations of the Borrower enforceable against the Borrower in accordance with their respective terms; subject to the qualification, however, that the enforcement of the rights and remedies herein and therein is subject to bankruptcy and other similar laws of general application affecting rights and remedies of creditors and the application of general principles of equity (regardless of whether considered in a proceeding in equity or at law).

(e) (i) The consolidated balance sheet of the Borrower and its Consolidated Subsidiaries as at December 31, 1999, and the related consolidated statements of income, retained earnings and cash flows of the Borrower and its Consolidated Subsidiaries for the fiscal year then ended, together with the report thereon of Arthur Andersen LLP included in the Borrower's Annual Report on Form 10-K for the fiscal year ended December 31, 1999, and the

unaudited consolidated balance sheet of the Borrower and its Consolidated Subsidiaries as at March 31, 2000, and the related unaudited consolidated statements of income, retained earnings and cash flows for the three-month period then ended, copies of each of which have been furnished to each Lender, fairly present (subject, in the case of such balance sheet and statement of income for the three months ended March 31, 2000, to year-end adjustments) the financial condition of the Borrower and its Consolidated Subsidiaries as at such dates and the results of operations of the Borrower and its Consolidated Subsidiaries for the periods ended on such dates, all in accordance with generally accepted accounting principles consistently applied; (ii) since March 31, 2000, there has been no Material Adverse Change; and (iii) the Borrower has no material liabilities or obligations except as reflected in the foregoing financial statements and in Schedule II, as evidenced by the Loan Documents and as may be incurred, in accordance with the terms of this Agreement, in the ordinary course of business (as presently conducted) following the date of this Agreement.

(f) Except as disclosed in the Borrower's Annual Report on Form 10-K for the fiscal year ended December 31, 1999, the Borrower's Quarterly Report on Form 10-Q for the period ended March 31, 2000 and the Current Report on Form 8-K filed by the Borrower on June 5, 2000, there are no pending or threatened actions, suits or proceedings against or, to the knowledge of the Borrower, affecting the Borrower or any of its Subsidiaries or the properties of the Borrower or any of its Subsidiaries before any court, governmental agency or arbitrator, that would, if adversely determined, reasonably be expected to materially adversely affect the financial condition, properties, business or operations of the Borrower and its Subsidiaries, considered as a whole, or affect the legality, validity or enforceability of this Agreement or any other Loan Document.

(g) All insurance required by Section 8.01(b) is in full force and effect.

(h) No Plan Termination Event has occurred nor is reasonably expected to occur with respect to any Plan of the Borrower or any of its ERISA Affiliates which would result in a material liability to the Borrower, except as disclosed and consented to by the Required Lenders in writing from time to time. Since the date of the most recent Schedule B (Actuarial Information) to the annual report of the Borrower (Form 5500 Series), if any, there has been no material adverse change in the funding status of the Plans referred therein and no "prohibited transaction" has occurred with respect thereto which is reasonably expected to result in a material liability to the Borrower. Neither the Borrower nor any of its ERISA Affiliates has incurred nor reasonably expects to incur any material withdrawal liability under ERISA to any Multiemployer Plan, except as disclosed and consented to by the Required Lenders in writing from time to time.

(i) No fire, explosion, accident, strike, lockout or other labor dispute, drought, storm, hail, earthquake, embargo, act of God or of the public enemy or other casualty (except for any such circumstance, if any, which is covered by insurance which coverage has been confirmed and not disputed by the relevant insurer) affecting the properties, business or operations of the Borrower, Consumers or any Restricted Subsidiary has occurred that could reasonably be expected to have a material adverse effect on the business, financial condition or results of operations of (A) the Borrower and its Subsidiaries, considered as a whole, or (B) Consumers and its Subsidiaries, considered as a whole.

(j) The Borrower and its Subsidiaries have filed all tax returns (Federal, state and local) required to be filed and paid all taxes shown thereon to be due, including interest and penalties, or, to the extent the Borrower or any of its Subsidiaries is contesting in good faith an assertion of liability based on such returns, has provided adequate reserves for payment thereof in accordance with GAAP.

(k) No extraordinary judicial, regulatory or other legal constraints exist which limit or restrict Consumers' ability to declare or pay cash dividends with respect to its capital stock.

(l) The Borrower owns not less than 80% of the outstanding shares of common stock of Enterprises.

(m) The Borrower owns not less than 80% of the outstanding shares of common stock of Consumers.

(n) The Consolidated 2000-2004 Projections of Consumers, Enterprises and the Borrower (the "PROJECTIONS"), copies of which have been distributed to the Banks in the Confidential Information Memorandum dated May 2000, are based upon assumptions that the Borrower believed were reasonable at the time the Projections were delivered, and all other financial information previously delivered by the Borrower to the Administrative Agent are true and correct in all material respects as at the dates and for the periods indicated therein.

(o) The executed and delivered Cash Collateral Agreement creates a valid, perfected, first priority Lien in the Collateral (other than the "Account", as such term is defined therein) described therein, subject only to Liens permitted by Section 8.02(a), and all filings and other actions necessary to perfect and protect such security interests have been taken.

(p) The Borrower is not engaged in the business of extending credit for the purpose of buying or carrying margin stock (within the meaning of Regulation U issued by the Board), and no proceeds of any Loan or any drawing under any Letter of Credit will be used to buy or carry any margin stock or to extend credit to others for the purpose of buying or carrying any margin stock.

(q) The Borrower is not an investment company (within the meaning of the Investment Company Act of 1940, as amended).

(r) No proceeds of any Extension of Credit or any drawing under any Letter of Credit will be used to acquire any security in any transaction without the approval of the board of directors of the Person issuing such security if (i) the acquisition of such security would cause the Borrower to own 5.0% or more of any outstanding class of securities issued by such Person, or (ii) such security is being acquired in connection with a tender offer.

(s) Following application of the proceeds of each Extension of Credit, not more than 25 percent of the value of the assets of the Borrower and its Subsidiaries on a consolidated basis will be margin stock (within the meaning of Regulation U issued by the Board).

ARTICLE VIII
COVENANTS OF THE BORROWER

SECTION 8.01. AFFIRMATIVE COVENANTS. So long as any Loan or any other amount payable hereunder or under any Promissory Note shall remain unpaid, any Letter of Credit shall remain outstanding or any Lender shall have any Commitment:

(a) Payment of Taxes, Etc. The Borrower shall pay and discharge, and each of its Subsidiaries shall pay and discharge, before the same shall become delinquent, all taxes, assessments and governmental charges, royalties or levies imposed upon it or upon its property except, in the case of taxes, to the extent the Borrower or any Subsidiary, as the case may be, is contesting the same in good faith and by appropriate proceedings and has set aside adequate reserves for the payment thereof in accordance with GAAP.

(b) Maintenance of Insurance. The Borrower shall maintain, and each of its Restricted Subsidiaries and Consumers shall maintain, insurance covering the Borrower, each of its Restricted Subsidiaries, Consumers and their respective properties in effect at all times in such amounts and covering such risks as is usually carried by companies engaged in similar businesses and owning similar properties in the same general geographical area in which the Borrower, its Restricted Subsidiaries and Consumers operates, either with reputable insurance companies or, in whole or in part, by establishing reserves of one or more insurance funds, either alone or with other corporations or associations.

(c) Preservation of Existence, Etc. The Borrower shall preserve and maintain, and each of its Restricted Subsidiaries and Consumers shall preserve and maintain, its corporate existence, material rights (statutory and otherwise) and franchises, and take such other action as may be necessary or advisable to preserve and maintain its right to conduct its business in the states where it shall be conducting its business.

(d) Compliance with Laws, Etc. The Borrower shall comply, and each of its Restricted Subsidiaries and Consumers shall comply, in all material respects with the requirements of all applicable laws, rules, regulations and orders of any governmental authority, including any such laws, rules, regulations and orders relating to zoning, environmental protection, use and disposal of Hazardous Substances, land use, construction and building restrictions, and employee safety and health matters relating to business operations.

(e) Inspection Rights. Subject to the requirements of laws or regulations applicable to the Borrower or its Subsidiaries, as the case may be, and in effect at the time, at any time and from time to time upon reasonable notice, the Borrower shall permit (i) each Agent and its agents and representatives to examine and make copies of and abstracts from the records and books of account of, and the properties of, the Borrower or any of its Subsidiaries and (ii) each Agent, each Issuing Bank, each of the Lenders, and their respective agents and representatives to discuss the affairs, finances and accounts of the Borrower and its Subsidiaries with the Borrower and its Subsidiaries and their respective officers, directors and accountants, in each case, to the extent that any out-of-pocket expenses are incurred in connection therewith at such time as no Event of Default or Default shall have occurred and be continuing, at the expense of such Agent, such Issuing Bank, such Lender, or their respective agents and representatives, as the case may be.

(f) Keeping of Books. The Borrower shall keep, and each of its Subsidiaries shall keep, proper records and books of account, in which full and correct entries shall be made of all financial transactions of the Borrower and its Subsidiaries and the assets and business of the Borrower and its Subsidiaries, in accordance with GAAP.

(g) Maintenance of Properties, Etc. The Borrower shall maintain, and each of its Restricted Subsidiaries shall maintain, in substantial conformity with all laws and material contractual obligations, good and marketable title to all of its properties which are used or useful in the conduct of its business; provided, however, that the foregoing shall not restrict the sale of any asset of the Borrower or any Restricted Subsidiary to the extent not prohibited by Section 8.02(i). In addition, the Borrower shall preserve, maintain, develop, and operate, and each of its Subsidiaries shall preserve, maintain, develop and operate, in substantial conformity with all laws and material contractual obligations, all of its material properties which are used or useful in the conduct of its business in good working order and condition, ordinary wear and tear excepted.

(h) Use of Proceeds. The Borrower shall apply the proceeds of the initial Extensions of Credit, to the extent necessary, to the repayment in full and termination of all outstanding obligations under the Existing Credit Agreement, whether for principal, interest, fees, or otherwise (and, in furtherance thereof, the Borrower hereby expressly and irrevocably authorizes the Administrative Agent to so apply such proceeds to such repayment), and use all subsequent Extensions of Credit for general corporate purposes (subject to the terms and conditions of this Agreement).

(i) Consolidated Leverage Ratio. The Borrower shall maintain, as of the last day of each fiscal quarter (in each case, the "MEASUREMENT QUARTER"), a maximum ratio of (i) Consolidated Debt for the immediately preceding four-fiscal-quarter period ending on the last day of such Measurement Quarter, to (ii) Consolidated EBITDA for such period, of not more than the amount set forth below during each corresponding period set forth below:

PERIOD	RATIO
Closing Date through September 30, 2000	5.5 to 1
October 1, 2000 and thereafter	5.4 to 1

(j) Cash Dividend Coverage Ratio. The Borrower shall maintain, as of the last day of each Measurement Quarter, a minimum ratio of (i) the sum of (A) Cash Dividend Income for the immediately preceding four-fiscal-quarter period ending on the last day of the fiscal quarter immediately preceding such Measurement Quarter, plus (B) 25% of the amount of Equity Distributions received by the Borrower during such period but in no event in excess of $10,000,000, plus (C) all amounts received by the Borrower from its Subsidiaries and Affiliates during such period constituting reimbursement of interest expense (including commitment, guaranty and letter of credit fees) paid by the Borrower on behalf of any such Subsidiary or Affiliate to (ii) interest expense (including commitment, guaranty and letter of credit fees)

accrued by the Borrower in respect of all Debt during such period of not less than 1.5 to 1.0; provided, that the Borrower shall be deemed not to be in breach of the foregoing covenant if, during the Measurement Quarter, it has permanently reduced the Commitments and the principal amount outstanding under this Agreement and the Promissory Notes such that the amount determined pursuant to clause (ii) above, when recalculated on a pro forma basis assuming that the amount of such reduced Commitments and principal amount outstanding under this Agreement and the Promissory Notes were in effect at all times during such four-fiscal-quarter period, would result in the Borrower being in compliance with such ratio; and provided further, that until the Borrower so reduces such Commitments and principal amount outstanding under this Agreement and the Promissory Notes and/or increases Cash Dividend Income during such Measurement Quarter, the Borrower may not request any additional Extensions of Credit (other than Conversions).

(k) Refinancing of Senior Note Debt. In connection with any refinancings of the Senior Note Debt, the Borrower shall cause the maturity thereof to be no sooner than the then-scheduled maturity date of the Senior Notes being refinanced.

(l) Further Assurances. The Borrower shall promptly execute and deliver all further instruments and documents, and take all further action, that may be necessary or that any Lender through the Administrative Agent may reasonably request in order to give effect to the transactions contemplated by this Agreement and the other Loan Documents. In addition, the Borrower will use all reasonable efforts to duly obtain or make Governmental Approvals required from time to time on or prior to such date as the same may become legally required.

SECTION 8.02. NEGATIVE COVENANTS. So long as any Loan or any other amount payable hereunder or under any Promissory Note shall remain unpaid, any Letter of Credit shall remain outstanding or any Lender shall have any Commitment, the Borrower shall not, without the written consent of the Required Lenders:

(a) Liens, Etc. Create, incur, assume or suffer to exist, or permit any of its Restricted Subsidiaries to create, incur, assume or suffer to exist, any lien, security interest, or other charge or encumbrance (including the lien or retained security title of a conditional vendor) of any kind, or any other type of arrangement intended or having the effect of conferring upon a creditor a preferential interest upon or with respect to any of its properties of any character (including capital stock of Consumers, Enterprises, CMS Oil & Gas Co. and any of the Borrower's other directly-owned Subsidiaries, and accounts) (any of the foregoing being referred to herein as a "LIEN"), whether now owned or hereafter acquired, or sign or file, or permit any of its Restricted Subsidiaries to sign or file, under the Uniform Commercial Code of any jurisdiction a financing statement which names the Borrower or any Restricted Subsidiary as debtor, sign, or permit any of its Restricted Subsidiaries to sign, any security agreement authorizing any secured party thereunder to file such financing statement, or assign, or permit any of its Restricted Subsidiaries to assign, accounts, excluding, however, from the operation of the foregoing restrictions the Liens created under the Loan Documents and the following:

(i) Liens for taxes, assessments or governmental charges or levies to the extent not past due;

(ii) cash pledges or deposits to secure (A) obligations under workmen's compensation laws or similar legislation, (B) public or statutory obligations of the Borrower or any of its Restricted Subsidiaries, or (C) Support Obligations of the Borrower; provided that the aggregate amount of pledges or deposits securing such Support Obligations shall not exceed $30 million at any one time outstanding;

(iii) Liens imposed by law, such as materialmen's, mechanics', carriers', workmen's and repairmen's liens and other similar Liens arising in the ordinary course of business securing obligations which are not overdue or which have been fully bonded and are being contested in good faith; and

(iv) purchase money Liens or purchase money security interests upon or in property acquired or held by the Borrower or any of its Restricted Subsidiaries in the ordinary course of business to secure the purchase price of such property or to secure indebtedness incurred solely for the purpose of financing the acquisition of any such property to be subject to such Liens or security interests, or Liens or security interests existing on any such property at the time of acquisition, or extensions, renewals or replacements of any of the foregoing for the same or a lesser amount, provided that no such Lien or security interest shall extend to or cover any property other than the property being acquired and no such extension, renewal or replacement shall extend to or cover property not theretofore subject to the Lien or security interest being extended, renewed or replaced, and provided, further, that the aggregate principal amount of the Debt at any one time outstanding secured by Liens permitted by this clause (iv) shall not exceed $10,000,000.

(b) Enterprises Debt. Permit Enterprises to create, incur, assume or suffer to exist any debt (as such term is construed in accordance with GAAP) other than:

(i) debt arising by reason of the endorsement of negotiable instruments for deposit or collection or similar transactions in the ordinary course of Enterprises' business;

(ii) in the form of indemnities in respect of unfiled mechanics' liens and Liens affecting Enterprises' properties permitted under Section 8.02(a)(iii);

(iii) other debt of Enterprises outstanding on the Closing Date set forth on Schedule II; and

(iv) unsecured, subordinated debt owed to the Borrower or CMS Capital Corp.

(c) Lease Obligations. Create, incur, assume or suffer to exist, or permit any of its Restricted Subsidiaries to create, incur, assume or suffer to exist, any obligations as lessee for the rental or hire of real or personal property of any kind under leases or agreements to lease (other than leases which constitute Debt) having an original term of one year or more which would cause the aggregate direct or contingent liabilities of the Borrower and its Restricted Subsidiaries in respect of all such obligations payable in any period of 12 consecutive calendar months to exceed $50,000,000.

(d) Investments in Other Persons. Upon the occurrence and during the continuance of an Event of Default or a Default (other than a Default that occurs and is continuing prior to the last day of any Measurement Quarter resulting from the failure of the Borrower to comply with the ratio set forth in Section 8.01(j)), make, or permit any of its Restricted Subsidiaries to make, any loan or advance to any Person or purchase or otherwise acquire any capital stock, obligations or other securities of, make any capital contribution to, or otherwise invest in, any Person, other than Permitted Investments.

(e) Restricted Payments. Declare or pay, or permit any of its Restricted Subsidiaries to declare or pay, directly or indirectly, any dividend, payment or other distribution of assets, properties, cash, rights, obligations or securities on account of any share of any class of capital stock of the Borrower or any of its Restricted Subsidiaries (other than (1) stock splits and dividends payable solely in nonconvertible equity securities of the Borrower and (2) distributions made to the Borrower or a Restricted Subsidiary), or purchase, redeem, retire, or otherwise acquire for value, or permit any of its Restricted Subsidiaries to purchase, redeem, retire, or otherwise acquire for value, any shares of any class of capital stock of the Borrower or any of its Restricted Subsidiaries or any warrants, rights, or options to acquire any such shares, now or hereafter outstanding, or make, or permit any of its Restricted Subsidiaries to make, any distribution of assets to any of its shareholders (other than distributions to the Borrower or a Restricted Subsidiary) (any such dividend, payment, distribution, purchase, redemption, retirement or acquisition being hereinafter referred to as a "RESTRICTED PAYMENT"), unless (i) no Default or Event of Default has occurred and is continuing or would occur as a result of such Restricted Payment, and (ii) after giving effect thereto, the aggregate amount of all such Restricted Payments made since September 30, 1993 shall not have exceeded the sum of (A) $120,000,000, (B) 100% of Consolidated Net Income (as defined in the Indenture in effect on the date hereof) accrued during the period (treated as one accounting period) from September 30, 1993 to the end of the most recent fiscal quarter of the Borrower ending at least 45 days prior to the date of such Restricted Payment (or, in case such amount shall be a deficit, minus 100% of such deficit), and (C) the aggregate Net Proceeds (as defined in the Indenture in effect on the date hereof) received by the Borrower from any issuance or sale of, or contribution with respect to, its capital stock subsequent to September 30, 1993; provided, however, that the foregoing shall not prohibit (1) any purchase or redemption of capital stock of the Borrower made by exchange for, or out of the proceeds of the substantially concurrent sale of, capital stock of the Borrower (other than Redeemable Stock or Exchangeable Stock (as such terms are defined in the Indenture in effect on the date hereof)), provided that such purchase or redemption shall be excluded from the calculation of the amount of Restricted Payments permitted by this subsection (e); (2) dividends or other distributions paid in respect of any class of the Borrower's capital stock issued in respect of the acquisition of any business or assets by the Borrower or a Restricted Subsidiary where the dividends or other distributions with respect to such capital stock are payable solely from the net earnings of such business or assets; (3) dividends paid within 60 days after the date of declaration thereof if at such date of declaration such dividend would have complied with this subsection (e), provided that at the time of payment of such dividend, no Default or Event of Default shall have occurred and be continuing (or result therefrom), and provided further that such dividends shall be included (without duplication) in the calculation of the amount of Restricted Payments permitted by this subsection (e); or (4) payments made by the Borrower or any Restricted Subsidiary pursuant to the Tax Sharing Agreement. For purposes of this subsection (e), the amount of any Restricted Payment not in the

form of cash shall be the fair market value of such Restricted Payment as determined in good faith by the Board of Directors of the Borrower, provided that if the value of the non-cash portion of such Restricted Payment as determined by the Borrower's Board of Directors is in excess of $25 million, such value shall be based on an opinion from a nationally-recognized firm acceptable to the Administrative Agent experienced in the appraisal of similar types of property or transactions.

(f) Compliance with ERISA. (i) Permit to exist any "accumulated funding deficiency" (as defined in Section 412(a) of the Internal Revenue Code of 1986, as amended), (ii) terminate, or permit any ERISA Affiliate to terminate, any Plan or withdraw from, or permit any ERISA Affiliate to withdraw from, any Multiemployer Plan, so as to result in any material (in the opinion of the Required Lenders) liability of the Borrower, any Restricted Subsidiary or Consumers to the PBGC, or (iii) permit to exist any occurrence of any Reportable Event (as defined in Title IV of ERISA), or any other event or condition, which presents a material (in the opinion of the Required Lenders) risk of such a termination by the PBGC of any Plan or withdrawal from any Multiemployer Plan and such a material liability to the Borrower, any Restricted Subsidiary or Consumers.

(g) Transactions with Affiliates. Enter into, or permit any of its Subsidiaries to enter into, any transaction with any of its Affiliates unless such transaction is on terms no less favorable to the Borrower or such Subsidiary than if the transaction had been negotiated in good faith on an arm's-length basis with a non-Affiliate.

(h) Mergers, Etc. Merge with or into or consolidate with or into, or permit any of its Restricted Subsidiaries, Consumers or CMS Oil & Gas Co. to merge with or into or consolidate with or into, any other Person, except that (1) any Restricted Subsidiary (other than Enterprises) may merge into any other Restricted Subsidiary; (2) CMS Oil & Gas Co. may merge with or into Enterprises or the Borrower; (3) CMS Oil & Gas Co. may merge with or into any other Person, provided that, in connection with such merger, Enterprises shall have received fair consideration (as determined by the Board of Directors of Enterprises or the Borrower); (4) any Restricted Subsidiary may merge with or into the Borrower, and the Borrower may merge with any other Person, provided that, immediately after giving effect to any such merger, (A) no event shall occur and be continuing which constitutes a Default or an Event of Default, (B) the Borrower is the surviving corporation, and (C) the Borrower shall not be liable with respect to any Debt or allow its property to be subject to any Lien which it could not become liable with respect to or allow its property to become subject to under this Agreement or any other Loan Document on the date of such transaction; (5) Consumers may merge with any other Person, provided that, immediately after giving effect thereto, (w) no event shall occur and be continuing which constitutes a Default or an Event of Default, (x) Consumers is the surviving corporation, (y) the Borrower shall continue to own not less than 80% of the outstanding shares of common stock of Consumers and (z) Consumers' Net Worth shall be equal to or greater than its Net Worth immediately prior to such merger; and (6) any Person (other than the Borrower and its Affiliates) may merge with or into Enterprises, provided that, immediately after giving effect thereto, (A) no event shall occur and be continuing which constitutes a Default or an Event of Default, (B) Enterprises is the surviving corporation, (C) Enterprises' Net Worth shall be equal to or greater than its Net Worth immediately prior to such merger and (D) Enterprises shall not be liable with respect to any Debt or allow its property to be subject to any Lien which it could not become

liable with respect to or allow its property to become subject to under this Agreement or any other Loan Document on the date of such transaction; provided, that after giving effect to any merger described in clause (2), (3), or (5) above, the Borrower shall be in compliance with Section 8.01(i).

(i) Sales, Etc., of Assets. Sell, lease, transfer, assign, or otherwise dispose of all or any substantial part of its assets, or permit any of its Restricted Subsidiaries to sell, lease, transfer, or otherwise dispose of all or any substantial part of its assets, except to give effect to a transaction permitted by subsection (h) above or subsection (j) below.

(j) Maintenance of Ownership of Subsidiaries. Sell, transfer, assign or otherwise dispose of any shares of capital stock of any of its Restricted Subsidiaries or Consumers (other than preferred or preference stock of Consumers) or any warrants, rights or options to acquire such capital stock, or permit any Restricted Subsidiary or Consumers to issue, sell, transfer, assign or otherwise dispose of any shares of its capital stock (other than preferred or preference stock of Consumers) or the capital stock of any other Restricted Subsidiary or any warrants, rights or options to acquire such capital stock, except to give effect to a transaction permitted by subsection (h) above; provided, however, that (i) the Borrower may sell, transfer, assign or otherwise dispose of not more than 20% of the common stock of Consumers, provided that after giving effect to each such transaction the Borrower shall be in compliance with Section 8.01(i), (ii) the Borrower may sell, transfer, assign or otherwise dispose of not more than 20% of the common stock of Enterprises, provided that any proceeds in the form of cash from such sale, transfer, assignment or other disposal of the common stock of Enterprises shall be applied to prepay the principal amount outstanding hereunder (it being understood that any prepayment required by this clause (ii) shall be applied to outstanding ABR Loans up to the full amount thereof before they are applied to outstanding Eurodollar Rate Loans) together with (A) accrued interest to the date of such prepayment on the principal amount repaid and (B) in the case of prepayments of Eurodollar Rate Loans, any amount payable to the Lenders pursuant to Section 5.04(b), and provided, further that after giving effect to each such transaction the Borrower shall be in compliance with Section 8.01(i), and (iii) Enterprises may, and the Borrower may permit Enterprises to, sell, transfer, assign or otherwise dispose of not more than 49% of the common stock of any Enterprises Significant Subsidiary, provided that after giving effect to each such transaction the Borrower shall be in compliance with Section 8.01(i).

(k) Amendment of Tax Sharing Agreement. Directly or indirectly, amend, modify, supplement, waive compliance with, seek a waiver under, or assent to noncompliance with, any term, provision or condition of the Tax Sharing Agreement if the effect of such amendment, modification, supplement, waiver or assent is to (i) reduce materially any amounts otherwise payable to, or increase materially any amounts otherwise owing or payable by, the Borrower thereunder, or (ii) change materially the timing of any payments made by or to the Borrower thereunder.

SECTION 8.03. REPORTING OBLIGATIONS. So long as any Loan or any other amount payable hereunder or under any Promissory Note shall remain unpaid, any Letter of Credit shall remain outstanding or any Lender shall have any Commitment, the Borrower will, unless the Required Lenders shall otherwise consent in writing, furnish to the Administrative Agent (with sufficient copies for each Lender), the following:

(a) as soon as possible and in any event within five days after the Borrower knows or should have reason to know of the occurrence of each Default or Event of Default continuing on the date of such statement, a statement of the chief financial officer or chief accounting officer of the Borrower setting forth details of such Default or Event of Default and the action that the Borrower proposes to take with respect thereto;

(b) as soon as available and in any event within 60 days after the end of each of the first three quarters of each fiscal year of the Borrower, a consolidated balance sheet of the Borrower and its Subsidiaries as at the end of such quarter and consolidated statements of income and retained earnings and of cash flows of the Borrower and its Subsidiaries for the period commencing at the end of the previous fiscal year and ending with the end of such quarter (which requirement shall be deemed satisfied by the delivery of the Borrower's quarterly report on Form 10-Q for such quarter), all in reasonable detail and duly certified (subject to year-end audit adjustments) by the chief financial officer or chief accounting officer of the Borrower as having been prepared in accordance with GAAP, together with (A) a schedule (substantially in the form of Exhibit F appropriately completed) of (1) the computations used by the Borrower in determining compliance with the covenants contained in Sections 8.01(i) and 8.01(j) and, after the enactment of any Consumers Dividend Restriction, the ratio set forth in Section 9.01(k), (2) all Project Finance Debt of the Consolidated Subsidiaries, together with the Borrower's Ownership Interest in each such Consolidated Subsidiary and (3) all Support Obligations of the Borrower of the types described in clauses (iv) and (v) of the definition of Support Obligations (whether or not each such Support Obligation or the primary obligation so supported is fixed, conclusively determined or reasonably quantifiable) to the extent such Support Obligations have not been previously disclosed as "Consolidated Debt" pursuant to clause (1) above, and (B) a certificate of said officer stating that no Default or Event of Default has occurred and is continuing or, if a Default or Event of Default has occurred and is continuing, a statement as to the nature thereof and the action that the Borrower proposes to take with respect thereto;

(c) as soon as available and in any event within 120 days after the end of each fiscal year of the Borrower and its Subsidiaries, a copy of the Annual Report on Form 10-K (or any successor form) for the Borrower and its Subsidiaries for such year, including therein a consolidated balance sheet of the Borrower and its Subsidiaries as of the end of such fiscal year and consolidated statements of income and retained earnings and of cash flows of the Borrower and its Subsidiaries for such fiscal year, accompanied by a report thereon of Arthur Andersen LLP or another nationally-recognized independent public accounting firm, together with a schedule in form satisfactory to the Required Lenders of (A) the computations used by such accounting firm in determining, as of the end such fiscal year, compliance with the covenants contained in Sections 8.01(i) and 8.01(j) and, after the enactment of any Consumers Dividend Restriction, the ratio set forth in Section 9.01(k), (B) all Project Finance Debt of the Consolidated Subsidiaries, together with the Borrower's Ownership Interest in each such Consolidated Subsidiary and (C) all Support Obligations of the Borrower of the types described in clauses (iv) and (v) of the definition of Support Obligations (whether or not each such Support Obligation or the primary obligation so supported is fixed, conclusively determined or reasonably quantifiable) to the extent such Support Obligations have not been previously disclosed as "Consolidated Debt" pursuant to clause (A) above;

(d) as soon as available and in any event within 60 days after the end of each of the first three quarters of each fiscal year of the Borrower, a balance sheet of the Borrower as at the end of such quarter and statements of income and retained earnings and of cash flows of the Borrower for the period commencing at the end of the previous fiscal year and ending with the end of such quarter, all in reasonable detail and duly certified (subject to year-end audit adjustments) by the chief financial officer or chief accounting officer of the Borrower as having been prepared in accordance with GAAP;

(e) as soon as available and in any event within 120 days after the end of each fiscal year of the Borrower, a balance sheet of the Borrower as at the end of such fiscal year and statements of income and retained earnings and of cash flows of the Borrower for such fiscal year, all in reasonable detail and duly certified (subject to year-end audit adjustments) by the chief financial officer or chief accounting officer of the Borrower as having been prepared in accordance with GAAP;

(f) as soon as possible and in any event (A) within 30 days after the Borrower knows or has reason to know that any Plan Termination Event described in clause (i) of the definition of Plan Termination Event with respect to any Plan of the Borrower or any ERISA Affiliate of the Borrower has occurred and could reasonably be expected to result in a material liability to the Borrower and (B) within 10 days after the Borrower knows or has reason to know that any other Plan Termination Event with respect to any Plan of the Borrower or any ERISA Affiliate of the Borrower has occurred and could reasonably be expected to result in a material liability to the Borrower, a statement of the chief financial officer or chief accounting officer of the Borrower describing such Plan Termination Event and the action, if any, which the Borrower proposes to take with respect thereto;

(g) promptly after receipt thereof by the Borrower or any of its ERISA Affiliates from the PBGC copies of each notice received by the Borrower or any such ERISA Affiliate of the PBGC's intention to terminate any Plan or to have a trustee appointed to administer any Plan;

(h) promptly and in any event within 30 days after the filing thereof with the Internal Revenue Service, copies of each Schedule B (Actuarial Information) to the annual report (Form 5500 Series) with respect to each Plan (if any) to which the Borrower is a contributing employer;

(i) promptly after receipt thereof by the Borrower or any of its ERISA Affiliates from a Multiemployer Plan sponsor, a copy of each notice received by the Borrower or any of its ERISA Affiliates concerning the imposition or amount of withdrawal liability in an aggregate principal amount of at least $250,000 pursuant to Section 4202 of ERISA in respect of which the Borrower is reasonably expected to be liable;

(j) promptly after the Borrower becomes aware of the occurrence thereof, notice of all actions, suits, proceedings or other events of the type described in Section 7.01(f);

(k) promptly after the sending or filing thereof, notice to the Administrative Agent and each Lender of any sending or filing of all proxy statements, financial statements and reports which the Borrower sends to its public security holders (if any), all regular, periodic and special reports which the Borrower files with the Securities and Exchange Commission or any

governmental authority which may be substituted therefor, or with any national securities exchange, pursuant to the Exchange Act, and all final prospectuses with respect to any securities issued or to be issued by the Borrower or any of its Subsidiaries;

(l) as soon as possible and in any event within five days after the occurrence of any material default under any material agreement to which the Borrower or any of its Subsidiaries is a party, which default would materially adversely affect the financial condition, business, results of operations or property of the Borrower and its Subsidiaries, considered as a whole, any of which is continuing on the date of such certificate, a certificate of the chief financial officer of the Borrower setting forth the details of such material default and the action which the Borrower or any such Subsidiary proposes to take with respect thereto; and

(m) promptly after requested, such other information respecting the business, properties, condition or operations, financial or otherwise, of the Borrower and its Subsidiaries as any Agent or the Required Lenders may from time to time reasonably request in writing.

The Borrower shall be deemed to have fulfilled its obligations pursuant to clauses (b), (c), (d), (e) and (k) above to the extent the Administrative Agent (and the Lenders, if applicable) receives an electronic copy of the requisite document or documents in a format acceptable to the Administrative Agent, provided that (1) an executed, tangible copy of any report required pursuant to clause (e) above is delivered to the Administrative Agent at the time of any such electronic delivery, and (2) a tangible copy of each requisite document delivered electronically is made available by the Borrower promptly upon request by any Agent or Lender.

ARTICLE IX
DEFAULTS

SECTION 9.01. EVENTS OF DEFAULT. If any of the following events (each an "EVENT OF DEFAULT") shall occur and be continuing, the Administrative Agent and the Lenders shall be entitled to exercise the remedies set forth in Section 9.02:

(a) The Borrower shall fail to pay (i) any principal of any Loan when due or (ii) any interest thereon, fees or other amounts (other than any principal of any Loan) payable hereunder within two Business Days after such interest, fees or other amounts shall have become due; or

(b) Any representation or warranty made by or on behalf of the Borrower in any Loan Document or certificate or other writing delivered pursuant thereto shall prove to have been incorrect in any material respect when made or deemed made; or

(c) The Borrower or any of its Subsidiaries shall fail to perform or observe any term or covenant on its part to be performed or observed contained in Section 8.01(c), (h), (i), (j) or (l) or in Section 8.02 hereof (and the Borrower, each Lender and each Agent hereby agrees that an Event of Default under this subsection (c) shall be given effect as if the defaulting Subsidiary were a party to this Agreement); or

(d) The Borrower or any of its Subsidiaries shall fail to perform or observe any other term or covenant on its part to be performed or observed contained in any Loan Document and

any such failure shall remain unremedied, after written notice thereof shall have been given to the Borrower by the Administrative Agent, for a period of 10 Business Days (and the Borrower, each Lender and each Agent hereby agrees that an Event of Default under this subsection (d) shall be given effect as if the defaulting Subsidiary were a party to this Agreement); or

(e) The Borrower, any Restricted Subsidiary or Consumers shall fail to pay any of its Debt (including any interest or premium thereon but excluding Debt incurred under this Agreement) (i) aggregating, in the case of the Borrower and each Restricted Subsidiary, $6,000,000 or more or, in the case of Consumers, $25,000,000 or more, or (ii) arising under the Indenture or any Senior Note, when due (whether by scheduled maturity, required prepayment, acceleration, demand or otherwise) and such failure shall continue after the applicable grace period, if any, specified in any agreement or instrument relating to such Debt; or any other default under any agreement or instrument relating to any such Debt, or any other event, shall occur and shall continue after the applicable grace period, if any, specified in such agreement or instrument, if the effect of such default or event is to accelerate, or to permit the acceleration of, the maturity of such Debt; or any such Debt shall be declared to be due and payable, or required to be prepaid (other than by a regularly scheduled required prepayment) prior to the stated maturity thereof; unless in each such case the obligee under or holder of such Debt shall have waived in writing such circumstance so that such circumstance is no longer continuing; or

(f) (i) The Borrower, any Restricted Subsidiary or Consumers shall generally not pay its debts as such debts become due, or shall admit in writing its inability to pay its debts generally, or shall make an assignment for the benefit of creditors; or (ii) any proceeding shall be instituted by or against the Borrower, any Restricted Subsidiary or Consumers seeking to adjudicate it a bankrupt or insolvent, or seeking liquidation, winding up, reorganization, arrangement, adjustment, protection, relief, or composition of its debts under any law relating to bankruptcy, insolvency, or reorganization or relief of debtors, or seeking the entry of an order for relief or the appointment of a receiver, trustee, or other similar official for it or for any substantial part of its property and, in the case of a proceeding instituted against the Borrower, either such proceeding shall remain undismissed or unstayed for a period of 60 days or any of the actions sought in such proceeding (including the entry of an order for relief against the Borrower, a Restricted Subsidiary or Consumers or the appointment of a receiver, trustee, custodian or other similar official for the Borrower, such Restricted Subsidiary or Consumers or any of its property) shall occur; or (iii) the Borrower, any Restricted Subsidiary or Consumers shall take any corporate or other action to authorize any of the actions set forth above in this subsection (f); or

(g) Any judgment or order for the payment of money in excess of $6,000,000 shall be rendered against the Borrower or its properties and either (i) enforcement proceedings shall have been commenced by any creditor upon such judgment or order or (ii) there shall be any period of 30 consecutive days during which a stay of enforcement of such judgment or order, by reason of a pending appeal or otherwise, shall not be in effect; or

(h) Any material provision of any Loan Document, after execution hereof or delivery thereof under Article VI, shall for any reason other than the express terms hereof or thereof cease to be valid and binding on any party thereto; or the Borrower shall so assert in writing; or

(i) The Cash Collateral Agreement after execution and delivery thereof under Article VI shall for any reason, except to the extent permitted by the terms thereof or due to any failure by any Agent to take any action on its part to be performed under applicable law in order to maintain such perfection, cease to create a valid and perfected first priority Lien in any of the Collateral described therein; or

(j) At any time any Issuing Bank shall have been served with or otherwise subjected to a court order, injunction, or other process or decree issued or granted at the instance of the Borrower restraining or seeking to restrain such Issuing Bank from paying any amount under any Letter of Credit issued by it and either (i) there has been a drawing under such Letter of Credit which such Issuing Bank would otherwise be obligated to pay or (ii) the stated expiration date or any reduction of the stated amount of such Letter of Credit has occurred but the right of the beneficiary to draw thereunder has been extended in connection with the pendency of the related court action or proceeding; or

(k) There shall be imposed or enacted any Consumers Dividend Restriction, the result of which is that the Dividend Coverage Ratio shall be less than 1.15 to 1.0 at any time after the imposition of such Consumers Dividend Restriction.

SECTION 9.02. REMEDIES. If any Event of Default has occurred and is continuing, then the Administrative Agent shall at the request, or may with the consent, of the Required Lenders, upon notice to the Borrower (i) declare the Commitments and the obligation of each Lender to make or Convert Loans (other than Loans under Section 4.04) and of any Issuing Bank to issue a Letter of Credit to be terminated, whereupon the same shall forthwith terminate, (ii) declare the principal amount outstanding hereunder, all interest thereon and all other amounts payable under this Agreement and the other Loan Documents to be forthwith due and payable, whereupon the principal amount outstanding hereunder, all such interest and all such amounts shall become and be forthwith due and payable, without presentment, demand, protest or further notice of any kind, all of which are hereby expressly waived by the Borrower, (iii) provide from the proceeds of any Collateral (as defined in the Cash Collateral Agreement) for cash collateralization of LC Outstandings, and (iv) exercise in respect of any and all collateral, in addition to the other rights and remedies provided for herein and in the Cash Collateral Agreement or otherwise available to the Administrative Agent or the Lenders, all the rights and remedies of a secured party on default under the Uniform Commercial Code in effect in the State of New York and in effect in any other jurisdiction in which collateral is located at that time; provided, however, that in the event of an actual or deemed entry of an order for relief with respect to the Borrower under the Federal Bankruptcy Code, (A) the Commitments and the obligation of each Lender to make Loans and of any Issuing Bank to issue any Letter of Credit shall automatically be terminated and (B) the principal amount outstanding hereunder, all such interest and all such amounts shall automatically become and be due and payable, without presentment, demand, protest or any notice of any kind, all of which are hereby expressly waived by the Borrower. Notwithstanding anything to the contrary contained herein, no notice given or declaration made by the Administrative Agent pursuant to this Section 9.02 shall affect (i) the obligation of any Issuing Bank to make any payment under any Letter of Credit issued by such Issuing Bank in accordance with the terms of such Letter of Credit or (ii) the participatory interest of each Lender in each such payment.

ARTICLE X
THE AGENTS

SECTION 10.01. AUTHORIZATION AND ACTION.

(a) Each of the Lenders and the Issuing Banks hereby irrevocably appoints each Agent (other than the Co-Syndication Agents and Documentation Agent) as its agent and authorizes each such Agent to take such actions on its behalf and to exercise such powers as are delegated to such Agent by the terms of the Loan Documents, together with such actions and powers as are reasonably incidental thereto.

(b) Any Lender serving as an Agent hereunder shall have the same rights and powers in its capacity as a Lender as any other Lender and may exercise the same as though it were not an Agent, and such Lender and its Affiliates may accept deposits from, lend money to and generally engage in any kind of business with the Borrower or any of its Subsidiaries or other Affiliate thereof as if it were not an Agent hereunder.

(c) No Agent shall have any duties or obligations except those expressly set forth in the Loan Documents. Without limiting the generality of the foregoing, (i) no Agent shall be subject to any fiduciary or other implied duties, regardless of whether a Default or an Event of Default has occurred and is continuing, (ii) no Agent shall have any duty to take any discretionary action or exercise any discretionary powers, except discretionary rights and powers expressly contemplated by the Loan Documents that such Agent is required to exercise in writing by the Required Lenders (or such other number or percentage of the Lenders as shall be necessary under the circumstances as provided in Section 11.01), and (iii) except as expressly set forth in the Loan Documents, no Agent shall have any duty to disclose, or shall be liable for the failure to disclose, any information relating to the Borrower or any of its Subsidiaries or Affiliates that is communicated to or obtained by the Lender serving as such Agent or any of its Affiliates in any capacity. No Agent shall be liable for any action taken or not taken by it with the consent or at the request of the Required Lenders (or such other number or percentage of the Lenders as shall be necessary under the circumstances as provided in Section 11.01 or any other provision of this Agreement) or in the absence of its own gross negligence or willful misconduct. Each Agent shall be deemed not to have knowledge of any Default or Event of Default unless and until written notice thereof is given to such Agent by the Borrower or a Lender (in which case such Agent shall promptly give a copy of such written notice to the Lenders and the other Agents). No Agent shall be responsible for or have any duty to ascertain or inquire into (A) any statement, warranty or representation made in or in connection with any Loan Document, (B) the contents of any certificate, report or other document delivered thereunder or in connection therewith, (C) the performance or observance of any of the covenants, agreements or other terms or conditions set forth in any Loan Document, (D) the validity, enforceability, effectiveness or genuineness of any Loan Document or any other agreement, instrument or document, or (E) the satisfaction of any condition set forth in Article VI or elsewhere in any Loan Document, other than to confirm receipt of items expressly required to be delivered to such Agent. Neither any Co-Syndication Agent nor the Documentation Agent shall have any duties or obligations in such capacity under any of the Loan Documents.

(d) Each Agent shall be entitled to rely upon, and shall not incur any liability for relying upon, any notice, request, certificate, consent, statement, instrument, document or other writing believed by it to be genuine and to have been signed or sent by the proper Person. Each Agent also may rely upon any statement made to it orally or by telephone and believed by it to be made by the proper Person, and shall not incur any liability for relying thereon. Each Agent may consult with legal counsel (who may be counsel for the Borrower), independent accountants and other experts selected by it, and shall not be liable for any action taken or not taken by it in accordance with the advice of any such counsel, accountants or experts.

(e) Each Agent may perform any and all its duties and exercise its rights and powers by or through one or more sub-agents appointed by such Agent. Each Agent and any such sub-agent may perform any and all its duties and exercise its rights and powers through their respective Related Parties. The exculpatory provisions of the preceding subsections of this Section 10.01 shall apply to any such sub-agent and to the Related Parties of each Agent and any such sub-agent, and shall apply to their respective activities in connection with the syndication of the credit facilities provided for herein as well as activities as an Agent.

(f) Subject to the appointment and acceptance of a successor Agent as provided in this subsection (f), any Agent may resign at any time by notifying the Lenders, the Issuing Bank and the Borrower. Upon any such resignation, the Required Lenders shall have the right, in consultation with the Borrower, to appoint a successor. If no successor shall have been so appointed by the Required Lenders and shall have accepted such appointment within 30 days after the retiring Agent gives notice of its resignation, then the retiring Agent may, on behalf of the Lenders and the Issuing Bank, appoint a successor Agent which shall be a Lender with an office in New York, New York, or an Affiliate of any such Lender. Upon the acceptance of its appointment as an Agent hereunder by a successor, such successor shall succeed to and become vested with all the rights, powers, privileges and duties of the retiring Agent, and the retiring Agent shall be discharged from its duties and obligations hereunder. The fees payable by the Borrower to a successor Agent shall be the same as those payable to its predecessor unless otherwise agreed between the Borrower and such successor. After an Agent's resignation hereunder, the provisions of this Article and Section 11.04 shall continue in effect for the benefit of such retiring Agent, its sub-agents and their respective Related Parties in respect of any actions taken or omitted to be taken by any of them while it was acting as an Agent.

(g) Each Lender acknowledges that it has independently and without reliance upon any Agent or any other Lender and based on such documents and information as it has deemed appropriate, made its own credit analysis and decision to enter into this Agreement. Each Lender also acknowledges that it will, independently and without reliance upon any Agent or any other Lender and based on such documents and information as it shall from time to time deem appropriate, continue to make its own decisions in taking or not taking action under or based upon this Agreement, any other Loan Document or any related agreement or any document furnished hereunder or thereunder.

SECTION 10.02. INDEMNIFICATION. The Lenders agree to indemnify each Agent (to the extent not reimbursed by the Borrower), ratably according to the respective Percentages of the Lenders, from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind or nature whatsoever which may

be imposed on, incurred by, or asserted against such Agent in any way relating to or arising out of this Agreement or any action taken or omitted by such Agent under this Agreement, provided that no Lender shall be liable for any portion of such liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements resulting from such Agent's gross negligence or willful misconduct. Without limitation of the foregoing, each Lender agrees to reimburse the Agents and the Arranger promptly upon demand for its ratable share of any out-of-pocket expenses (including counsel fees) incurred by the Agents in connection with the preparation, syndication, execution, delivery, administration, modification, amendment or enforcement (whether through negotiations, legal proceedings or otherwise) of, or legal advice in respect of rights or responsibilities under, this Agreement to the extent that the Agents are entitled to reimbursement for such expenses pursuant to Section 11.04 but are not reimbursed for such expenses by the Borrower.

ARTICLE XI
MISCELLANEOUS

SECTION 11.01. AMENDMENTS, ETC. No amendment or waiver of any provision of any Loan Document, nor consent to any departure by the Borrower therefrom, shall in any event be effective unless the same shall be in writing and signed by the Required Lenders, and then such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given; provided, however, that no amendment, waiver or consent shall, unless in writing and signed by all the Lenders, do any of the following: (i) waive, modify or eliminate any of the conditions specified in Article VI, (ii) increase the Commitments of the Lenders that may be maintained hereunder or subject the Lenders to any additional obligations, (iii) reduce the principal of, or interest on, any Loan, any Applicable Margin or any fees or other amounts payable hereunder (other than fees payable to the Administrative Agent pursuant to Section 2.02(c)), (iv) postpone any date fixed for any payment of principal of, or interest on, any Loan or any fees or other amounts payable hereunder (other than fees payable to the Administrative Agent pursuant to Section 2.02(c)), (v) change the definition of "Required Lenders" contained in Section 1.01 or change any other provision that specifies the percentage of the Commitments or of the aggregate unpaid principal amount of the Loans or the number of Lenders which shall be required for the Lenders or any of them to take any action hereunder, (vi) amend any Loan Document in a manner intended to prefer one or more Lenders over any other Lenders, (vii) amend, waive or modify Section 2.03(b) or this Section 11.01, (viii) release any collateral or change any provision of the Cash Collateral Agreement providing for the release of Collateral, or (ix) extend the Termination Date; and provided, further, that no amendment, waiver or consent shall, unless in writing and signed by each Agent in addition to the Lenders required above to take such action, affect the rights or duties of any Agent under this Agreement or any other Loan Document; and provided, further, that no amendment, waiver or consent shall, unless in writing and signed by each Issuing Bank in addition to the Lenders required above to take such action, affect the rights or duties of any Issuing Bank under this Agreement or any other Loan Document. Any request from the Borrower for any amendment, waiver or consent under this Section 11.01 shall be addressed to the Administrative Agent.

SECTION 11.02. NOTICES, ETC. All notices and other communications provided for hereunder and under the other Loan Documents shall be in writing (including telegraphic, facsimile, telex or cable communication) and mailed, telegraphed, telecopied, telexed, cabled or

delivered, (i) if to the Borrower, at its address at Fairlane Plaza South, 330 Town Center Drive, Suite 1100, Dearborn, Michigan 48126, Attention: Rodger A. Kershner, Esq., General Counsel, with a copy to Laura L. Mountcastle, Vice President, Investor Relations and Treasurer, 330 Town Center Drive, Suite 1100, Dearborn, Michigan 48126; (ii) if to any Bank, at its Domestic Lending Office specified opposite its name on Schedule I; (iii) if to any Issuing Bank, at its address specified in the Issuing Bank Agreement to which it is a party; (iv) if to any Lender other than a Bank, at its Domestic Lending Office specified in the Lender Assignment pursuant to which it became a Lender; and (v) if to the Administrative Agent or the Collateral Agent, at its address at Agent Bank Services Group, 1 Chase Manhattan Plaza, 8th Floor, New York, New York 10081, Attention: Michael Cerniglia (Telecopy no. 212.552.5777), with a copy to The Chase Manhattan Bank, 270 Park Avenue, 23rd Floor, New York, New York 10017, Attention: Thomas L. Casey (Telecopy No. 212.270.3089); or, as to each party, at such other address as shall be designated by such party in a written notice to the other parties. All such notices and communications shall, when mailed, telegraphed, telecopied, telexed or cabled, be effective five days after when deposited in the mails, or when delivered to the telegraph company, telecopied, confirmed by telex answerback or delivered to the cable company, respectively, except that notices and communications to any Agent pursuant to Article II, III, or X shall not be effective until received by such Agent.

SECTION 11.03. NO WAIVER OF REMEDIES. No failure on the part of the Borrower, any Lender, any Issuing Bank or any Agent to exercise, and no delay in exercising, any right hereunder or under any other Loan Document shall operate as a waiver thereof; nor shall any single or partial exercise of any such right preclude any other or further exercise thereof or the exercise of any other right. The remedies herein provided are cumulative and not exclusive of any remedies provided by law.

SECTION 11.04. COSTS, EXPENSES AND INDEMNIFICATION.

(a) The Borrower agrees to (i) reimburse on demand all reasonable costs and expenses of each Agent and the Arranger (including reasonable fees and expenses of counsel to the Agents) in connection with (A) the preparation, syndication, negotiation, execution and delivery of the Loan Documents and (B) the care and custody of any and all collateral, and any proposed modification, amendment, or consent relating to any Loan Document, and (ii) to pay on demand all reasonable costs and expenses of each Agent and, on and after the date upon which the principal amount outstanding hereunder becomes or is declared to be due and payable pursuant to Section 9.02 or an Event of Default specified in Section 9.01(a) shall have occurred and be continuing, each Lender (including reasonable fees and expenses of counsel to the Agents, special Michigan counsel to the Lenders and, from and after such date, counsel for each Lender (including the allocated costs and expenses of in-house counsel)) in connection with the workout, restructuring or enforcement (whether through negotiations, legal proceedings or otherwise) of this Agreement, the other Loan Documents and the other documents to be delivered hereunder.

(b) The Borrower shall indemnify each Agent, the Arranger, the Issuing Bank, each Lender, and each Related Party of any of the foregoing Persons (each such Person being called an "INDEMNIFIED PERSON") against, and hold each Indemnified Person harmless from, any and all losses, claims, damages, liabilities and related expenses, including the reasonable fees, charges

and disbursements of any counsel for any Indemnified Person, incurred by or asserted against any Indemnified Person arising out of, in connection with, or as a result of (i) the execution or delivery of any Loan Document or any other agreement or instrument contemplated hereby or thereby, the performance by the parties to the Loan Documents of their respective obligations thereunder or the consummation of the transactions contemplated hereby or thereby, (ii) any Loan, Letter of Credit or other Extension of Credit or the use or proposed use of the proceeds therefrom (including any refusal by the Issuing Bank to honor a demand for payment under a Letter of Credit if the documents presented in connection with such demand do not strictly comply with the terms of such Letter of Credit), (iii) any actual or alleged presence or release of any Hazardous Substance on or from any property owned or operated by the Borrower or any of its Subsidiaries, or any Environmental Liability related in any way to the Borrower or any of its Subsidiaries, or (iv) any actual or prospective claim, litigation, investigation or proceeding relating to any of the foregoing, whether based on contract, tort or any other theory and regardless of whether any Indemnified Person is a party thereto; provided that such indemnity shall not, as to any Indemnified Person, be available to the extent that such losses, claims, damages, liabilities or related expenses are determined by a court of competent jurisdiction by final and nonappealable judgment to have resulted from the gross negligence or willful misconduct of such Indemnified Person.

(c) The Borrower's other obligations under this Section 11.04 shall survive the repayment of all amounts owing to the Lenders, the Issuing Banks and the Agents under the Loan Documents and the termination of the Commitments. If and to the extent that the obligations of the Borrower under this Section 11.04 are unenforceable for any reason, the Borrower agrees to make the maximum contribution to the payment and satisfaction thereof which is permissible under applicable law.

SECTION 11.05. RIGHT OF SET-OFF.

(a) Upon (i) the occurrence and during the continuance of any Event of Default and (ii) the making of the request or the granting of the consent specified by Section 9.02 to authorize the Administrative Agent to declare the principal amount outstanding hereunder to be due and payable pursuant to the provisions of Section 9.02, each Lender and Issuing Bank is hereby authorized at any time and from time to time, to the fullest extent permitted by law, to set off and apply any and all deposits (general or special, time or demand, provisional or final) at any time held and other indebtedness at any time owing by such Lender or Issuing Bank to or for the credit or the account of the Borrower, against any and all of the obligations of the Borrower now or hereafter existing under this Agreement and the Promissory Notes held by such Lender or the Issuing Bank Agreement to which such Issuing Bank is a party, as the case may be, irrespective of whether or not such Lender or Issuing Bank shall have made any demand under this Agreement, such Promissory Notes or such Issuing Bank Agreement, as the case may be, and although such obligations may be unmatured. Each Lender and Issuing Bank agrees to notify promptly the Borrower after any such set-off and application made by such Lender or Issuing Bank, provided that the failure to give such notice shall not affect the validity of such set-off and application. The rights of each Lender and Issuing Bank under this Section 11.05 are in addition to other rights and remedies (including other rights of set-off) which such Lender and Issuing Bank may have.

(b) The Borrower agrees that it shall have no right of off-set, deduction or counterclaim in respect of its obligations hereunder, and that the obligations of the Lenders hereunder are several and not joint. Nothing contained herein shall constitute a relinquishment or waiver of the Borrower's rights to any independent claim that the Borrower may have against any Agent or any Lender for such Agent's or such Lender's, as the case may be, gross negligence or willful misconduct, but no Lender shall be liable for any such conduct on the part of any Agent or any other Lender, and no Agent shall be liable for any such conduct on the part of any Lender.

SECTION 11.06. BINDING EFFECT. This Agreement shall become effective when it shall have been executed by the Borrower and the Agents and when the Administrative Agent shall have been notified by each Bank that such Bank has executed it and thereafter shall be binding upon and inure to the benefit of the Borrower, the Agents and each Lender and their respective successors and assigns, except that the Borrower shall not have the right to assign its rights hereunder or any interest herein without the prior written consent of the Lenders.

SECTION 11.07. ASSIGNMENTS AND PARTICIPATION.

(a) Each Lender may, with the consent of the Borrower and the Administrative Agent (such consent not to be unreasonably withheld or delayed and, in the case of the Borrower, shall not be required if an Event of Default has occurred and is continuing), assign to one or more banks or other entities all or a portion of its rights and obligations under this Agreement and the other Loan Documents (including all or a portion of its Commitment, the Loans owing to it and any Promissory Notes held by it); provided, however, that (i) each such assignment shall be of a constant, and not a varying, percentage of all of the assigning Lender's rights and obligations under this Agreement, (ii) the amount of the Commitment of the assigning Lender being assigned pursuant to each such assignment (determined as of the date of the Lender Assignment with respect to such assignment) shall in no event be less than the lesser of the amount of such Lender's Commitment and $10,000,000 and shall be an integral multiple of $5,000,000, (iii) each such assignment shall be to an Eligible Assignee, and (iv) the parties to each such assignment shall execute and deliver to the Administrative Agent, for its acceptance and recording in the Register, a Lender Assignment, together with any Promissory Notes subject to such assignment, an Administrative Questionnaire and a processing and recordation fee of $3,500; and provided further, however, that the consent of the Borrower and the Administrative Agent shall not be required for any assignments by a Lender to any of its Affiliates or to any other Lender or any of its Affiliates. Upon such execution, delivery, acceptance and recording, from and after the effective date specified in each Lender Assignment, which effective date shall be at least five Business Days after the execution thereof, (A) the assignee thereunder shall be a party hereto and, to the extent that rights and obligations hereunder have been assigned to it pursuant to such Lender Assignment, have the rights and obligations of a Lender hereunder and (B) the Lender assignor thereunder shall, to the extent that rights and obligations hereunder have been assigned by it to an Eligible Assignee pursuant to such Lender Assignment, relinquish its rights and be released from its obligations under this Agreement (and, in the case of a Lender Assignment covering all or the remaining portion of an assigning Lender's rights and obligations under this Agreement, such Lender shall cease to be a party hereto); provided, however, that the limitation set forth in clause (iv), above, shall not apply if an Event of Default shall have occurred and be continuing and the Administrative Agent shall have declared all Loans to be, or

all Loans shall have automatically become, immediately due and payable hereunder. The Administrative Agent agrees to give prompt notice to the Lenders and the Borrower of any assignment or participation of its rights and obligations as a Bank hereunder. Notwithstanding anything to the contrary contained in this Agreement, any Lender may at any time assign all or any portion of the Loans owing to it to any Affiliate of such Lender. The assigning Lender shall promptly notify the Borrower of any such assignment. No such assignment, other than to an Eligible Assignee, shall release the assigning Lender from its obligations hereunder.

(b) By executing and delivering a Lender Assignment, the Lender assignor thereunder and the assignee thereunder confirm to and agree with each other and the other parties hereto as follows: (i) other than as provided in such Lender Assignment, such assigning Lender makes no representation or warranty and assumes no responsibility with respect to any statements, warranties or representations made in or in connection with any Loan Document or the execution, legality, validity, enforceability, genuineness, sufficiency or value of any Loan Document or any other instrument or document furnished pursuant thereto; (ii) such assigning Lender makes no representation or warranty and assumes no responsibility with respect to the financial condition of the Borrower or the performance or observance by the Borrower of any of its obligations under any Loan Document or any other instrument or document furnished pursuant thereto; (iii) such assignee confirms that it has received a copy of each Loan Document, together with copies of the financial statements referred to in Section 7.01(e) and such other documents and information as it has deemed appropriate to make its own credit analysis and decision to enter into such Lender Assignment; (iv) such assignee will, independently and without reliance upon the Agents, such assigning Lender or any other Lender and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under the Loan Documents; (v) such assignee confirms that it is an Eligible Assignee (unless an Event of Default shall have occurred and be continuing and the Administrative Agent shall have declared all Loans to be immediately due and payable hereunder, in which case no such confirmation is necessary); (vi) such assignee appoints and authorizes each Agent to take such action as agent on its behalf and to exercise such powers under the Loan Documents as are delegated to each Agent by the terms thereof, together with such powers as are reasonably incidental thereto; and (vii) such assignee agrees that it will perform in accordance with their terms all of the obligations which by the terms of the Loan Documents are required to be performed by it as a Lender.

(c) The Administrative Agent shall maintain at its address referred to in Section 11.02 a copy of each Lender Assignment delivered to and accepted by it and a register for the recordation of the names and addresses of the Lenders and the Commitment of, and principal amount of the Loans owing to, each Lender from time to time (the "Register"). The entries in the Register shall be conclusive and binding for all purposes, absent manifest error, and the Borrower, the Agents, the Issuing Banks and the Lenders may treat each Person whose name is recorded in the Register as a Lender hereunder for all purposes of this Agreement. The Register shall be available for inspection by the Borrower, any Issuing Bank or any Lender at any reasonable time and from time to time upon reasonable prior notice.

(d) Upon its receipt of a Lender Assignment executed by an assigning Lender and an assignee representing that it is an Eligible Assignee, together with the assignee's completed Administrative Questionnaire (unless the assignee shall already be a Lender hereunder), any

Promissory Notes subject to such assignment, the processing and recordation fee referred to in subsection (a) above and any written consent to such assignment required by subsection (a) above, the Administrative Agent shall, if such Lender Assignment has been completed and is in substantially the form of Exhibit G, (i) accept such Lender Assignment, (ii) record the information contained therein in the Register and (iii) give prompt notice thereof to the Borrower. New and/or replacement Promissory Notes payable to the assignee and the assigning Lender (if the assigning Lender assigned less than all of its rights and obligations hereunder) shall be issued upon request pursuant to Section 3.01(d), and shall be dated the effective date of such Lender Assignment.

(e) Each Lender may sell participations to one or more banks or other entities (a "PARTICIPANT") in or to all or a portion of its rights and/or obligations under the Loan Documents (including all or a portion of its Commitment, the Loans owing to it and any Promissory Notes held by it); provided, however, that (i) such Lender's obligations under this Agreement (including its Commitment to the Borrower hereunder) shall remain unchanged, (ii) such Lender shall remain solely responsible to the other parties hereto for the performance of such obligations, (iii) such Lender shall remain the holder of any such Promissory Notes for all purposes of this Agreement, and (iv) the Borrower, the Agents, the Issuing Banks and the other Lenders shall continue to deal solely and directly with such Lender in connection with such Lender's rights and obligations under this Agreement. Any agreement or instrument pursuant to which a Lender sells such a participation shall provide that such Lender shall retain the sole right to enforce this Agreement and the other Loan Documents and to approve any amendment, modification or waiver of any provision of this Agreement or any other Loan Document; provided, that such agreement or instrument may provide that such Lender will not, without the consent of the Participant, agree to any amendment, modification or waiver described in the first proviso to Section 11.01 that affects such Participant. Subject to subsection (f) below, the Borrower agrees that each Participant shall be entitled to the benefits of Sections 5.04 and 5.06 to the same extent as if it were a Lender and had acquired its interest by assignment pursuant to subsection (a) above. To the extent permitted by law, each Participant shall also be entitled to the benefits of Section 11.05(a) as though it were a Lender, provided such Participant agrees to be subject to Section 5.05 as though it were a Lender.

(f) A Participant shall not be entitled to receive any greater payment under Section 5.04 or 5.06 than the applicable Lender would have been entitled to receive with respect to the participation sold to such Participant, unless the sale of the participation to such Participant is made with the Borrower's prior written consent. A Participant that would be a Foreign Lender if it were a Lender shall not be entitled to the benefits of Section 5.06 unless the Borrower is notified of the participation sold to such Participant and such Participant agrees, for the benefit of the Borrower, to comply with Section 5.06(e) as though it were a Lender.

(g) Any Lender may, in connection with any assignment or participation or proposed assignment or participation pursuant to this Section 11.07, disclose to the assignee or Participant or proposed assignee or Participant, any information relating to the Borrower furnished to such Lender by or on behalf of the Borrower; provided that, prior to any such disclosure, the assignee or Participant or proposed assignee or Participant shall agree, in accordance with the terms of Section 11.08, to preserve the confidentiality of any Confidential Information received by it from such Lender.

(h) If any Lender (or any Participant to which such Lender has sold a participation) shall make any demand for payment under Section 5.04(a) or (c), then in the case of any such demand, within 30 days after any such demand (if, but only if, such demanded payment has been made by the Borrower) or notice, the Borrower may, with the approval of the Administrative Agent (which approval shall not be unreasonably withheld) and provided that no Event of Default or Default shall then have occurred and be continuing, demand that such Lender assign, at the sole cost and expense of the Borrower, in accordance with this Section 11.07 to one or more Eligible Assignees designated by the Borrower, all (but not less than all) of such Lender's Commitment and the Loans owing to it within the period ending on the later to occur of (x) the last day in the period described above, as applicable, and (y) the last day of the longest of the then current Interest Periods for such Loans. If any such Eligible Assignee designated by the Borrower shall fail to consummate such assignment on terms acceptable to such Lender, or if the Borrower shall fail to designate any such Eligible Assignees for all or part of such Lender's Commitment or Loans, then such demand by the Borrower shall become ineffective; it being understood for purposes of this subsection (h) that such assignment shall be conclusively deemed to be on terms acceptable to such Lender, and such Lender shall be compelled to consummate such assignment to an Eligible Assignee designated by the Borrower, if such Eligible Assignee (1) shall agree to such assignment by entering into a Lender Assignment with such Lender and (2) shall offer compensation to such Lender in an amount equal to all amounts then owing by the Borrower to such Lender hereunder and under any Promissory Notes made by the Borrower to such Lender, whether for principal, interest, fees, costs or expenses (other than the demanded payment referred to above, and payable by the Borrower as a condition to the Borrower's right to demand such assignment) or otherwise (including, without limitation, to the extent not paid by the Borrower, any payments required pursuant to Section 5.04(b)). In addition, in the case of any amount demanded for payment by any Lender (or such Participant) pursuant to Section 5.04(a) or (c), the Borrower may, in the case of any such Lender, with the approval of the Administrative Agent (which approval shall not be unreasonably withheld) and provided that no Event of Default or Default shall then have occurred and be continuing, terminate all (but not less than all) such Lender's Commitment and prepay all (but not less than all) such Lender's Loans not so assigned, together with all interest accrued thereon to the date of such prepayment and all fees, costs and expenses and other amounts then owing by the Borrower to such Lender hereunder and under any Promissory Notes made by the Borrower to such Lender, at any time from and after such later occurring day in accordance with Sections 2.03 and 5.03 (but without the requirement stated therein for ratable treatment of the other Lenders), if and only if, after giving effect to such termination and prepayment, the sum of the aggregate principal amount of the Loans of all Lenders then outstanding does not exceed the then remaining Commitments of the Lenders. Notwithstanding anything set forth above in this subsection (h) to the contrary, the Borrower shall not be entitled to compel the assignment by any Lender demanding payment under Section 5.04(a) of its Commitment and Loans or terminate and prepay the Commitment and Loans of such Lender if, prior to or promptly following any such demand by the Borrower, such Lender shall have changed or shall change, as the case may be, its Applicable Lending Office for its Eurodollar Rate Loans so as to eliminate the further incurrence of such increased cost. In furtherance of the foregoing, any such Lender demanding payment or giving notice as provided above agrees to use reasonable efforts to so change its Applicable Lending Office if, to do so, would not result in the incurrence by such Lender of additional costs or expenses which it deems

material or, in the sole judgment of such Lender, be inadvisable for regulatory, competitive or internal management reasons.

(i) Anything in this Section 11.07 to the contrary notwithstanding, any Lender may assign and pledge all or any portion of its Commitment and the Loans owing to it to any Federal Reserve Bank (and its transferees) as collateral security pursuant to Regulation A of the Board and any Operating Circular issued by such Federal Reserve Bank. No such assignment shall release the assigning Lender from its obligations hereunder.

SECTION 11.08. CONFIDENTIALITY. In connection with the negotiation and administration of this Agreement and the other Loan Documents, the Borrower has furnished and will from time to time furnish to the Agents, the Issuing Banks and the Lenders (each, a "RECIPIENT") written information which is identified to the Recipient when delivered as confidential (such information, other than any such information which (i) was publicly available, or otherwise known to the Recipient, at the time of disclosure, (ii) subsequently becomes publicly available other than through any act or omission by the Recipient or (iii) otherwise subsequently becomes known to the Recipient other than through a Person whom the Recipient knows to be acting in violation of his or its obligations to the Borrower, being hereinafter referred to as "CONFIDENTIAL INFORMATION"). The Recipient will not knowingly disclose any such Confidential Information to any third party (other than to those persons who have a confidential relationship with the Recipient), and will take all reasonable steps to restrict access to such information in a manner designed to maintain the confidential nature of such information, in each case until such time as the same ceases to be Confidential Information or as the Borrower may otherwise instruct. It is understood, however, that the foregoing will not restrict the Recipient's ability to freely exchange such Confidential Information with its Affiliates or with prospective participants in or assignees of the Recipient's position herein, but the Recipient's ability to so exchange Confidential Information shall be conditioned upon any such Affiliate's or prospective participant's (as the case may be) entering into an agreement as to confidentiality similar to this Section 11.08. It is further understood that the foregoing will not prohibit the disclosure of any or all Confidential Information if and to the extent that such disclosure may be required (1) by a regulatory agency or otherwise in connection with an examination of the Recipient's records by appropriate authorities, (2) pursuant to court order, subpoena or other legal process or (3) otherwise, as required by law; in the event of any required disclosure under clause (2) or (3), above, the Recipient agrees to use reasonable efforts to inform the Borrower as promptly as practicable to the extent not prohibited by law.

SECTION 11.09. Waiver of Jury Trial. THE BORROWER, THE AGENTS, THE ISSUING BANKS AND THE LENDERS EACH HEREBY IRREVOCABLY WAIVES ALL RIGHT TO TRIAL BY JURY IN ANY ACTION, PROCEEDING OR COUNTERCLAIM ARISING OUT OF OR RELATING TO THIS AGREEMENT OR ANY OTHER LOAN DOCUMENT, OR ANY OTHER INSTRUMENT OR DOCUMENT DELIVERED HEREUNDER OR THEREUNDER.

SECTION 11.10. GOVERNING LAW; SUBMISSION TO JURISDICTION. This Agreement and the Promissory Notes shall be governed by, and construed in accordance with, the laws of the State of New York (including Section 5-1401 of the General Obligations Laws of the State of New York, but otherwise without regard to conflicts of law principles). The Borrower, the Lenders,

the Issuing Banks and the Agents, each (i) irrevocably submits to the jurisdiction of any New York State court or Federal court sitting in New York City in any action arising out of any Loan Document, (ii) agrees that all claims in such action may be decided in such court, (iii) waives, to the fullest extent it may effectively do so, the defense of an inconvenient forum and (iv) consents to the service of process by mail. A final judgment in any such action shall be conclusive and may be enforced in other jurisdictions. Nothing herein shall affect the right of any party to serve legal process in any manner permitted by law or affect its right to bring any action in any other court.

SECTION 11.11. RELATION OF THE PARTIES; NO BENEFICIARY. No term, provision or requirement, whether express or implied, of any Loan Document, or actions taken or to be taken by any party thereunder, shall be construed to create a partnership, association, or joint venture between such parties or any of them. No term or provision of the Loan Documents shall be construed to confer a benefit upon, or grant a right or privilege to, any Person other than the parties hereto. The Borrower hereby acknowledges that neither any Agent nor any Lender has any fiduciary relationship with or fiduciary duty to the Borrower arising out of or in connection with this Agreement or any of the other Loan Documents, and the relationship between the Agents and the Lenders, on the one hand, and the Borrower, on the other hand, in connection herewith or therewith is solely that of debtor and creditor.

SECTION 11.12. EXISTING BANKS' WAIVER, ACKNOWLEDGMENT AND RELEASE. The Existing Banks hereby waive compliance by the Borrower with the requirement contained in Section 5.03(b) of the Existing Credit Agreement for the Borrower to provide, upon the termination in full of the "Commitments" under the Existing Credit Agreement on the date hereof, cash collateral to secure LC Outstandings with respect to the Existing Letters of Credit. The Lenders and each Issuing Bank acknowledge and agree that each Existing Letter of Credit shall constitute a Letter of Credit for all purposes under this Agreement. In addition, the Existing Banks hereby release their Lien on all of the Collateral (as defined in the "Cash Collateral Agreement" referred to in the Existing Credit Agreement), if any, and direct the "Collateral Agent" (as defined in the Existing Credit Agreement) to return all such Collateral to the Borrower. Furthermore, the Existing Banks hereby waive the five Business Days' notice requirement for termination of the "Commitments" (as defined in the Existing Credit Agreement) under Section 2.03(a) of the Existing Credit Agreement.

SECTION 11.13. EXECUTION IN COUNTERPARTS. This Agreement may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original and all of which taken together shall constitute one and the same Agreement.

SECTION 11.14. SURVIVAL OF AGREEMENT. All covenants, agreements, representations and warranties made herein and in the certificates pursuant hereto shall be considered to have been relied upon by the Agents and the Lenders and shall survive the making by the Lenders of the Extensions of Credit and the execution and delivery to the Lenders of any Promissory Notes evidencing the Extensions of Credit and shall continue in full force and effect so long as any Promissory Note or any amount due hereunder is outstanding and unpaid or any Commitment of any Lender has not been terminated.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed by their respective officers thereunto duly authorized, as of the date first above written.

CMS ENERGY CORPORATION

By: /s/ Alan M. Wright

Name: Alan M. Wright
Title: Senior Vice President & Chief Vice President

Commitment: $88,500,000

THE CHASE MANHATTAN BANK, individually as a Lender, and as Administrative Agent and Collateral Agent

By: /s/ Thomas L. Casey

Name: Thomas L. Casey
Title: Vice President

Commitment: $82,500,000

BANK OF AMERICA, N.A., individually as a Lender and as Co-Syndication Agent

By: /s/ Gretchen P. Burud

Name: Gretchen P. Burud
Title: Principal

Commitment: $82,500,000

BARCLAYS BANK PLC, individually as a Lender, and as Co-Syndication Agent

By: /s/ Sydney G. Dennis

Name: Sydney G. Dennis
Title: Director

Commitment: $82,500,000

CITIBANK, N.A., individually as a Lender and as Documentation Agent

By: /s/ Cecilia Leyden

Name: Cecilia Leyden
Title: Vice President

Commitment: $70,000,000

BANK ONE, N.A.

By: /s/ Jane A. Bek

Name: Jane A. Bek
Title: Vice President

Commitment: $70,000,000

BNP PARIBAS

By: /s/ Dan Cozine

Name: Dan Cozine
Title: Managing Director

By: /s/ Andrew S. Platt

Name: Andrew S. Platt
Title: Vice President

Commitment:
$70,000,000

UNION BANK OF CALIFORNIA, N.A.

By: /s/ Jason DiNafoli

Name: Jason DiNafoli
Title: Vice President

Commitment:
$48,500,000

THE BANK OF NOVA SCOTIA

By: /s/ F.C.H. Ashby

Name: F.C.H. Ashby
Title: Senior Manager - Loan Operations

Commitment:
$48,500,000

COMERICA BANK

By: /s/ Dan M. Roman

Name: Dan M. Roman
Title: First Vice President

Commitment:
$48,500,000

NATIONAL AUSTRALIA BANK, NEW YORK BRANCH

By: /s/ Paul R. Morrision

Name: Paul R. Morrision
Title: Vice President

Commitment:
$48,500,000

THE SUMITOMO BANK, LIMITED

By: /s/ John H. Kemper

Name: John H. Kemper
Title: Senior Vice President

Commitment:
$25,000,000

AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED

By: /s/ Elizabeth M. Waters

Name: Elizabeth M. Waters
Title: Vice President

Commitment:
$25,000,000

BANK OF MONTREAL

By: /s/ Kreston M. Bjornsson

Name: Kreston M. Bjornsson
Title: Director

Commitment:
$25,000,000

CANADIAN IMPERIAL BANK OF COMMERCE

By: /s/ Sanjeeva Senanayake

Name: Sanjeeva Senanayake
Title: Executive Director

Commitment:
$25,000,000

DRESDNER BANK AG, NEW YORK AND GRAND CAYMAN BRANCHES

By: /s/ Adrew Schroeder

Name: Adrew Schroeder
Title: Assistant Vice President

By: /s/ Wendy C.H. Astell

Name: Wendy C.H. Astell
Title: Assistant Vice President

Commitment:
$25,000,000

FLEET NATIONAL BANK

By: /s/ RITA M. CAHILL

Name: Rita M. Cahill
Title: Managing Director

Commitment:
$25,000,000

THE FUJI BANK, LIMITED

By: /s/ Peter L. Chinnici

Name: Peter L. Chinnici
Title: Senior Vice President &
Group Head

Commitment:
$25,000,000

THE ROYAL BANK OF SCOTLAND PLC

By: /s/ Jayne Seaford

Name: Jayne Seaford
Title: Vice President

Commitment:
$25,000,000

SOCIETE GENERALE, CHICAGO BRANCH

By: /s/ Jose A. Moreno

Name: Jose A. Moreno
Title: Director

Commitment:
$20,000,000

THE MITSUBISHI TRUST AND BANKING CORPORATION, NEW YORK BRANCH

By: /s/ Akihito Watanabe

Name: Akihito Watanabe
Title: Vice President

Commitment:
$15,000,000

CHANG HWA COMMERCIAL BANK, LTD., NEW YORK BRANCH

By: /s/ Wan-Tu Yeh

Name: Wan-Tu Yeh
Title: Vice President & General Manager

Commitment:
$15,000,000

FIRST COMMERCIAL BANK (INCORPORATED IN TAIWAN, R.O.C.), LOS ANGELES BRANCH

By: /s/ June-Shiong Lu

Name: June-Shiong Lu
Title: Senior Vice President & General Manager

Commitment:
$10,000,000

NATIONAL CITY BANK

By: /s/ Kenneth R. Ehrhardt

Name: Kenneth R. Ehrhardt
Title: Senior Vice President

EXHIBIT A

FORM OF NOTICE OF BORROWING

[Date]

The Chase Manhattan Bank, as Administrative
Agent for the Lenders parties to the
Credit Agreement referred to below

Attention: Michael Cerniglia

Ladies and Gentlemen:

The undersigned, CMS Energy Corporation, refers to the Credit Agreement, dated as of June 27, 2000 (as amended, modified or supplemented from time to time, the "CREDIT AGREEMENT", the terms defined therein and not otherwise defined herein being used herein as therein defined), among the Borrower, the Lenders named therein, The Chase Manhattan Bank, as Administrative Agent and Collateral Agent, Bank of America, N.A. and Barclays Bank plc, as Co-Syndication Agents, and Citibank, N.A. as Documentation Agent, and hereby gives you notice, irrevocably, pursuant to Section 3.01 of the Credit Agreement that the undersigned hereby requests a Borrowing under the Credit Agreement, and in that connection sets forth below the information relating to such Borrowing (the "PROPOSED BORROWING") as required by Section 3.01(a) of the Credit Agreement:

(i) The Business Day of the Proposed Borrowing is _____ __, 20__.

(ii) The Type of Loans comprising the Proposed Borrowing is [ABR Loans] [Eurodollar Rate Loans].

(iii) The aggregate amount of the Proposed Borrowing is $_____.

[(v) The initial Interest Period for each Loan made as part of the Proposed Borrowing is ____ months.](1)

- --------
(1) To be included for a Proposed Borrowing comprised of Eurodollar Rate Loans.

The undersigned hereby acknowledges that the delivery of this Notice of Borrowing shall constitute a representation and warranty by the Borrower that, on the date of the Proposed Borrowing, the statements contained in Sections 6.02(a) and 6.03(a) of the Credit Agreement are true.

Very truly yours,

CMS ENERGY CORPORATION

By

Name:
Title:

EXHIBIT B

FORM OF NOTICE OF CONVERSION

[Date]

The Chase Manhattan Bank, as Administrative
Agent for the Lenders parties to the
Credit Agreement referred to below

Attention: Michael Cerniglia

Ladies and Gentlemen:

The undersigned, CMS Energy Corporation, refers to the Credit Agreement, dated as of June 27, 2000 (as amended, modified or supplemented from time to time, the "CREDIT AGREEMENT", the terms defined therein and not otherwise defined herein being used herein as therein defined), among the Borrower, the Lenders named therein, The Chase Manhattan Bank, as Administrative Agent and Collateral Agent, Bank of America, N.A. and Barclays Bank plc, as Co-Syndication Agents, and Citibank, N.A. as Documentation Agent, and hereby gives you notice, irrevocably, pursuant to Section 3.02 of the Credit Agreement that the undersigned hereby requests a Conversion under the Credit Agreement, and in that connection sets forth below the information relating to such Conversion (the "PROPOSED CONVERSION") as required by Section 3.02 of the Credit Agreement:

(i) The Business Day of the Proposed Conversion is _____ __, 20__.

(ii) The Type of Loans comprising the Proposed Conversion is [ABR Loans] [Eurodollar Rate Loans].

(iii) The aggregate amount of the Proposed Conversion is $_____.

(iv) The Type of Loans to which such Loans are proposed to be Converted is [ABR Loans] [Eurodollar Rate Loans].

(v) The Interest Period for each Loan made as part of the Proposed Conversion is ____ month(s).(2)

- --------
(2) Delete for ABR Loans.

The undersigned hereby certifies that the Borrower's request for the Proposed Conversion is made in compliance with Sections 3.02, 3.03 and 3.04 of the Credit Agreement. The undersigned hereby acknowledges that the delivery of this Notice of Conversion shall constitute a representation and warranty by the Borrower that, on the date of the Proposed Conversion, [(i)] the statements contained in Section 6.02(a) of the Credit Agreement are true and [(ii) no Default [(other than a Default resulting from the failure of the Borrower to comply with the ratio set forth in Section 8.01(j) of the Credit Agreement)](3) has occurred and is continuing](4).

Very truly yours,

CMS ENERGY CORPORATION

By

Name:
Title:

- --------

(3) Include only if a Default has occurred and is continuing as the result of the failure of the Borrower to comply with the ratio set forth in Section 8.01(j) of the Credit Agreement. In such case, a Conversion into Eurodollar Rate Loans with an Interest Period not to exceed three months in duration is permitted pursuant to Section 3.04(a)(vi) of the Credit Agreement.

(4) Delete if Conversion is into ABR Loans.

EXHIBIT C

FORM OF CASH COLLATERAL AGREEMENT

CASH COLLATERAL AGREEMENT, dated as of June 30, 2000, made by CMS ENERGY CORPORATION, a Michigan corporation (the "PLEDGOR"), to The Chase Manhattan Bank ("CHASE"), as collateral agent (the "COLLATERAL AGENT") for the lenders (the "LENDERS") parties to the Credit Agreement (as hereinafter defined).

PRELIMINARY STATEMENTS

(1) Chase, as Administrative Agent and Collateral Agent, Bank of America, N.A. and Barclays Bank plc, as Co-Syndication Agents, and Citibank, N.A. as Documentation Agent, and the Lenders have entered into a Credit Agreement, dated as of June 27, 2000 (said Agreement, as it may hereafter be amended or otherwise modified from time to time, being the "CREDIT AGREEMENT", the terms defined therein and not otherwise defined herein being used herein as therein defined), with the Pledgor.

(2) Pursuant to Section 5.03(b) of the Credit Agreement, any prepayments required by such subsection are to be applied to outstanding ABR Loans up to the full amount thereof before they are applied, first, to outstanding Eurodollar Rate Loans and, second, as cash collateral, pursuant to this Agreement, to secure LC Outstandings.

(3) The cash collateral referenced in preliminary statement (2), above, shall be deposited by the Collateral Agent in a special non-interest-bearing cash collateral account (the "ACCOUNT") with the Collateral Agent at its office at 1 Chase Manhattan Plaza, New York, New York 10081, Account No. 910-2-787398 (or at such other office of the Collateral Agent as the Collateral Agent may, from time to time, notify the Pledgor), in the name of the Pledgor but under the sole control and dominion of the Collateral Agent and subject to the terms of this Agreement.

NOW THEREFORE, in consideration of the premises and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Pledgor hereby agrees with the Collateral Agent for its benefit and the ratable benefit of the Lenders as follows:

SECTION 1. PLEDGE AND ASSIGNMENT. The Pledgor hereby pledges and assigns to the Collateral Agent for its benefit and the ratable benefit of the Lenders, and grants to the Collateral Agent for its benefit and the ratable benefit of the Lenders a security interest in, the following collateral (the "COLLATERAL"):

(i) the Account, all funds held therein and all certificates and instruments, if any, from time to time representing or evidencing the Account;

(ii) all Investments (as hereinafter defined) from time to time, and all certificates and instruments, if any, from time to time representing or evidencing the Investments;

(iii) all notes, certificates of deposit, deposit accounts, checks and other instruments from time to time hereafter delivered to or otherwise possessed by the Collateral Agent for or on behalf of the Pledgor in substitution for or in addition to any or all of the then existing Collateral;

(iv) all interest, dividends, cash, instruments and other property from time to time received, receivable or otherwise distributed in respect of or in exchange for any or all of the then existing Collateral; and

(v) all proceeds of any and all of the foregoing Collateral.

SECTION 2. SECURITY FOR OBLIGATIONS. This Agreement secures the payment of all reimbursement obligations of the Pledgor now or hereafter existing with respect to LC Outstandings, and all obligations of the Pledgor now or hereafter existing under this Agreement (all such obligations of the Pledgor being the "OBLIGATIONS"). Without limiting the generality of the foregoing, this Agreement secures the payment of all amounts which constitute part of the Obligations and would be owed by the Pledgor to the Collateral Agent or the Lenders under the Credit Agreement and the Promissory Notes (if any) but for the fact that they are unenforceable or not allowable due to the existence of a bankruptcy, reorganization or similar proceeding involving the Pledgor.

SECTION 3. DELIVERY OF COLLATERAL. All certificates or instruments, if any, representing or evidencing the Collateral shall be delivered to and held by or on behalf of the Collateral Agent pursuant hereto and shall be in suitable form for transfer by delivery, or shall be accompanied by duly executed instruments of transfer or assignment in blank, all in form and substance satisfactory to the Collateral Agent. The Collateral Agent shall have the right, at any time upon the occurrence and during the continuance of an Event of Default or a Default, in its discretion and without notice to the Pledgor, to transfer to or to register in the name of the Collateral Agent or any of its nominees any or all of the Collateral. In addition, the Collateral Agent shall have the right at any time to exchange certificates or instruments representing or evidencing Collateral for certificates or instruments of smaller or larger denominations.

SECTION 4. MAINTAINING THE ACCOUNT. So long as any Lender has any Commitment under the Credit Agreement or interest thereon shall remain unpaid:

(a) The Pledgor will maintain the Account with the Collateral Agent.

(b) It shall be a term and condition of the Account, notwithstanding any term or condition to the contrary in any other agreement relating to the Account and except as otherwise provided by the provisions of Section 6 and Section 13, that no amount (including interest on the Account, if any) shall be paid or released to or for the account of, or withdrawn by or for the account of, the Pledgor or any other Person (other than the Collateral Agent and the Lenders) from the Account.

The Account shall be subject to such applicable laws, and such applicable regulations of the Board of Governors of the Federal Reserve System and of any other appropriate banking or governmental authority, as may now or hereafter be in effect.

SECTION 5. INVESTING OF AMOUNTS IN THE ACCOUNT. If requested by the Pledgor, the Collateral Agent will, subject to the provisions of Section 6 and Section 13, from time to time (a) invest amounts on deposit in the Account in such Permitted Investments as the Pledgor may select and the Collateral Agent may approve and (b) invest interest paid on the Permitted Investments referred to in clause (a) above, and reinvest other proceeds of any such Permitted Investments which may mature or be sold, in each case in such Permitted Investments as the Pledgor may select and the Collateral Agent may approve (the Permitted Investments referred to in clauses (a) and (b) above, being collectively "INVESTMENTS"). Interest and proceeds that are not invested or reinvested in Investments as provided above shall be deposited and held in the Account.

SECTION 6. RELEASE OF AMOUNTS. So long as no Event of Default or Default shall have occurred and be continuing, the Collateral Agent will pay and release to the Pledgor or at its order, upon the request of the Pledgor, (a) amounts of credit balance of the Account and of principal of any other Collateral when matured or sold to the extent that (i) the sum of the credit balance of the Account plus the aggregate outstanding principal amount of all other Collateral exceeds (ii) the aggregate amount of LC Outstandings in respect of all Letters of Credit and all other amounts owing by the Pledgor hereunder, (b) all amounts in the Account if the Commitments under the Loan Agreement exceed the aggregate amount of LC Outstandings in respect of all Letters of Credit and all other amounts owing by the Pledgor hereunder and (c) all interest and earnings on the Investments deposited and held in the Account.

SECTION 7. REPRESENTATIONS AND WARRANTIES. The Pledgor represents and warrants as follows:

(a) The Pledgor is the legal and beneficial owner of the Collateral free and clear of any lien, security interest, option or other charge or encumbrance except for the security interest created by this Agreement.

(b) The pledge and assignment of the Collateral pursuant to this Agreement creates a valid and perfected first priority security interest in the Collateral, securing the payment of the Obligations.

(c) No consent of any other Person and no authorization, approval, or other action by, and no notice to or filing with, any governmental authority or regulatory body is required (i) for the pledge and assignment by the Pledgor of the Collateral pursuant to this Agreement or for the execution, delivery or performance of this Agreement by the Pledgor, (ii) for the perfection or maintenance of the security interest created hereby (including the first priority nature of such security interest) or (iii) for the exercise by the Collateral Agent of its rights and remedies hereunder.

(d) There are no conditions precedent to the effectiveness of this Agreement that have not been satisfied or waived.

(e) The Pledgor has, independently and without reliance upon the Collateral Agent or any Lender and based on such documents and information as it has deemed appropriate, made its own credit analysis and decision to enter into this Agreement.

SECTION 8. FURTHER ASSURANCES. The Pledgor agrees that at any time and from time to time, at the expense of the Pledgor, the Pledgor will promptly execute and deliver all further instruments and documents, and take all further action, that may be necessary or desirable, or that the Collateral Agent may reasonably request, in order to perfect and protect any security interest granted or purported to be granted hereby or to enable the Collateral Agent to exercise and enforce its rights and remedies hereunder with respect to any Collateral.

SECTION 9. TRANSFERS AND OTHER LIENS. The Pledgor agrees that it will not (i) sell, assign (by operation of law or otherwise) or otherwise dispose of, or grant any option with respect to, any of the Collateral, or (ii) create or permit to exist any lien, security interest, option or other charge or encumbrance upon or with respect to any of the Collateral, except for the security interest under this Agreement.

SECTION 10. COLLATERAL AGENT APPOINTED ATTORNEY-IN-FACT. The Pledgor hereby appoints the Collateral Agent the Pledgor's attorney-in-fact, with full authority in the place and stead of the Pledgor and in the name of the Pledgor or otherwise, from time to time upon the occurrence and during the continuance of an Event of Default or Default or otherwise to the extent that the Collateral Agent shall reasonably deem any action to be necessary in order to maintain its security interest in the Collateral, in the Collateral Agent's discretion, to take any action and to execute any instrument which the Collateral Agent may deem necessary or advisable to accomplish the purposes of this Agreement, including, without limitation, to receive, indorse and collect all instruments made payable to the Pledgor representing any interest payment, dividend or other distribution in respect of the Collateral or any part thereof and to give full discharge for the same.

SECTION 11. COLLATERAL AGENT MAY PERFORM. If the Pledgor fails to perform any agreement contained herein, the Collateral Agent may itself perform, or cause performance of, such agreement, and the expenses of the Collateral Agent incurred in connection therewith shall be payable by the Pledgor under Section 14.

SECTION 12. THE COLLATERAL AGENT'S DUTIES. The powers conferred on the Collateral Agent hereunder are solely to protect its interest in the Collateral and shall not impose any duty upon it to exercise any such powers. Except for the safe custody of any Collateral in its possession and the accounting for moneys actually received by it hereunder, the Collateral Agent shall have no duty as to any Collateral, as to ascertaining or taking action with respect to calls, conversions, exchanges, maturities, tenders or other matters relative to any Collateral, whether or not the Collateral Agent or any Lender has or is deemed to have knowledge of such matters, or as to the taking of any necessary steps to preserve rights against any parties or any other rights pertaining to any Collateral. The Collateral Agent shall be deemed to have exercised reasonable care in the custody and preservation of any Collateral in its possession if such Collateral is accorded treatment substantially equal to that which the Collateral Agent accords its own property.

SECTION 13. REMEDIES UPON DEFAULT. If any Event of Default shall have occurred and be continuing:

(a) The Collateral Agent may, without notice to the Pledgor except as required by law and at any time or from time to time, charge, set-off and otherwise apply all or any part of the Account against the Obligations or any part thereof.

(b) The Collateral Agent may also exercise in respect of the Collateral, in addition to other rights and remedies provided for herein or otherwise available to it, all the rights and remedies of a secured party on default under the Uniform Commercial Code in effect in the State of New York at that time (the "CODE") (whether or not the Code applies to the affected Collateral), and may also, without notice except as specified below, sell the Collateral or any part thereof in one or more parcels at public or private sale, at any of the Collateral Agent's offices or elsewhere, for cash, on credit or for future delivery, and upon such other terms as the Collateral Agent may deem commercially reasonable. The Pledgor agrees that, to the extent notice of sale shall be required by law, at least ten days' notice to the Pledgor of the time and place of any public sale or the time after which any private sale is to be made shall constitute reasonable notification. The Collateral Agent shall not be obligated to make any sale of Collateral regardless of notice of sale having been given. The Collateral Agent may adjourn any public or private sale from time to time by announcement at the time and place fixed therefor, and such sale may, without further notice, be made at the time and place to which it was so adjourned.

(c) Any cash held by the Collateral Agent as Collateral and all cash proceeds received by the Collateral Agent in respect of any sale of, collection from, or other realization upon all or any part of the Collateral may, in the discretion of the Collateral Agent, be held by the Collateral Agent as collateral for, and/or then or at any time thereafter be applied (after payment of any amounts payable to the Collateral Agent pursuant to Section 14) in whole or in part by the Collateral Agent for the ratable benefit of the Lenders against, all or any part of the Obligations in such order as the Collateral Agent shall elect. Any surplus of such cash or cash proceeds held by the Collateral Agent and remaining after payment in full of all the Obligations shall be paid over to the Pledgor or to whomsoever may be lawfully entitled to receive such surplus.

SECTION 14. EXPENSES. The Pledgor will upon demand pay to the Collateral Agent the amount of any and all reasonable expenses, including the reasonable fees and expenses of its counsel and of any experts and agents, which the Collateral Agent may incur in connection with (i) the administration of this Agreement, (ii) the custody or preservation of, or the sale of, collection from, or other realization upon, any of the Collateral, (iii) the exercise or enforcement of any of the rights of the Collateral Agent or the Lenders hereunder or (iv) the failure by the Pledgor to perform or observe any of the provisions hereof.

SECTION 15. AMENDMENTS, ETC. No amendment or waiver of any provision of this Agreement, and no consent to any departure by the Pledgor herefrom shall in any event be effective unless the same shall be in writing and signed by the Collateral Agent, and then such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given.

SECTION 16. ADDRESSES FOR NOTICES. All notices and other communications provided for hereunder shall be in writing (including telegraphic, facsimile, telex or cable communication) and mailed, telegraphed, telecopied, telexed, cabled or delivered, if to the Pledgor, at its address at Fairlane Plaza South, 330 Town Center Drive, Suite 1100, Dearborn, Michigan 48126, Attention: Rodger A. Kershner, Esq., with a copy to Laura L. Mountcastle, Vice President, Investor Relations and Treasurer, at the same address, and if to the Collateral Agent, at its address specified in the Credit Agreement, or, as to either party, at such other address as shall be designated by such party in a written notice to the other party. All such notices and communications shall, when mailed, telegraphed, telecopied, telexed or cabled, be effective five days after when deposited in the mails, or when delivered to the telegraph company, telecopied, confirmed by telex answerback or delivered to the cable company, respectively.

SECTION 17. CONTINUING SECURITY INTEREST; ASSIGNMENTS UNDER CREDIT AGREEMENT. This Agreement shall create a continuing security interest in the Collateral and shall (i) remain in full force and effect until the later of (x) the payment in full of the Obligations and all other amounts payable under this Agreement and (y) the expiration or termination of the Commitments under the Credit Agreement, (ii) be binding upon the Pledgor, its successors and assigns, and (iii) inure to the benefit of, and be enforceable by, the Collateral Agent, the Lenders and their respective successors, transferees and assigns. Without limiting the generality of the foregoing clause (iii), any Lender may assign or otherwise transfer all or any portion of its rights and obligations under the Credit Agreement (including, without limitation, all or any portion of its Commitment, the Loans owing to it and any Promissory Notes held by it) to any other Person, and such other Person shall thereupon become vested with all the benefits in respect thereof granted to such Lender herein or otherwise, subject, however, to the provisions of Article X (concerning the Agents) and Section 11.07 of the Credit Agreement. Upon the later of the payment in full of the Obligations and all other amounts payable under this Agreement and the expiration or termination of the Commitments under the Credit Agreement, the security interest granted hereby shall terminate and all rights to the Collateral shall revert to the Pledgor. Upon any such termination, the Collateral Agent will, at the Pledgor's expense, return to the Pledgor such of the Collateral as shall not have been sold or otherwise applied pursuant to the terms hereof and execute and deliver to the Pledgor such documents as the Pledgor shall reasonably request to evidence such termination.

SECTION 18. GOVERNING LAW; TERMS. This Agreement shall be governed by and construed in accordance with the laws of the State of New York, except to the extent that perfection of the security interest hereunder, or remedies hereunder, in respect of any particular Collateral are governed by the laws of a jurisdiction other than the State of New York. Unless otherwise defined herein or in the Credit Agreement, terms defined in Article 9 of the Code are used herein as therein defined.

IN WITNESS WHEREOF, the Pledgor has caused this Agreement to be duly executed and delivered by its officer thereunto duly authorized as of the date first above written.

CMS ENERGY CORPORATION

By

Name:
Title:

ACCEPTED AND AGREED:

THE CHASE MANHATTAN BANK,
as Collateral Agent

By

Name:
Title:

EXHIBIT D

FORM OF OPINION
OF COUNSEL FOR THE BORROWER

June 30, 2000

To: Each of the Lenders parties to the Credit Agreement referred to below, The Chase Manhattan Bank, as a Administrative Agent and Collateral Agent under the Credit Agreement, and the Co-Syndication Agents and Documentation Agent named therein

Ladies and Gentlemen:

This letter is furnished to you pursuant to Section 6.01(a)(viii)(A) of the Credit Agreement, dated as of June 27, 2000 (the "CREDIT AGREEMENT"), among CMS Energy Corporation (the "BORROWER"), the Banks parties thereto and the other Lenders from time to time parties thereto, The Chase Manhattan Bank ("CHASE"), as Administrative Agent and as Collateral Agent, Bank of America, N.A. and Barclays Bank plc, as Co-Syndication Agents, and Citibank, N.A. as Documentation Agent. Capitalized terms not defined herein have the meanings ascribed thereto in the Credit Agreement and the other Loan Documents (as defined in the Credit Agreement).

I am Assistant General Counsel of the Borrower and I, or an attorney or attorneys under my general supervision, have represented the Borrower in connection with the preparation, execution and delivery of, and the initial Extension of Credit made under, the Credit Agreement and other Loan Documents.

In that capacity, I, or an attorney or attorneys under my general supervision, have examined:

(a) The Credit Agreement;

(b) The Cash Collateral Agreement;

(c) The Issuing Bank Agreement;

(d) The Restated Articles of Incorporation of the Borrower and all amendments thereto (the "CHARTER");

(e) The bylaws of the Borrower and all amendments thereto (the "BYLAWS"); and

(f) The Promissory Notes executed and delivered by the Borrower on the date hereof.

In addition, I, or an attorney or attorneys under my general supervision, have examined the originals, or copies certified to my satisfaction, of such other corporate records of the Borrower, certificates of public officials and of officers of the Borrower, and agreements, instruments and other documents, as I have deemed necessary as a basis for the opinions expressed below. As to various questions of fact material to such opinions, I have, when relevant facts were not independently established by me, relied upon the representations of officers of the Borrower in the Loan Documents, and upon certificates of the Borrower or its officers or of public officials.

I have assumed (i) the due execution and delivery, pursuant to due authorization, of each document referred to in clauses (a), (b) and (c) above by all parties to such document (other than the Borrower), (ii) the authenticity of all such documents submitted to us as originals, (iii) the genuineness of all signatures (other than those of the Borrower), and (iv) the conformity to the originals of all such documents submitted to us as copies.

Based upon the foregoing and upon such investigation as we have deemed necessary, I am of the following opinion:

1. The Borrower is a corporation duly organized, validly existing and in good standing under the laws of the State of Michigan.

2. The execution, delivery and performance by the Borrower of the Credit Agreement and the other Loan Documents to which it is, or is to be, a party, are within the corporate power and authority of the Borrower, have been duly authorized by all necessary corporate action, and do not contravene (a) the Charter or the Bylaws, (b) any provision of applicable law or (c) any legal or contractual restriction binding on the Borrower or its properties; and such execution, delivery and performance do not result in or require the creation or imposition of any mortgage, deed of trust, pledge, or Lien upon or with respect to any of its properties (other than under the Cash Collateral Agreement). The Credit Agreement, the Cash Collateral Agreement and the Promissory Notes have been duly executed and delivered on behalf of the Borrower.

3. Except as disclosed in the Borrower's Annual Report on Form 10-K for the fiscal year ended December 31, 1999, the Borrower's Quarterly Report on Form 10-Q for the period ended March 31, 2000 and the Current Report on Form 8-K filed by the Borrower on June 5, 2000, there are no pending or threatened actions or proceedings against the Borrower or its properties before any court, governmental agency or arbitrator, that could, if adversely determined, reasonably be expected to materially adversely affect the financial condition, properties, business or operations of the Borrower, the legality, validity or enforceability of the Credit Agreement or any other Loan Document to which the Borrower is, or is to be, a party, or the validity, enforceability, perfection or priority of any Lien purported to be granted by or under the Cash Collateral Agreement.

4. No authorization or approval or other action by, and no notice to or filing with, any Michigan governmental authority or regulatory body (including, without limitation, the Michigan Public Service Commission) is required for (a) the valid execution, delivery and performance by the Borrower of the Credit Agreement and the other Loan Documents to which it is, or is to be, a party or (b) the creation of any Lien purported to be granted or created pursuant to the Cash Collateral Agreement.

5. In any action or proceeding arising out of or relating to the Credit Agreement or any other Loan Document to which the Borrower is, or is to be, a party in any Michigan state court or any Federal court sitting in the State of Michigan, such court would recognize and give effect to the provisions of the Credit Agreement or any other Loan Document, as the case may be, wherein the parties thereto agree that the Credit Agreement or such other Loan Document, as the case may be, shall be governed by, and construed in accordance with, the laws of the State of New York, except in the case of those provisions set forth in the Credit Agreement and the other Loan Documents the enforcement of which would contravene a fundamental policy of the State of Michigan. In the course of our review of the Credit Agreement and the other Loan Documents, nothing has come to my attention to indicate that any of such provisions would do so.

The opinions expressed herein are limited to the laws of the State of Michigan and the Federal laws of the United States of America.

I consent to the reliance on this opinion by Sidley & Austin in their opinion to you of even date herewith delivered pursuant to Section 6.01(a)(viii)(B) of the Credit Agreement. Except as otherwise specified herein, this opinion is being delivered solely for the benefit of the parties to whom it is addressed. Accordingly, it may not be quoted, filed with any governmental authority or otherwise circulated or utilized for any other purpose without my prior written consent.

Very truly yours,

EXHIBIT E

FORM OF OPINION OF COUNSEL TO THE
ADMINISTRATIVE AGENT

June 30, 2000

To: Each of the Lenders parties to the Credit Agreement referred to below, The Chase Manhattan Bank, as a Administrative Agent and Collateral Agent under the Credit Agreement, and the Co-Syndication Agents and Documentation Agent named therein

Re: CMS Energy Corporation

Ladies and Gentlemen:

We have acted as special New York counsel to The Chase Manhattan Bank, individually and as Administrative Agent, in connection with the execution and delivery of, and the making of the initial Extension of Credit on this date under, the Credit Agreement, dated as of June 27, 2000 (the "CREDIT AGREEMENT"), among CMS Energy Corporation, the Banks parties thereto and the other Lenders from time to time parties thereto, The Chase Manhattan Bank, as Administrative Agent and as Collateral Agent, Bank of America, N.A. and Barclays Bank plc, as Co-Syndication Agents, and Citibank, N.A. as Documentation Agent. Terms defined in the Credit Agreement are used herein as therein defined.

In this connection, we have examined the following documents:

1. a counterpart of the Credit Agreement, executed by the parties thereto; and

2. the other documents furnished to the Administrative Agent pursuant to Section 6.01(a) of the Credit Agreement, including (without limitation) the opinion of Michael D. VanHemert, Assistant General Counsel of the Borrower.

In our examination of the documents referred to above, we have assumed the authenticity of all such documents submitted to us as originals, the genuineness of all signatures, the due authority of the parties executing such documents and the conformity to the originals of all such documents submitted to us as copies. We have further assumed that you have evaluated, and are satisfied with, the creditworthiness of the Borrower and the business and financial terms evidenced by the Loan Documents. We have relied, as to factual matters, on the documents we have examined.

To the extent that our opinions expressed below involve conclusions as to matters governed by law other than the law of the State of New York, we have relied upon the opinion,

dated the date hereof, of Michael D. VanHemert, Assistant General Counsel of the Borrower, and have assumed without independent investigation the correctness of the matters set forth therein.

Based upon and subject to the foregoing, and subject to the qualifications set forth below, we are of the following opinion:

1. The Credit Agreement and the Cash Collateral Agreement, the Issuing Bank Agreement and the Promissory Notes delivered on the date hereof pursuant to Section 6.01(a) of the Credit Agreement are the legal, valid and binding obligations of the Borrower, enforceable against the Borrower in accordance with their respective terms.

2. The Cash Collateral Agreement will, upon the deposit of cash with the Collateral Agent pursuant thereto, create a valid security interest in the Collateral (as defined therein, but excluding the Account (as defined therein) and any other type of Collateral that is not subject to Article 9 of the UCC) securing payment of the Obligations (as defined therein).

Our opinion is subject to the following qualifications:

(a) The enforceability of the Borrower's obligations under the Credit Agreement, the Cash Collateral Agreement, the Issuing Bank Agreement and the Promissory Notes is subject to the effect of any applicable bankruptcy, insolvency, fraudulent conveyance, reorganization, moratorium or similar law affecting creditors' rights generally.

(b) The enforceability of the Borrower's obligations under the Credit Agreement, the Cash Collateral Agreement, the Issuing Bank Agreement and the Promissory Notes is subject to the effect of general principles of equity, including (without limitation) concepts of materiality, reasonableness, good faith and fair dealing (regardless of whether considered in a proceeding in equity or at law). Such principles of equity are of general application, and, in applying such principles, a court, among other things, might not allow a contracting party to exercise remedies in respect of a default deemed immaterial, or might decline to order an obligor to perform covenants.

(c) We note further that, in addition to the application of equitable principles described above, courts have imposed an obligation on contracting parties to act reasonably and in good faith in the exercise of their contractual rights and remedies, and may also apply public policy considerations in limiting the right of parties seeking to obtain indemnification under circumstances where the conduct of such parties is determined to have constituted negligence.

(d) We express no opinion herein as to (i) Section 11.05 of the Credit Agreement, (ii) the enforceability of provisions purporting to grant to a party conclusive rights of determination, (iii) the availability of specific performance or other equitable remedies, (iv) the enforceability of rights to indemnity under federal or state securities laws or (v) the enforceability of waivers by parties of their respective rights and remedies under law. In addition, our opinion in paragraph 1 above is subject to the further

qualification that certain provisions of the Cash Collateral Agreement are or may be unenforceable in whole or in part under the laws of the State of New York, but the inclusion of such provisions does not affect the validity of the Cash Collateral Agreement and the Cash Collateral Agreement contains adequate provisions for the practical realization of the rights and benefits afforded thereby, except for the economic consequences of any delay which may be imposed thereby or result therefrom.

(e) With respect to the opinions set forth in paragraph 2 above, we have assumed that the Borrower has not granted or permitted, nor does there otherwise exist, any execution or attachment on any of the Collateral or any other Lien therein or thereon which does not require steps for perfection under the Uniform Commercial Code of any jurisdiction to be enforceable against third parties.

(f) We express no opinion herein as to:

(i) the Borrower's rights in or title to any Collateral, or the authenticity or enforceability thereof;

(ii) the perfection or priority of any security interests.

(g) Our opinions expressed above are limited to the law of the State of New York, and we do not express any opinion herein concerning any other law.

The foregoing opinion is solely for your benefit and may not be relied upon by any other person or entity, other than any Person that may become a Lender under the Credit Agreement after the date hereof.

Very truly yours,

EXHIBIT F

COMPUTATIONS USED BY BORROWER
IN DETERMINING COMPLIANCE WITH COVENANTS
CONTAINED IN SECTIONS 8.01(I) AND 8.01(J)

(Capitalized terms used herein and not otherwise defined shall have the meanings ascribed thereto in the Credit Agreement, dated as of June 27, 2000, among CMS Energy Corporation, the Banks named therein, The Chase Manhattan Bank, as Administrative Agent and as Collateral Agent, Bank of America, N.A. and Barclays Bank plc, as Co-Syndication Agents, and Citibank, N.A. as Documentation Agent.)

I. SECTION 8.01(i) (Consolidated Leverage Ratio)

(i) Consolidated Debt

(a)	Debt of the Borrower (See worksheet set forth on Schedule 1 hereto), plus	$	------
(b)	Aggregate debt of the Consolidated Subsidiaries (as such term is construed in accordance with GAAP), less	$	------
(c)	Project Finance Debt of the Borrower and the Consolidated Subsidiaries	$	------
	Total Consolidated Debt	$	------

(ii) Consolidated EBITDA

(a)	Pretax Operating Income	$	------
(b)	Consolidated depreciation, depletion and amortization of the Borrower and the Consolidated Subsidiaries	$	------
(c)	Consolidated non-cash write-offs contained in pre-tax operating income of the Borrower and the Consolidated Subsidiaries	$	------
	Total Consolidated EBITDA	$	------

(iii) Consolidated Leverage Ratio (i/ii) ------

Maximum Ratio - Section 8.01(i) ------

II. SECTION 8.01(j) (Cash Dividend Coverage Ratio)

(i) Cash Dividend Income

(a)	Cash Dividend Income	$ ---------
(b)	25% of Equity Distributions received by the Borrower (not to exceed $10,000,000)	$ ---------
(c)	All amounts received by the Borrower from its Subsidiaries and Affiliates constituting reimbursement of interest expense (including commitment, guaranty and letter of credit fees) paid by the Borrower on behalf of any such Subsidiary or Affiliate	$ ---------
	Total Cash Dividend Income	$ ---------

(ii) Interest expense (including commitment, guaranty and letter of credit fees) accrued by the Borrower in respect of all Debt $ ---------

(iii) Cash Dividend Income/Interest Expense Ratio ((i)/(ii)) ---------

Minimum Ratio - Section 8.01(j) ---------

III. Project Finance Debt(5)

IV. Support Obligations(6)

V. Junior Subordinated Debt/Guaranties of Hybrid Preferred Securities(7)

VI. Other Hybrid Debt/Equity Securities(8)

- --------

(5) Set forth all Project Finance Debt of any Consolidated Subsidiary and the Borrower's Ownership Interest in such Consolidated Subsidiary.

(6) Set forth all Support Obligations of the Borrower of the types described in clauses (iv) and (v) of the definition of Support Obligations (whether or not each such Support Obligation or the primary obligation so supported is fixed, conclusively determined or reasonably quantifiable) unless such Support Obligation is previously disclosed as "CONSOLIDATED DEBT" pursuant to Section I or II above.

(7) Set forth all Junior Subordinated Debt owned by any Hybrid Preferred Securities Subsidiary and all guaranties by the Borrower of payments with respect to any Hybrid Preferred Securities.

(8) Set forth any hybrid debt/equity securities (other than Junior Subordinated Debt and Hybrid Preferred Securities) issued by the Borrower or any Consolidated Subsidiary and the amount of the Net Proceeds from each such issuance.

Schedule 1
to
Exhibit F

Computation of Aggregate Debt of the Borrower

Aggregate Debt of the Borrower shall include (without duplication) any and all indebtedness, liabilities and other monetary obligations of the Borrower (whether for principal, interest, fees, costs, expenses or otherwise, and contingent or otherwise):(9)

(i)	for borrowed money or evidenced by bonds, debentures, notes or other similar instruments	$ ------
(ii)	to pay the deferred purchase price of property or services (except trade accounts payable arising in the ordinary course of business which are not overdue)	$ ------
(iii)	as lessee under leases which shall have been or should be, in accordance with GAAP, recorded as capital leases	$ ------
(iv)	under reimbursement or similar agreements with respect to letters of credit issued thereunder	$ ------
(v)	under any interest rate swap, "cap", "collar" or other hedging agreements; provided, however, for purposes of the calculation of Debt for this clause only, the actual amount of Debt of the Borrower shall be determined on a net basis to the extent such agreements permit such amounts to be calculated on a net basis	$ ------
(vi)	to pay rent or other amounts under leases entered into in connection with sale and leaseback transactions involving assets of the Borrower being sold in connection therewith	$ ------
(vii)	arising from any accumulated funding deficiency (as defined in Section 412(a) of the Internal Revenue Code of 1986, as amended) for a Plan	$ ------
(viii)	direct or indirect guaranties in respect of, and obligations to purchase or otherwise acquire, or otherwise to warrant or hold harmless, pursuant to a legally binding agreement, a creditor against loss in respect of, Debt of others referred to in clauses (i) through (vii) above	$ ------

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(9) See the definition of "Consolidated Debt" contained in the Credit Agreement for certain exclusions from Debt of the Borrower.

(ix)	other guaranty or similar financial obligations in respect of the performance of others, including, without limitation, any financial obligation, contingent or otherwise, of the Borrower guaranteeing or otherwise supporting any Debt or other obligation of any other Person in any manner, whether directly or indirectly, and including, without limitation, any obligation of such Person, direct or indirect		$
	(A)	to purchase or pay (or advance or supply funds for the purchase or payment of) such Debt or to purchase (or to advance or supply funds for the purchase of) any security for the payment of such Debt	$
	(B)	to purchase property, securities or services for the purpose of assuring the owner of such Debt of the payment of such Debt	$
	(C)	to maintain working capital, equity capital, available cash or other financial statement condition of the primary obligor so as to enable the primary obligor to pay such Debt	$
	(D)	to provide equity capital under or in respect of equity subscription arrangements (to the extent that such obligation to provide equity capital does not otherwise constitute Debt(10)	$
	(E)	to perform, or arrange for the performance of, any non-monetary obligations or non-funded debt payment obligations of the primary obligor(11)	$
	(F)	Other	$
		Total of Debt of the Borrower	$

- --------

(10) Set forth only the net amount of certain Support Obligations provided by the Borrower in connection with the purchases and sales of natural gas, natural gas liquids, gas condensates, electricity, oil, propane, coal, any other commodity, weather derivatives or any derivative instrument by MS&T, as detailed in Annex A to this Schedule 1.

(11) For purposes of this clause do not include Support Obligations if such Support Obligation or the primary obligation so supported is not fixed or conclusively determined or is not otherwise reasonably quantifiable as of the date of determination.

Annex A
to
Schedule 1

Details Regarding MS&T Transactions(12)

Support Obligations Relating to Obligations

Aggregate amount of Support Obligations provided by the Borrower in respect of MS&T's obligations under any Covering Transaction

(a)	[List each such Support Obligation]	$_____
(b)		$_____
(c)		$_____
(d)		$_____

Less:

Aggregate amount of any Support Obligations provided by any Counterparty Guarantor or any irrevocable letter of credit issued for the account of any Counterparty or Counterparty Guarantor

(a)	[List each such Support Obligation or letter of credit that relates to the corresponding subsection above]	$_____
(b)		$_____
(c)		$_____
(d)		$_____

- --------
(12) See subsection (d) of the definition of "Consolidated Debt" contained in the Credit Agreement for the specific requirements of any offsetting Support Obligations.

EXHIBIT G

FORM OF LENDER ASSIGNMENT

Dated _____ ___, ____

Reference is made to the Credit Agreement, dated as of June 27, 2000 (said Agreement, as it may hereafter be amended or otherwise modified from time to time, being the "CREDIT AGREEMENT"), the terms defined therein and not otherwise defined herein being used herein as therein defined), among the Borrower, the Lenders named therein, The Chase Manhattan Bank, as Administrative Agent and as Collateral Agent, Bank of America, N.A. and Barclays Bank plc, as Co-Syndication Agents, and Citibank, N.A. as Documentation Agent. Pursuant to the Credit Agreement, _____ (the "ASSIGNOR") has committed to make loans ("LOANS") to the Borrower[, which Loans are evidenced by a promissory note (the "NOTE") issued by the Borrower to the Assignor].

The Assignor and _____ (the "ASSIGNEE") agree as follows:

1. The Assignor hereby sells and assigns to the Assignee, and the Assignee hereby purchases and assumes from the Assignor, that interest in and to all of the Assignor's rights and obligations under the Credit Agreement as of the date hereof which represents the percentage interest specified on Schedule 1 of all outstanding rights and obligations under the Credit Agreement (the "ASSIGNED INTEREST"), including, without limitation, such interest in the Assignor's Commitment[,] [and] the Loans owing to the Assignor [and the Note held by the Assignor]. After giving effect to such sale and assignment, the Assignee's Commitments and the amount of the Loans owing to the Assignee in the aggregate will be as set forth in Section 2 of Schedule 1. The effective date of this sale and assignment shall be the date specified in Section 3 of Schedule 1 (the "EFFECTIVE DATE").

2. On _____ ___, 20___, the Assignee will pay to the Assignor, in same day funds, at such address and account as the Assignor shall advise the Assignee, $_____, and (subject to the satisfaction of the requirements set forth in Section 11.07(d) of the Credit Agreement) the sale and assignment contemplated hereby shall thereupon become effective as of the Effective Date. From and after the Effective Date, the Assignor agrees that the Assignee shall be entitled to all rights, powers and privileges of the Assignor under the Credit Agreement [and the Note] to the extent of the Assigned Interest, including without limitation (i) the right to receive all payments in respect of the Assigned Interest for the period from and after the Effective Date, whether on account of principal, interest, fees, indemnities in respect of claims arising after the Effective Date, increased costs, additional amounts or otherwise, (ii) the right to vote and to instruct the Agents under the Credit Agreement according to its Percentage based on the Assigned Interest, (iii) the right to set-off and to appropriate and apply deposits of the Borrower as set forth in the Credit Agreement and (iv) the right to receive notices, requests, demands and other communications. The Assignor agrees that it will promptly remit to the Assignee any amount received by it in respect of the Assigned Interest (whether from the Borrower, any Agent or otherwise) in the same funds in which such amount is received by the Assignor.

3. The Assignor (i) represents and warrants that it is the legal and beneficial owner of the interest being assigned by it hereunder and that such interest is free and clear of any adverse claim; (ii) makes no representation or warranty and assumes no responsibility with respect to any statements, warranties or representations made in or in connection with the Credit Agreement or the execution, legality, validity, enforceability, genuineness, sufficiency or value of the Credit Agreement or any other instrument or document furnished pursuant thereto; (iii) makes no representation or warranty and assumes no responsibility with respect to the financial condition of the Borrower or the performance or observance by the Borrower of any of its obligations under the Credit Agreement or any other instrument or document furnished pursuant thereto; and (iv) represents and warrants to the Assignee and the Administrative Agent that it has duly executed and delivered this Assignment and that the execution, delivery and performance by the Assignor of this Assignment have been duly authorized by all necessary action (corporate or otherwise). Except as specified in this Section 3, the assignment of the Assigned Interest contemplated hereby shall be without recourse to the Assignor.

4. The Assignee (i) confirms that it has received a copy of the Credit Agreement, together with copies of the financial statements referred to in Section 7.01(e)(i) thereof and such other documents and information as it has deemed appropriate to make its own credit analysis and decision to enter into this Assignment and purchase the Assigned Interest, (ii) agrees that it will, independently and without reliance upon the Assignor and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under the Credit Agreement, (iii) confirms that it satisfies the requirements of an Eligible Assignee, (iv) appoints and authorizes each Agent to take such action as agent on its behalf and to exercise such powers under the Loan Documents as are delegated to each Agent by the terms thereof, together with such powers as are reasonably incidental thereto, (v) agrees that it will perform in accordance with their terms all of the obligations which by the terms of the Loan Documents are required to be performed by it as a Lender and (vi) represents and warrants to the Assignor and the Administrative Agent that it has duly executed and delivered this Assignment and that the execution, delivery and performance by the Assignor of this Assignment have been duly authorized by all necessary action (corporate or otherwise).

5. This Assignment may be executed in any number of counterparts and by different parties in separate counterparts, each of which when so executed shall be deemed to be an original and all of which taken together shall constitute but one and the same instrument.

6. This Assignment shall be governed by, and construed in accordance with, the laws of the State of New York.

IN WITNESS WHEREOF, the parties hereto have caused this Assignment to be executed by their respective officers thereunto duly authorized, as of the date first above written, such execution being made on Schedule 1 hereto.

Schedule 1
to
Assignment Agreement
Dated _____ ___, 20___

Section 1.
Percentage Interest: _____%

Section 2.
Assignee's Commitment: $_____

Aggregate Outstanding Principal Amount of
Loans owing to the Assignee: $_____

Section 3.
Effective Date: _____ ___, 20___

[NAME OF ASSIGNOR]

By:_____
Name:
Title:

[NAME OF ASSIGNEE]

By _____
Name:
Title:

Consented to

CMS ENERGY CORPORATION(13)

By:_____
Name:
Title:

THE CHASE MANHATTAN BANK,
as Administrative Agent

By:_____
Name:
Title:

- --------
(13) Consent of the Borrower and the Administrative Agent is required for all assignments except for any assignment by a Lender to any of its Affiliates or to any other Lender or any of its Affiliates.

EXHIBIT H

TERMS OF SUBORDINATION
(Junior Subordinated Debt)

ARTICLE ____

SUBORDINATION

Section ___.1 Applicability of Article; Securities Subordinated to Senior Indebtedness. (a) This Article ____ shall apply only to the Securities of any series which, pursuant to Section ___, are expressly made subject to this Article. Such Securities are referred to in this Article ____ as "Subordinated Securities."

(b) The Issuer covenants and agrees, and each Holder of Subordinated Securities by his acceptance thereof likewise covenants and agrees, that the indebtedness represented by the Subordinated Securities and the payment of the principal and interest, if any, on the Subordinated Securities is subordinated and subject in right, to the extent and in the manner provided in this Article, to the prior payment in full of all Senior Indebtedness.

"Senior Indebtedness" means the principal of and premium, if any, and interest on the following, whether outstanding on the date hereof or thereafter incurred, created or assumed: (i) indebtedness of the Issuer for money borrowed by the Issuer (including purchase money obligations) or evidenced by debentures (other than the Subordinated Securities), notes, bankers' acceptances or other corporate debt securities, or similar instruments issued by the Issuer; (ii) all capital lease obligations of the Issuer; (iii) all obligations of the Issuer issued or assumed as the deferred purchase price of property, all conditional sale obligations of the Issuer and all obligations of the Issuer under any title retention agreement (but excluding trade accounts payable arising in the ordinary course of business); (iv) obligations with respect to letters of credit; (v) all indebtedness of others of the type referred to in the preceding clauses (i) through (iv) assumed by or guaranteed in any manner by the Issuer or in effect guaranteed by the Issuer; (vi) all obligations of the type referred to in clauses (i) through (v) above of other persons secured by any lien on any property or asset of the Issuer (whether or not such obligation is assumed by the Issuer), except for (1) any such indebtedness that is by its terms subordinated to or pari passu with the Subordinated Notes, as the case may be, including all other debt securities and guaranties in respect of those debt securities, issued to any other trusts, partnerships or other entities affiliated with the Issuer which act as a financing vehicle of the Issuer in connection with the issuance of preferred securities by such entity or other securities which rank pari passu with, or junior to, the Preferred Securities, and (2) any indebtedness between or among the Issuer and its affiliates; and/or (vii) renewals, extensions or refundings of any of the indebtedness referred to in the preceding clauses unless, in the case of any particular indebtedness, renewal, extension or refunding, under the express provisions of the instrument creating or evidencing the same or the assumption or guarantee of the same, or pursuant to which the same is outstanding, such indebtedness or such renewal, extension or refunding thereof is not superior in right of payment to the Subordinated Securities.

This Article shall constitute a continuing obligation to all Persons who, in reliance upon such provisions become holders of, or continue to hold, Senior Indebtedness, and such provisions are made for the benefit of the holders of Senior Indebtedness, and such holders are made obligees hereunder and they and/or each of them may enforce such provisions.

Section ___.2 Issuer Not to Make Payments with Respect to Subordinated Securities in Certain Circumstances. (a) Upon the maturity of any Senior Indebtedness by lapse of time, acceleration or otherwise, all principal thereof and premium and interest thereon shall first be paid in full, or such payment duly provided for in cash in a manner satisfactory to the holders of such Senior Indebtedness, before any payment is made on account of the principal of, or interest on, Subordinated Securities or to acquire any Subordinated Securities or on account of any sinking fund provisions of any Subordinated Securities (except payments made in capital stock of the Issuer or in warrants, rights or options to purchase or acquire capital stock of the Issuer, sinking fund payments made in Subordinated Securities acquired by the Issuer before the maturity of such Senior Indebtedness, and payments made through the exchange of other debt obligations of the Issuer for such Subordinated Securities in accordance with the terms of such Subordinated Securities, provided that such debt obligations are subordinated to Senior Indebtedness at least to the extent that the Subordinated Securities for which they are exchanged are so subordinated pursuant to this Article ____).

(b) Upon the happening and during the continuation of any default in payment of the principal of, or interest on, any Senior Indebtedness when the same becomes due and payable or in the event any judicial proceeding shall be pending with respect to any such default, then, unless and until such default shall have been cured or waived or shall have ceased to exist, no payment shall be made by the Issuer with respect to the principal of, or interest on, Subordinated Securities or to acquire any Subordinated Securities or on account of any sinking fund provisions of Subordinated Securities (except payments made in capital stock of the Issuer or in warrants, rights, or options to purchase or acquire capital stock of the Issuer, sinking fund payments made in Subordinated Securities acquired by the Issuer before such default and notice thereof, and payments made through the exchange of other debt obligations of the Issuer for such Subordinated Securities in accordance with the terms of such Subordinated Securities, provided that such debt obligations are subordinated to Senior Indebtedness at least to the extent that the Subordinated Securities for which they are exchanged are so subordinated pursuant to this Article ____).

(c) In the event that, notwithstanding the provisions of this Section ___.2, the Issuer shall make any payment to the Trustee on account of the principal of or interest on Subordinated Securities, or on account of any sinking fund provisions of such Securities, after the maturity of any Senior Indebtedness as described in Section ___.2(a) above or after the happening of a default in payment of the principal of or interest on any Senior Indebtedness as described in Section ___.2(b) above, then, unless and until all Senior Indebtedness which shall have matured, and all premium and interest thereon, shall have been paid in full (or the declaration of acceleration thereof shall have been rescinded or annulled), or such default shall have been cured or waived or shall have ceased to exist, such payment (subject to the provisions of Sections ___.6 and ___.7) shall be held by the Trustee, in trust for the benefit of, and shall be paid forthwith over and delivered to, the holders of such Senior Indebtedness (pro rata as to each of such holders on the basis of the respective amounts of Senior Indebtedness held by them) or

their representative or the trustee under the indenture or other agreement (if any) pursuant to which such Senior Indebtedness may have been issued, as their respective interests may appear, for application to the payment of all such Senior Indebtedness remaining unpaid to the extent necessary to pay the same in full in accordance with its terms, after giving effect to any concurrent payment or distribution to or for the holders of Senior Indebtedness. The Issuer shall give prompt written notice to the Trustee of any default in the payment of principal of or interest on any Senior Indebtedness.

Section ___.3 Subordinated Securities Subordinated to Prior Payment of All Senior Indebtedness on Dissolution, Liquidation or Reorganization of Issuer. Upon any distribution of assets of the Issuer in any dissolution, winding up, liquidation or reorganization of the Issuer (whether voluntary or involuntary, in bankruptcy, insolvency or receivership proceedings or upon an assignment for the benefit of creditors or otherwise):

(a) the holders of all Senior Indebtedness shall first be entitled to receive payments in full of the principal thereof and premium and interest due thereon, or provision shall be made for such payment, before the Holders of Subordinated Securities are entitled to receive any payment on account of the principal of or interest on such Securities;

(b) any payment or distribution of assets of the Issuer of any kind or character, whether in cash, property or securities (other than securities of the Issuer as reorganized or readjusted or securities of the Issuer or any other corporation provided for by a plan of reorganization or readjustment the payment of which is subordinate, at least to the extent provided in this Article ____ with respect to Subordinated Securities, to the payment in full without diminution or modification by such plan of all Senior Indebtedness), to which the Holders of Subordinated Securities or the Trustee on behalf of the Holders of Subordinated Securities would be entitled except for the provisions of this Article ____ shall be paid or delivered by the liquidating trustee or agent or other person making such payment or distribution directly to the holders of Senior Indebtedness or their representative, or to the trustee under any indenture under which Senior Indebtedness may have been issued (pro rata as to each such holder, representative or trustee on the basis of the respective amounts of unpaid Senior Indebtedness held or represented by each), to the extent necessary to make payment in full of all Senior Indebtedness remaining unpaid, after giving effect to any concurrent payment or distribution or provision thereof to the holders of such Senior Indebtedness; and

(c) in the event that notwithstanding the foregoing provisions of this Section ___.3, any payment or distribution of assets of the Issuer of any kind or character, whether in cash, property or securities (other than securities of the Issuer as reorganized or readjusted or securities of the Issuer or any other corporation provided for by a plan of reorganization or readjustment the payment of which is subordinate, at least to the extent provided in this Article ____ with respect to Subordinated Securities, to the payment in full without diminution or modification by such plan of all Senior Indebtedness), shall be received by the Trustee or the Holders of the Subordinated Securities on account of principal of or interest on the Subordinated Securities before all Senior Indebtedness is paid in full, or effective provision made for its payment, such payment or distribution

(subject to the provisions of Section ___.6 and ___.7) shall be received and held in trust for and shall be paid over to the holders of the Senior Indebtedness remaining unpaid or unprovided for or their representative, or to the trustee under any indenture under which such Senior Indebtedness may have been issued (pro rata as provided in subsection (b) above), for application to the payment of such Senior Indebtedness until all such Senior Indebtedness shall have been paid in full, after giving effect to any concurrent payment or distribution or provision therefor to the holders of such Senior Indebtedness.

The Issuer shall give prompt written notice to the Trustee of any dissolution, winding up, liquidation or reorganization of the Issuer.

The consolidation of the Issuer with, or the merger of the Issuer into, another corporation or the liquidation or dissolution of the Issuer following the conveyance or transfer of its property as an entirety, or substantially as an entirety, to another corporation upon the terms and conditions provided for in Article ____ hereof shall not be deemed a dissolution, winding up, liquidation or reorganization for the purposes of this Section ___.3 if such other corporation shall, as a part of such consolidation, merger, conveyance or transfer, comply with the conditions stated such in Article ____.

Section ___.4 Holders of Subordinated Securities to be Subrogated to Right of Holders of Senior Indebtedness. Subject to the payment in full of all Senior Indebtedness, the Holders of Subordinated Securities shall be subrogated to the rights of the holders of Senior Indebtedness to receive payments or distributions of assets of the Issuer applicable to the Senior Indebtedness until all amounts owing on Subordinated Securities shall be paid in full, and for the purposes of such subrogation no payments or distributions to the holders of the Senior Indebtedness by or on behalf of the Issuer or by or on behalf of the Holders of Subordinated Securities by virtue of this Article ____ which otherwise would have been made to the Holders of Subordinated Securities shall, as between the Issuer, its creditors other than holders of Senior Indebtedness and the Holders of Subordinated Securities, be deemed to be payment by the Issuer to or on account of the Senior Indebtedness, it being understood that the provisions of this Article ____ are and are intended solely for the purpose of defining the relative rights of the Holders of the Subordinated Securities, on the one hand, and the holders of the Senior Indebtedness, on the other hand.

Section ___.5 Obligation of the Issuer Unconditional. Nothing contained in this Article ____ or elsewhere in this Indenture or in any Subordinated Security is intended to or shall impair, as among the Issuer, its creditors other than holders of Senior Indebtedness and the Holders of Subordinated Securities, the obligation of the Issuer, which is absolute and unconditional, to pay to the Holders of Subordinated Securities the principal of, and interest on, Subordinated Securities as and when the same shall become due and payable in accordance with their terms, or is intended to or shall affect the relative rights of the Holders of Subordinated Securities and creditors of the Issuer other than the holders of the Senior Indebtedness, nor shall anything herein or therein prevent the Trustee or the Holder of any Subordinated Security from exercising all remedies otherwise permitted by applicable law upon default under this Indenture, subject to the rights, if any, under this Article ____ of the holders of Senior Indebtedness in respect of cash, property or securities of the Issuer received upon the exercise of any such remedy. Upon any payment or distribution of assets of the Issuer referred to in this Article ____,

the Trustee and Holders of Subordinated Securities shall be entitled to rely upon any order or decree made by any court of competent jurisdiction in which such dissolution, winding up, liquidation or reorganization proceedings are pending, or, subject to the provisions of Section ___ and ___, a certificate of the receiver, trustee in bankruptcy, liquidating trustee or agent or other Person making such payment or distribution to the Trustee or the Holders of Subordinated Securities, for the purposes of ascertaining the Persons entitled to participate in such distribution, the holders of the Senior Indebtedness and other indebtedness of the Issuer, the amount thereof or payable thereon, the amount or amounts paid or distributed thereon and all other facts pertinent thereto or to this Article ____.

Nothing contained in this Article ____ or elsewhere in this Indenture or in any Subordinated Security is intended to or shall affect the obligation of the Issuer to make, or prevent the Issuer from making, at any time except during the pendency of any dissolution, winding up, liquidation or reorganization proceeding, and, except as provided in subsections (a) and (b) of Section ___.2, payments at any time of the principal of, or interest on, Subordinated Securities.

Section ___.6 Trustee Entitled to Assume Payments Not Prohibited in Absence of Notice. The Issuer shall give prompt written notice to the Trustee of any fact known to the Issuer which would prohibit the making of any payment or distribution to or by the Trustee in respect of the Subordinated Securities. Notwithstanding the provisions of this Article ____ or any provision of this Indenture, the Trustee shall not at any time be charged with knowledge of the existence of any facts which would prohibit the making of any payment or distribution to or by the Trustee, unless at least two Business Days prior to the making of any such payment, the Trustee shall have received written notice thereof from the Issuer or from one or more holders of Senior Indebtedness or from any representative thereof or from any trustee therefor, together with proof satisfactory to the Trustee of such holding of Senior Indebtedness or of the authority of such representative or trustee; and, prior to the receipt of any such written notice, the Trustee, subject to the provisions of Sections ___ and ___, shall be entitled to assume conclusively that no such facts exist. The Trustee shall be entitled to rely on the delivery to it of a written notice by a Person representing himself to be a holder of Senior Indebtedness (or a representative or trustee on behalf of the holder) to establish that such notice has been given by a holder of Senior Indebtedness (or a representative of or trustee on behalf of any such holder). In the event that the Trustee determines, in good faith, that further evidence is required with respect to the right of any Person as a holder of Senior Indebtedness to participate in any payments or distribution pursuant of this Article ____, the Trustee may request such Person to furnish evidence to the reasonable satisfaction of the Trustee as to the amount of Senior Indebtedness held by such Person, as to the extent to which such Person is entitled to participate in such payment or distribution, and as to other facts pertinent to the rights of such Person under this Article ____, and if such evidence is not furnished, the Trustee may defer any payment to such Person pending judicial determination as to the right of such Person to receive such payment. The Trustee, however, shall not be deemed to owe any fiduciary duty to the holders of Senior Indebtedness and nothing in this Article ____ shall apply to claims of, or payments to, the Trustee under or pursuant to Section ___.

Section ___.7 Application by Trustee of Monies or Government Obligations Deposited with It. Money or Government Obligations deposited in trust with the Trustee

pursuant to and in accordance with Section ____ shall be for the sole benefit of Securityholders and, to the extent allocated for the payment of Subordinated Securities, shall not be subject to the subordination provisions of this Article ____, if the same are deposited in trust prior to the happening of any event specified in Section ___.2. Otherwise, any deposit of monies or Government Obligations by the Issuer with the Trustee or any paying agent (whether or not in trust) for the payment of the principal of, or interest on, any Subordinated Securities shall be subject to the provisions of Section ___.1, ___.2 and ___.3 except that, if prior to the date on which by the terms of this Indenture any such monies may become payable for any purposes (including, without limitation, the payment of the principal of, or the interest, if any, on any Subordinated Security) the Trustee shall not have received with respect to such monies the notice provided for in Section ___.6, then the Trustee or the paying agent shall have full power and authority to receive such monies and Government Obligations and to apply the same to the purpose for which they were received, and shall not be affected by any notice to the contrary which may be received by it on or after such date. This Section ___.7 shall be construed solely for the benefit of the Trustee and paying agent and, as to the first sentence hereof, the Securityholders, and shall not otherwise effect the rights of holders of Senior Indebtedness.

Section ___.8 Subordination Rights Not Impaired by Acts or Omissions of Issuer or Holders of Senior Indebtedness. No rights of any present or future holders of any Senior Indebtedness to enforce subordination as provided herein shall at any time in any way be prejudiced or impaired by any act or failure to act on the part of the Issuer or by any act or failure to act, in good faith, by any such holders or by any noncompliance by the Issuer with the terms of this Indenture, regardless of any knowledge thereof which any such holder may have or be otherwise charged with.

Without in any way limiting the generality of the foregoing paragraph, the holders of Senior Indebtedness of the Issuer may, at any time and from time to time, without the consent of or notice to the Trustee or the Holders of the Subordinated Securities, without incurring responsibility to the Holders of the Subordinated Securities and without impairing or releasing the subordination provided in this Article ____ or the obligations hereunder of the Holders of the Subordinated Securities to the holders of such Senior Indebtedness, do any one or more of the following: (i) change the manner, place or terms of payment or extend the time of payment of, or renew or alter, such Senior Indebtedness, or otherwise amend or supplement in any manner such Senior Indebtedness or any instrument evidencing the same or any agreement under which such Senior Indebtedness is outstanding; (ii) sell, exchange, release or otherwise deal with any property pledged, mortgaged or otherwise securing such Senior Indebtedness; (iii) release any Person liable in any manner for the collection for such Senior Indebtedness; and (iv) exercise or refrain from exercising any rights against the Issuer, as the case may be, and any other Person.

Section ___.9 Securityholders Authorize Trustee to Effectuate Subordination of Securities. Each Holder of Subordinated Securities by his acceptance thereof authorizes and expressly directs the Trustee on his behalf to take such action as may be necessary or appropriate to effectuate the subordination provided in this Article ____ and appoints the Trustee his attorney-in-fact for such purpose, including in the event of any dissolution, winding up, liquidation or reorganization of the Issuer (whether in bankruptcy, insolvency or receivership proceedings or upon an assignment for the benefit of creditors or otherwise) the immediate filing of a claim for the unpaid balance of his Subordinated Securities in the form required in said

proceedings and causing said claim to be approved. If the Trustee does not file a proper claim or proof of debt in the form required in such proceeding prior to 30 days before the expiration of the time to file such claim or claims, then the holders of Senior Indebtedness have the right to file and are hereby authorized to file an appropriate claim for and on behalf of the Holders of said Securities.

Section ___.10 Right of Trustee to Hold Senior Indebtedness. The Trustee in its individual capacity shall be entitled to all of the rights set forth in this Article ____ in respect of any Senior Indebtedness at any time held by it to the same extent as any other holder of Senior Indebtedness, and nothing in this Indenture shall be construed to deprive the Trustee of any of its rights as such holder.

With respect to the holders of Senior Indebtedness of the Issuer, the Trustee undertakes to perform or to observe only such of its covenants and obligations as are specifically set forth in this Article ____, and no implied covenants or obligations with respect to the holders of such Senior Indebtedness shall be read into this Indenture against the Trustee. The Trustee shall not be deemed to owe any fiduciary duty to the holders of such Senior Indebtedness and, subject to the provisions of Sections ___.2 and ___.3, the Trustee shall not be liable to any holder of such Senior Indebtedness if it shall pay over or deliver to Holders of Subordinated Securities, the Issuer or any other Person money or assets to which any holder of such Senior Indebtedness shall be entitled by virtue of this Article ____ or otherwise.

Section ___.11 Article ____ Not to Prevent Events of Defaults. The failure to make a payment on account of principal or interest by reason of any provision in this Article ____ shall not be construed as preventing the occurrence of an Event of Default under Section ____.

EXHIBIT I

TERMS OF SUBORDINATION
(Guaranty of Hybrid Preferred Securities)

SECTION ___. This Guarantee will constitute an unsecured obligation of the Guarantor and will rank subordinate and junior in right of payment to all other liabilities of the Guarantor and pari passu with any guarantee now or hereafter entered into by the Guarantor in respect of the securities representing common beneficial interests in the assets of the Issuer or of any preferred or preference stock of any affiliate of the Guarantor.

EXHIBIT (12)

CMS ENERGY CORPORATION
Ratio of Earnings to Fixed Charges and Preferred
Securities Dividends and Distributions
(Millions of Dollars)

	Six Months Ended June 30, 2000	Years Ended December 31 - 1999	1998	1997	1996	1995
			(b)			
Earnings as defined (a)						
Consolidated net income	$ 161	$ 277	$ 242	$ 244	$ 224	$ 195
Income taxes	68	64	100	108	137	113
Exclude equity basis subsidiaries	(101)	(84)	(92)	(80)	(85)	(57)
Fixed charges as defined, adjusted to exclude capitalized interest of $21, $42, $28, $13, $5 and $4 million for the six months ended June 30, 2000 and for the years ended December 31, 1999, 1998, 1997, 1996 and 1995, respectively	360	395	395	360	313	299
Earnings as defined	$ 488	$ 845	$ 645	$ 632	$ 589	$ 550
Fixed charges as defined (a)						
Interest on long-term debt	$ 291	$ 507	$ 319	$ 273	$ 230	$ 224
Estimated interest portion of lease rental	4	7	8	8	10	9
Other interest charges	11	57	48	49	43	42
Preferred securities dividends and distributions	74	96	77	67	54	42
Fixed charges as defined	$ 380	$ 662	$ 452	$ 397	$ 337	$ 317
Ratio of earnings to fixed charges and preferred securities dividends and distributions	1.28	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.

EXHIBIT (15)(a)

July 28, 2000

CMS Energy Corporation:

We are aware that CMS Energy Corporation has incorporated by reference in its Registration Statements 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 its Form 10-Q for the quarter ended June 30, 2000, which includes our report dated July 28, 2000 covering the unaudited interim financial information contained therein. Pursuant to Regulation C of the Securities Act of 1933, that report is not considered a part of the registration statement prepared or certified by our firm or a report prepared or certified by our firm within the meaning of Sections 7 and 11 of the Act.

Very truly yours,

/s/ Arthur Andersen LLP

EXHIBIT (15)(b)

July 28, 2000

Consumers Energy Company:

We are aware that Consumers Energy Company has incorporated by reference in its Registration Statements No. 333-89363 its Form 10-Q for the quarter ended June 30, 2000, which includes our report dated July 28, 2000 covering the unaudited interim financial information contained therein. Pursuant to Regulation C of the Securities Act of 1933, that report is not considered a part of the registration statement prepared or certified by our firm or a report prepared or certified by our firm within the meaning of Sections 7 and 11 of the Act.

Very truly yours,

/s/ Arthur Andersen LLP

UT

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
DEC-31-2000
JAN-01-2000
JUN-30-2000
PER-BOOK
4,097
5,931
1,944
3,735
0
15,707
1
2,626
(110)
2,345
1,119
44
1,527
278
5,391
0
514
0
197
33
4,087
15,707
3,426
68
2,928
2,996
430
61
491
282
209
48
161
82
0
183
1.44
1.42

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

6-MOS
DEC-31-2000
JAN-01-2000
JUN-30-2000
PER-BOOK
4,097
637
518
1,786
0
7,038
841
645
485
1,971
395
44
808
275
1,200
0
55
0
85
31
2,174
7,038
1,934
69
1,655
1,724
210
5
215
87
128
19
109
109
0
367
0
0

5

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE PANHANDLE EASTERN PIPE LINE COMPANY QUARTERLY REPORT ON FORM 10-Q FOR THE YEAR ENDED JUNE 30, 2000 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

0000076063
PANHANDLE EASTERN PIPE LINE COMPANY
1,000

6-MOS
JUN-30-2000
JUN-30-2000
15,000
0
106,000
0
70,000
381,000
1,653,000
76,000
2,740,000
254,000
1,193,000
0
0
1,000
1,129,000
2,740,000
0
241,000
0
93,000
44,000
0
41,000
104,000
25,000
41,000
0
0
0
41,000
0
0

Not meaningful since Panhandle Eastern Pipe Line Company is a wholly-owned subsidiary.