Consumers Energy

A CMS Energy Company

Big Rock Point Nuclear Plant
10269 US-31 North
Charlevoix, MI 49720

Kurt M. Haas
General Manager

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U.S. Nuclear Regulatory Commission
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DOCKETS 50-155 AND 72-043 – LICENSE DPR-6 – BIG ROCK POINT PLANT – 2001 CONSUMERS ENERGY COMPANY ANNUAL REPORT

In accordance with the requirements of 10 CFR 50.71(b) and 72.80(b), attached is the 2001 Consumers Energy Company's annual financial report, including certified financial statement.

If you have any questions, please contact GCWithrow, Engineering, Operations, and Licensing Manager at 231-547-8176.

Gregory C. Withrow

Gregory C. Withrow
Engineering, Operations, and Licensing Manager

CC: Administrator, Region III, USNRC
NRC Decommissioning Inspector – Big Rock Point
NRC NRR Project Manager - John L Minns
NRC NMSS Project Manager – James C Shepherd

Attachment(s)

M004
NMSS01

Consumers Energy

2001 FINANCIAL STATEMENTS

CONSUMERS ENERGY COMPANY

SELECTED FINANCIAL INFORMATION

		2001	2000	1999	1998	1997
Operating revenue (in millions)	($)	4,014	3,935	3,874	3,709	3,769
Net income (in millions) (Note 1 and 2)	($)	100	304	340	349	321
Net income available to common stockholder (in millions)	($)	57	268	313	312	284
Cash from operations (in millions)	($)	517	468	791	637	761
Capital expenditures, excluding capital lease additions and DSM (in millions)	($)	745	498	444	369	360
Total assets (in millions)	($)	8,306	7,773	7,170	7,163	6,949
Long-term debt, excluding current maturities (in millions)	($)	2,472	2,110	2,006	2,007	1,369
Non-current portion of capital leases (in millions)	($)	56	49	85	100	74
Total preferred stock (in millions)	($)	44	44	44	238	238
Total preferred securities (in millions)	($)	520	395	395	220	220
Number of preferred shareholders at year-end		2,220	2,365	2,534	5,649	6,178
Book value per common share at year-end	($)	21.99	24.09	23.87	21.94	20.38
Return on average common equity	(%)	2.9	13.3	16.2	17.5	16.8
Return on average assets	(%)	2.8	5.7	6.4	6.6	6.2
Number of full-time equivalent employees at year-end						
Consumers		8,477	8,748	8,736	8,456	8,640
Michigan Gas Storage		62	57	63	65	66
Electric statistics						
Sales (billions of kWh)		39.6	41.0	41.0	40.0	37.9
Customers (in thousands)		1,712	1,691	1,665	1,640	1,617
Average sales rate per kWh	(¢)	6.65	6.56	6.54	6.50	6.57
Gas statistics						
Sales and transportation deliveries (bcf)		367	410	389	360	420
Customers (in thousands)(a)		1,630	1,611	1,584	1,558	1,533
Average sales rate per mcf	($)	5.34	4.39	4.52	4.56	4.44

(a) Excludes off-system transportation customers.

CONSUMERS ENERGY COMPANY

MANAGEMENT'S DISCUSSION AND ANALYSIS

Consumers, a subsidiary of CMS Energy, a holding company, is an electric and gas utility company that provides service to customers in Michigan's Lower Peninsula. Consumers' customer base includes a mix of residential, commercial and diversified industrial customers, the largest segment of which is the automotive industry.

This MD&A refers to, and in some sections specifically incorporates by reference, Consumers' Notes to Consolidated Financial Statements and should be read in conjunction with such Consolidated Financial Statements and Notes. This Annual Report and other written and oral statements that Consumers may make contain forward-looking statements as defined by the Private Securities Litigation Reform Act of 1995. Consumers' intentions with the use of the words, "anticipates," "believes," "estimates," "expects," "intends," and "plans," and variations of such words and similar expressions, are solely 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 the results anticipated in such statements. Consumers has no obligation to update or revise forward-looking statements regardless of whether new information, future events or any other factors affect the information contained in such statements. Consumers does, however, discuss certain risk factors, uncertainties and assumptions in this Management's Discussion and Analysis, in Item 1 of this Form 10-K in the section entitled, "Forward-Looking Statements Cautionary Factors" and in various public filings it periodically makes with the SEC. Consumers designed this discussion of potential risks and uncertainties, which is by no means comprehensive, to highlight important factors that may impact Consumers' outlook. This Annual Report also describes material contingencies in Consumers' Notes to Consolidated Financial Statements, and Consumers encourages its readers to review these Notes.

CRITICAL ACCOUNTING POLICIES

The presentation of financial statements in accordance with generally accepted accounting principles requires the use of accounting methods that are often subject to judgment and the use of estimates and assumptions. Presented below, are the accounting policies and assumptions that Consumers believes are most critical to both the presentation and understanding of its financial statements. Application of these accounting policies can involve very complex judgments in the preparation of its financial statements. Accordingly, a different financial presentation could result if different judgments, estimates or assumptions are used.

USE OF ESTIMATES IN ACCOUNTING FOR CONTINGENCIES

The recording of estimated liabilities for contingencies within the financial statements is guided by the principles in SFAS No. 5. SFAS No. 5 requires a company to record estimated liabilities in the financial statements when it is probable that a loss will be paid in the future as a result of a current event and that amount can be reasonably estimated. Consumers has used this accounting principle to record estimated liabilities for the following significant events.

Electric Environmental Estimates: Consumers is subject to costly and increasingly stringent environmental regulations. Consumers expects that the cost of future environmental compliance, especially compliance with clean air laws, will be significant.

The EPA has issued regulations regarding ozone and particulate-related emissions that require some of Consumers' electric generating facilities to achieve lower emissions rates. These regulations will require Consumers to make capital expenditures estimated between $530 million and $570 million, calculated in year 2001 dollars. As of December 2001, Consumers has incurred $296 million in capital expenditures to comply with these regulations and anticipates that the remaining capital expenditures will be incurred between 2002 and 2004.

At some point after 2004, if new environmental standards for multi-pollutants become effective, Consumers may need additional capital expenditures to comply with the standards. These and other required environmental expenditures may have a material adverse effect upon Consumers' financial condition and results of operations after 2004. For further information see Note 2, Uncertainties, "Electric Environmental Matters"

Gas Environmental Estimates: 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. Consumers has estimated its costs related to further investigation and remedial action using the Gas Research Institute-Manufactured Gas Plant Probabilistic Cost Model. The estimated total costs are between $82 million and $113 million. These estimates are based on discounted 2001 costs and follow EPA recommended use of discount rates between 3 and 7 percent for this type of activity. Consumers expects to recover a significant portion of these costs through insurance proceeds and through MPSC approved rates charged to its customers. 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. For further information see Note 2, Uncertainties, "Gas Environmental Matters."

MCV Underrecoveries: 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 a partnership interest in the MCV Partnership, and a lessor interest in the MCV Facility.

Consumers' annual obligation to purchase capacity from the MCV Partnership is 1,240 MW through the termination of the PPA in 2025. The PPA requires Consumers 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. Consumers has not been allowed full recovery of the capacity charges in rates and has recorded the estimated losses on this contract through 2007.

Consumers' availability payments to the MCV Partnership is capped 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:

	2002	2003	2004	2005	2006
			In Millions		
Estimated cash underrecoveries at 98.5%, net of tax	$37	$37	$36	$36	$36

For further information see Note 2, Uncertainties "The Midland Cogeneration Venture" for additional detail.

ACCOUNTING FOR DERIVATIVE AND FINANCIAL INSTRUMENTS

Derivative Instruments: Consumers uses the criteria in SFAS No. 133 to determine if certain contracts must be accounted for as derivative instruments. The rules for determining whether a contract meets the criteria for derivative accounting are numerous and complex. As a result, significant judgment is required to determine whether a contract requires derivative accounting, and similar contracts can sometimes be accounted for differently.

The types of contracts Consumers currently account for as derivative instruments are interest rate swaps and locks, certain electric call options, and gas fuel call options and swaps. Consumers does not account for electric capacity and energy contracts, gas supply contracts, coal supply contracts, or purchase orders for numerous supply items as derivatives.

If a contract must be accounted for as a derivative instrument, the contract is recorded as either an asset or a liability in the financial statements at the fair value of the contract. Any difference between the recorded book value and the fair value is reported either in earnings or other comprehensive income depending on certain qualifying criteria. The recorded fair value of the contract is then adjusted quarterly to reflect any change in the market value of the contract.

In order to value the contracts that are accounted for as derivative instruments, Consumers uses a combination of market quoted prices and mathematical models. Option models require various inputs, including forward prices, volatilities, interest rates and exercise periods Changes in forward prices or volatilities could significantly change the calculated fair value of the call option contracts. The models used by Consumers have been tested against market quotes to ensure consistency between model outputs and market quotes. At December 31, 2001, Consumers assumed an interest rate of 4.5 percent in calculating the fair value of its electric call options.

In order for derivative instruments to qualify for hedge accounting under SFAS No. 133, the hedging relationship must be formally documented at inception and be highly effective in achieving offsetting cash flows or offsetting changes in fair value attributable to the risk being hedged. If hedging a forecasted transaction, the forecasted transaction must be probable. If a derivative instrument, used as a cash flow hedge, is terminated early because it is probable that a forecasted transaction will not occur, any gain or loss as of such date is immediately recognized in earnings. If a derivative instrument, used as a cash flow hedge, is terminated early for other economic reasons, any gain or loss as of the termination date is deferred and recorded when the forecasted transaction affects earnings. For further information see Note 1, Corporate Structure and Summary of Significant Accounting Policies, "Implementation of New Accounting Standards," Note 2, Uncertainties, "Other Electric Uncertainties — Derivative Activities," and Note 3, Short-Term Financings and Capitalization, "Derivative Activities."

Financial Instruments: Consumers accounts for its investments in debt and equity securities in accordance with SFAS No. 115. As such, debt and equity securities can be classified into one of three categories: held-to-maturity, trading, or available-for-sale securities. Consumers' investments in equity securities are classified as available-for-sale securities and are reported at fair value with any unrealized gains or losses resulting from changes in fair value excluded from earnings and reported in equity as part of other comprehensive income. Unrealized gains or losses resulting from changes in the fair value of Consumers' nuclear decommissioning investments are reported in accumulated depreciation. The fair value of these instruments is determined from quoted market prices. For further information, see Note 5, Financial Instruments.

Accounting for Leases

Consumers uses SFAS No. 13 to account for any leases to which it may be a party. SFAS No. 13 classifies leases as either operating or capital depending upon certain criteria. Under an operating lease, payments are expensed as incurred, and there is no recognition of an asset or liability on the balance sheet. Capital leases require that an asset and liability be recorded on the balance sheet at the inception of the lease for the present value of the minimum lease payments required during the term of the lease.

Accounting for leases using SFAS No. 13, and related statements, requires the use of assumptions and judgment to determine lease classification. This judgment includes evaluating a lease for the transfer of ownership at the end of the lease, provision for bargain purchase option, the lease term relative to the estimated economic life of the leased property, and the present value at the beginning of the lease term of the minimum lease payments. Considerable judgment is required for leases involving special purpose entities such as trusts, sales and leasebacks and when the lessee is involved in the construction of the property it will lease. Different financial presentations of leases could result if different judgment, estimates or assumptions are made.

Consumers is party to a number of leases, the most significant are the leases associated with its new headquarters building and its railcar lease. For further information see Note 8, Leases.

Accounting for the Effects of Industry Regulation

Because Consumers is involved in a regulated industry, regulatory decisions affect the timing and recognition of revenues and expenses. Consumers uses SFAS No. 71 to account for the effects of these regulatory decisions. As a result. Consumers may defer or recognize revenues and expenses differently than a non-regulated entity.

Items that may normally be expensed for a non-regulated entity may be capitalized as regulatory assets if the actions of the regulator indicate that such expenses will be recovered in future rates charged to customers designed to recover such costs. Conversely, items that may normally be recognized as revenues for a non-regulated entity may be recorded as regulatory liabilities if the actions of the regulator indicate that such revenues will be required to be refunded to customers at a future time. Judgment is required to discern the recoverability of items recorded as regulatory assets and liabilities. As of December 31, 2001, Consumers had $1.130 billion recorded as regulatory assets and $291 million recorded as regulatory liabilities.

Accounting for Pension and OPEB

Consumers uses SFAS No. 87 to account for pension costs and uses SFAS No. 106 to account for other postretirement benefit costs. These statements require liabilities to be recorded on the balance sheet at the present value of these future obligations to employees net of any plan assets. The calculation of these liabilities and associated expenses require the expertise of actuaries and are subject to many assumptions including life expectancies, present value discount rates, expected long-term rate of return on plan assets, rate of compensation increase and anticipated health care costs. Any change in these assumptions can significantly change the liability and associated expenses recognized in any given year. For further information see Note 7, Retirement Benefits.

Accounting for Nuclear Decommissioning Costs

Consumers' decommissioning cost estimates for the Big Rock and Palisades plants assume that each plant site will eventually be restored to conform to the adjacent landscape, and all contaminated equipment will be disassembled and disposed of in a licensed burial facility. On December 31, 2000, Big Rock trusts were fully funded per a March 1999 MPSC order. A December 1999 MPSC order set the annual decommissioning surcharge for Palisades decommissioning at $6 million a year. Consumers estimates that at the time Palisades is fully decommissioned in year 2049, the trust funds will have provided $2.5 billion, including trust earnings, to pay for the anticipated expenditures over the entire decommissioning period. Earning assumptions are that the trust funds are invested in equities and fixed income investments, the trust funds will be converted to municipal bonds after decommissioning becomes fully funded, and that municipal bonds are converted to cash one year before expenditures are made. The Palisades and Big Rock trust funds are currently estimated to earn 7.1 percent and 5.7 percent, respectively, annually.

The funds provided by the trusts are expected to fully fund the decommissioning costs, which have been developed, in part, by independent contractors with expertise in decommissioning. These costs have been developed using various inflation rates for labor, non-labor, and for contaminated equipment burial costs. Variance from trust earnings, changes in decommissioning technology, regulations, estimates or assumptions could affect the cost of decommissioning these sites.

Related Party Transactions

Consumers enters into a number of significant transactions with related parties. These transactions include the purchase of capacity and energy from the MCV Partnership and from affiliates of Enterprises, the purchase of electricity from CMS MST, the purchase of gas supply from CMS MST and CMS Oil and Gas, the purchase of gas transportation from Panhandle and its subsidiary Trunkline, the payment of parent company overhead costs to CMS Energy, the sale, storage and transportation of natural gas and other services to the MCV Partnership, certain transactions involving derivative instruments with CMS MST, and an investment in CMS Energy Common Stock.

Transactions involving CMS Energy and its affiliates and the sale, storage and transportation of natural gas and other services to the MCV Partnership are based on regulated prices, market prices or competitive bidding. Purchases are based upon the lowest market price available or most competitive bid submitted. Transactions involving the power supply purchases from the MCV Partnership are based upon avoided costs under PURPA; and the payment of parent company overhead costs to CMS Energy are based upon use or accepted industry allocation methodologies.

Consumers is also involved in a significant transaction to sell its transmission facilities to Trans-Elect, Inc., an independent company, whose management employs former executive employees of Consumers, and was based on competitive bidding.

For detailed information about related party transactions see Note 1, Corporate Structure and Summary of Significant Accounting Policies, "Related-Party Transactions", and Note 2, Uncertainties, "Electric Rate Matters — Transmission Business", and "Other Electric Uncertainties — The Midland Cogeneration Venture".

RESULTS OF OPERATIONS

CONSUMERS CONSOLIDATED EARNINGS

	Years Ended December 31					
	2001	2000	Change	2000	1999	Change
			In Millions			
Net income available to common stockholder	$57	$268	$(211)	$268	$313	$(45)

2001 Compared to 2000: For 2001, Consumers' net income available to the common stockholder totaled $57 million, a decrease of $211 million from the previous year. The decrease in earnings reflects an $82 million after-tax loss, recorded in September 2001, related to Consumers' Power Purchase Agreement with the Midland Cogeneration Venture for additional underrecoveries through September 2007. After September 2007, the PPA terms require Consumers to pay MCV Partnership capacity and energy charges that the MPSC has authorized for recovery from electric customers. The earnings decrease also reflects significantly increased operating expense in 2001, primarily $59 million of after-tax costs for replacement power supply costs due to a six month unscheduled outage at the Palisades Plant. Net income in 2001 was also adversely impacted by $11 million to reflect a change in accounting for certain electric call option contracts. In addition, 2001 earnings decreased due to the impact of reduced gas deliveries resulting from milder temperatures during both the first quarter and fourth quarter heating seasons. Electric and gas revenues were also adversely impacted by a decrease in electricity and gas delivered to industrial customers, reflecting the year-long impact of an economic slowdown throughout Michigan.

2000 Compared to 1999: Net income in 2000 decreased $45 million from the 1999 level primarily reflecting higher gas costs, which exceeded the frozen gas commodity rate charged to customers. The impact of a five percent electric rate reduction for residential customers due to the passing of the Customer Choice Act that went into effect in June of 2000, and the purchase of electric call options, which were ultimately not needed due to the milder-than-expected summer temperatures also decreased earnings. Partially offsetting these decreases were lower operating costs.

For further information, see the Electric and Gas Utility Results of Operations sections and Note 2, Uncertainties.

ELECTRIC UTILITY RESULTS OF OPERATION

	Years Ended December 31					
	2001	2000	Change	2000	1999	Change
			In Millions			
Pretax Operating Income	$212	$481	$(269)	$481	$494	$(13)
Reasons for the change:						
Electric deliveries			$ 19			$ 12
Loss on MCV power purchases			(126)			0
Power supply costs and related revenue			(109)			(50)
Rate decrease			(35)			(22)
Other operating expenses			(10)			33
Non-commodity revenue			(8)			14
Total change			$(269)			$(13)

Electric Deliveries: For the year 2001, electric deliveries, including transactions with other electric utilities, were 39.6 billion kWh, a decrease of 1.4 billion kWh or 3.5 percent from 2000. Although total deliveries for 2001 were below the 2000 level, increased deliveries to the higher margin residential and commercial sectors, more than offset the impact of reduced deliveries to the lower margin industrial sector. All deliveries in 2001 reflect the year-long impact of an economic slowdown throughout Michigan. For the year 2000, electric deliveries were 41 billion kWh, similar to 1999.

Loss on power purchases from MCV: Since 1987, Consumers has had a power purchase agreement with the MCV. The MPSC has disallowed a portion of the costs of this contract, primarily related to the capacity payment. Consumers had previously identified certain potential savings, which were anticipated to significantly mitigate future capacity losses. However, management recently evaluated these potential savings and determined that expected increases in fuel prices and other operating expenses would significantly reduce the mitigating impact of the savings. Therefore, Consumers revised its estimated losses under this contract and recorded an additional pretax loss of $126 million (see Note 2, Uncertainties).

Power Supply Costs and Related Revenue: For the year 2001, lower overall sales produced a decrease in fuel related revenues. Nevertheless, power supply costs increased as a result of the purchase of greater quantities of higher-priced electricity to offset the loss of generation resulting from the six month unscheduled Palisades outage that ended in January 2002. For the year 2000, the increase in power supply costs was also due to unscheduled plant outages at other generating facilities.

For the years 2001 and 2000 respectively, Consumers purchased $66 million and $51 million of electric call options to purchase electricity to ensure a reliable source of power supply during the summer months. As a result of periodic excess daily capacity, certain call options were sold for $2 million and $1 million in the years 2001 and 2000, respectively. The remaining call options were either exercised or expired. Consumers accounted for the costs relating to the expired call options and the income received from the sale of call options, as purchased power supply costs.

Rate Decrease and Other Operating Expenses: In June 2000, Consumers' retail rates were frozen and a five percent residential rate decrease was implemented to comply with the Customer Choice Act. As a result, 2001 reflects a full year impact of this rate decrease. Other operating expenses increased in 2001 due to higher operating and maintenance costs. This increase in expense was significantly offset by reduced amortization expense, as permitted by MPSC orders resulting from the Customer Choice Act. Consumers temporarily suspended amortization of the securitized assets pending the issuance of securitization bonds in November 2001. The year 2000 reflects a half-year impact of the rate decrease along with a decrease in other operating expenses due to lower operating and maintenance costs.

GAS UTILITY RESULTS OF OPERATION

	Years Ended December 31					
	2001	2000	Change	2000	1999	Change
			In Millions			
Pretax Operating Income	$98	$98	$ 0	$98	$132	$(34)
Reasons for the change:						
Gas commodity and related revenue			44			(64)
Gas wholesale and retail services			8			4
Operation and maintenance			(31)			11
Gas deliveries			(21)			17
General taxes and depreciation			0			(2)
Total change			$ 0			$(34)

For the year 2001 as compared to 2000, the gas commodity cost and related revenues increased primarily as a result of the absence of a $45 million regulatory liability recorded in 2000 that did not exist in 2001. This liability was due to the increased cost of gas, which was significantly above the commodity rate being collected from Consumers' gas customers. The recording of this $45 million liability reduced revenue for the year 2000. Since April 2001, Consumers is back on a fully recoverable GCR factor, which results in no gain or loss on the commodity portion of the tariff rate. Wholesale and retail services increased, principally due to growth in the appliance service plan program Operation and maintenance cost increases reflect additional focus on customer reliability and service. Gas delivery revenues reflect a significant decrease due to warmer temperatures compared to the 2000 heating season and a reduction due to the economic slowdown in 2001. Gas system deliveries, including miscellaneous transportation, totaled 367 bcf, a decrease of 43 bcf or 10 percent compared with 2000.

For the year 2000 as compared to 1999, the gas commodity cost and related revenue decreased primarily as a result of recording the regulatory liability related to increased gas costs in 2000. The increase in gas costs were significantly above the gas commodity rate being collected from Consumers' gas customers. Operation and maintenance cost decreased due to control of employee benefit costs. System deliveries, including miscellaneous transportation, totaled 410 bcf, an increase of 21 bcf or five percent compared with 1999. The increased deliveries reflect colder temperatures during the fourth quarter of 2000.

CAPITAL RESOURCES AND LIQUIDITY

CASH POSITION, INVESTING AND FINANCING

Operating Activities: Consumers' principal source of liquidity is from cash derived from operating activities involving the sale and transportation of natural gas and the generation, delivery and sale of electricity. For 2001 and 2000, cash from operations totaled $517 million and $515 million, respectively. The $2 million increase resulted primarily from a $315 million increase in cash collected from customers and related parties, offset by a $248 million use of cash to increase natural gas inventories and $65 million of 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. A decrease in cash from operations could reduce the availability of funds and result in additional short-term financings, see Note 3, Short-Term Financing and Capitalization for additional details about this source of funds.

Investing Activities: For 2001 and 2000, cash used for investing activities totaled $803 million and $604 million, respectively. The change of $199 million is primarily for capital expenditures to comply with the Clean Air Act and to purchase nuclear fuel.

Financing Activities: For 2001 and 2000, cash provided by financing activities totaled $281 million and $92 million, respectively. The change of $189 million is primarily the result of $55 million decrease in the payment of common stock dividend, $121 million net proceeds from the sale of Trust Preferred Securities, $130 million increase in net proceeds from Senior notes issued and $459 million net proceeds from the issuance of Securitization Bonds, offset by a $176 million net decrease in notes payable and $392 million increase in retirement of bonds and other long-term debt.

Off-Balance Sheet Arrangements: Consumers' use of long-term contracts for the purchase of commodities and services, the sale of its accounts receivables, and operating leases are considered to be off-balance sheet arrangements. Consumers has responsibility for the collectability of the accounts receivables sold, and the full obligation of its leases become due in case of lease payment default. Consumers uses these off-balance sheet arrangements in its normal business operations.

Disclosures about Contractual Obligations and Commercial Commitments: The following schedule of material contractual obligations and commercial commitments is provided to aggregate information in a single location so that a picture of liquidity and capital resources is readily available. For further information about these obligations, see Note 2, Uncertainties, Note 3, Short-Term Financing and Capitalization, the Consolidated Statements of Long-Term Debt, and Note 8, Leases

Contractual Obligations	Total	Payments Due Years Ended December 31 2002	2003	2004	2005	2006 and beyond
		In Millions				
On-balance sheet:						
Long-term debt	$ 2,735	$ 263	$634	$ 28	$170	$ 1,640
Notes payable	416	416	—	—	—	—
Capital lease obligations	81	19	16	13	12	21
Off-balance sheet:						
Operating leases	160	12	15	13	11	109
Sale of accounts receivable	334	334	—	—	—	—
Unconditional purchase obligations	17,704	1,115	945	787	781	14,076

Unconditional purchase obligations are for natural gas and electricity and represent normal business operating contracts used to assure adequate supply and minimize exposure to market price fluctuations.

Consumers has long-term power purchase agreements with various generating plants including the MCV Facility. These contracts require monthly capacity payments based on the plants' availability or deliverability. These payments are approximately $48 million per month for year 2002, which includes $33 million related to the MCV Facility. If a plant is not available to deliver electricity to Consumers, then Consumers would not be obligated to make the capacity payment until the plant could deliver. See Electric Utility Results of Operations above, Note 2, Uncertainties, "Power Supply Costs" and "The Midland Cogeneration Venture", and Note 11, Summarized Financial Information of Significant Related Energy Supplier, for further information concerning power supply costs. See Note 1, Corporate Structure and Summary of Significant Accounting Policies, "Related-Party Transactions" for additional details concerning related party transactions.

Commercial Commitments	Total	Commitment Expiration Years Ended December 31 2002	2003	2004	2005	2006 and beyond
		In Millions				
Off-balance sheet:						
Guarantees	$16	$16	—	—	—	—
Indemnities	14	—	—	—	—	14
Letters of Credit	6	6	—	—	—	—

Consumers has $300 million credit facilities, $215 million aggregate lines of credit and a $450 million trade receivable sale program in place as anticipated sources of funds to fulfill its currently expected capital expenditures. For further information about this source of funds see Note 3, Short-Term Financing and Capitalization.

OUTLOOK

Capital Expenditures Outlook

Over the next three years, Consumers estimates the following capital expenditures, including new lease commitments, by expenditure type and by business segments. Consumers prepares these estimates for planning purposes and may revise them.

	Years Ended December 31 2002	2003	2004
	In Millions		
Construction	$588	$548	$540
Nuclear fuel lease	9	0	28
Capital leases other than nuclear fuel	25	22	22
	$622	$570	$590

	Years Ended December 31		
	2002	2003	2004
		In Millions	
Electric utility operations(a)(b)	$448	$405	$440
Gas utility operations(a)	174	165	150
	$622	$570	$590

(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 that may be required by recent revisions to the Clean Air Act's national air quality standards. For further information see Note 2, Uncertainties

ELECTRIC BUSINESS OUTLOOK

Growth: Over the next five years, Consumers expects electric deliveries (including both full service sales and delivery service to customers who choose to buy generation service from an alternative electric supplier) to grow at an average rate of approximately two percent per year based primarily on a steadily growing customer base. This growth rate reflects a long-range expected trend of growth. Growth from year to year may vary from this trend due to customer response to abnormal weather conditions and changes in economic conditions including, utilization and expansion of manufacturing facilities.

Competition and Regulatory Restructuring: Regulatory changes and other developments have resulted and will continue to result in increased competition in the electric business. Generally, increased competition threatens Consumers' share of the market for generation services and can reduce profitability. Competition is increasing as a result of the introduction of retail open access in the state of Michigan pursuant to the enactment of Michigan's Customer Choice Act, and therefore, alternative electric suppliers for generation services have entered Consumers' market. The Customer Choice Act allows all electric customers to have the choice of buying electric generation service from an alternative electric supplier as of January 1, 2002. To the extent Consumers experiences "net" Stranded Costs as a result of customers switching to an alternative electric supplier, the Customer Choice Act provides for the recovery of such related "net" Stranded Costs through a surcharge that would be paid by those customers that choose to switch to an alternative electric supplier.

Stranded and Implementation Costs: The Customer Choice Act allows for the recovery by an electric utility of the cost of implementing the act's requirements and "net" Stranded Costs, without defining the term. The act directs the MPSC to establish a method of calculating "net" Stranded Costs and of conducting related true-up adjustments. In December 2001, the MPSC adopted a methodology for calculating "net" Stranded Costs as the shortfall between (a) the revenue needed to cover the costs associated with fixed generation assets, generation-related regulatory assets, and capacity payments associated with purchase power agreements and (b) the revenues received from retail and wholesale customers under existing rates available to cover those revenue needs. According to the MPSC, "net" Stranded Costs are to be recovered from retail open access customers through a Stranded Cost surcharge. Even though the MPSC ruled that the Stranded Cost surcharge to be in effect on January 1, 2002 for the recovery of "net" Stranded Costs for calendar year 2000 for Consumers is zero, the MPSC also indicated that the "net" Stranded Costs for 2000 would be subject to further review in the context of its subsequent determinations of "net" Stranded Costs for 2001 and later years The MPSC authorized Consumers to use deferred accounting to recognize the future recovery of assets determined to be stranded by application of the MPSC's methodology. Consumers is seeking a rehearing and clarification of the methodology adopted, and will be making future "net" Stranded Cost filings with the MPSC in March or April of 2002. The outcome of these proceedings before the MPSC is uncertain at this time.

Between 1999 and 2001, Consumers filed applications with the MPSC for the recovery of electric utility restructuring implementation costs of $75 million, incurred between 1997 and 2000 Consumers received final orders that granted recovery of $41 million of restructuring implementation costs for the years 1997 through 1999, and disallowed recovery of $10 million, based upon a conclusion that this amount did not represent costs incremental to costs already reflected in rates Consumers expects to receive a final order for the 2000 restructuring implementation costs in 2002. In the orders received for the years 1997 through 1999, the MPSC also ruled that it reserved the right to undertake another review of the total restructuring implementation costs depending upon the progress and success of the retail open access program, and ruled that due to the rate freeze imposed by the Customer Choice Act, it was premature to establish a cost recovery method for the allowable costs For the year 2001, Consumers incurred, and deferred as a regulatory asset, an additional $8 million in implementation costs for which an application for recovery will be filed with the MPSC in 2002. In addition, Consumers has recorded as a regulatory asset $9 million for the cost of money associated with restructuring implementation costs. Consumers believes the restructuring implementation costs and the associated cost of money are fully recoverable in accordance with the Customer Choice Act; however, Consumers cannot predict the amounts the MPSC will approve as recoverable costs.

Rate Caps: The Customer Choice Act imposes certain limitations on rates that could result in Consumers being unable to collect customer rates sufficient to fully recover its cost of conducting business. Some of these costs may be beyond Consumers' ability to control. In particular, if Consumers needs to purchase power supply from wholesale suppliers during the period when retail rates are frozen or capped, the rate restrictions imposed by the Customer Choice Act may make it impossible for Consumers to fully recover the cost of purchased power through the rates it charges its customers. As a result, it is not certain that Consumers can maintain its profit margins in its electric utility business during the period of the rate freeze or rate caps.

Industrial Contracts: In response to industry restructuring efforts, Consumers entered into multi-year electric supply contracts with certain of its largest industrial customers to provide electricity to certain of their facilities at specially negotiated prices The MPSC approved these special contracts as part of its phased introduction to competition. During the period from 2001 through 2005, either Consumers or these industrial customers can terminate or restructure some of these contracts. As of December 2001, neither Consumers nor any of its industrial customers have terminated or restructured any of these contracts, but some contracts have expired by their terms. Outstanding contracts involve approximately 510 MW of customer power supply requirements. Consumers cannot predict the ultimate financial impact of changes related to these power supply contracts, or whether additional contracts will be necessary or advisable.

Code of Conduct: In December 2000, as a result of the passage of the Customer Choice Act, the MPSC issued a new code of conduct that applies to electric utilities and alternative electric suppliers. The code of conduct seeks to prevent cross-subsidization, information sharing and preferential treatment between a utility's regulated and unregulated services. The new code of conduct is broadly written, and as a result could affect Consumers' retail gas business, the marketing of unregulated services and equipment to customers in Michigan, and internal transfer pricing between Consumers' departments and affiliates. The new code of conduct was recently reaffirmed without substantial modification, and will become operationally effective after the MPSC reviews and approves a utility's compliance plans and requests for waivers. Consumers appealed the MPSC orders related to the code of conduct and sought a stay of the orders until the appeal was complete; however, the request for a stay was denied. Consumers has filed a compliance plan in accordance with the code of conduct, and has sought waivers to the code of conduct with respect to utility activities that provide approximately $50 million in annual revenues that may be restricted. The full impact of the new code of conduct on Consumers' business will remain uncertain until the appellate courts issue definitive rulings or the MPSC rules on the waivers.

Energy Policy: Uncertainty exists with respect to the enactment of a national comprehensive energy policy, specifically federal electric industry restructuring legislation. A variety of bills introduced in Congress in recent years have sought to change existing federal regulation of the industry. If the federal government enacts a comprehensive energy policy or legislation restructuring the electric industry, then that legislation could potentially affect or even supercede state regulation.

Transmission: In 1999, in part because of the provisions of certain policy pronouncements by the FERC designed to encourage utilities to either transfer operating control of their transmission facilities to an RTO or sell their transmission facilities to an independent company, Consumers joined a coalition of companies known as the Alliance companies for the purpose of creating a FERC-approved RTO. In December 2001, the FERC denied the RTO plan submitted by the Alliance companies and ordered the Alliance companies to explore membership in the Midwest ISO, whose RTO plan was approved by the FERC. Membership in the Midwest ISO could potentially increase Consumers' costs during the period of the rate freeze or rate caps where Consumers could not raise retail electric rates in Michigan. Consumers and METC are evaluating their options regarding RTO membership as a result of the December 2001 FERC order.

In January 2001, the FERC granted Consumers' application to transfer ownership and control of its electric transmission facilities to METC, and in April 2001 the transfer took place. In October 2001, Consumers executed an agreement to sell METC for approximately $290 million, depending on the final date of the sale, to MTH, a non-affiliated limited partnership whose general partner is a subsidiary of Trans-Elect, Inc. Certain of Trans-Elect's officers and directors are former officers and directors of CMS Energy, Consumers and certain of their subsidiaries, but all had left the employment of such affiliates prior to the period when the transaction was discussed internally and negotiated with purchasers. Trans-Elect, Inc. submitted the winning bid to purchase METC through a competitive bidding process, and the transaction is subject to approval by various federal agencies. Consumers is not providing any financial or credit support to Trans-Elect, Inc. in connection with the purchase of METC. Proceeds from the sale of METC will be used to improve Consumers' balance sheet. Consumers chose to sell its transmission facilities as a form of compliance with Michigan's Customer Choice Act and FERC Order No. 2000 rather than own and invest in an asset that it cannot control. After selling its transmission facilities, Consumers anticipates a reduction in after-tax earnings of approximately $6 million and $14 million in 2002 and 2003, respectively, as a result of the loss in revenue associated with wholesale and retail open access customers that would buy services directly from MTH and the loss of a return on the transmission assets upon the sale of METC to MTH. Under the agreement with MTH, and subject to certain additional RTO surcharges, transmission rates charged to Consumers will be fixed at current levels until December 2005, and will be subject to FERC ratemaking thereafter. Consumers, through METC, will continue to own and operate the transmission system until the companies meet all conditions of closing, including approval of the transaction by the FERC. In February 2002, MTH and Consumers received conditional approval of the transaction from the FERC. Consumers and Trans-Elect, Inc. have petitioned for rehearing to resolve certain remaining issues. Trans-Elect, Inc. has also submitted filings to the FERC designed to bring it into the Midwest ISO and to establish rates to be charged over the Trans-Elect, Inc. owned system. Final regulatory approvals and operational transfer are expected to take place in the first or second quarter of 2002; however, Consumers can make no assurances as to when or whether the transaction will be completed. For further information, see Note 2, Uncertainties, "Electric Rate Matters — Transmission Business."

Consumers cannot predict the outcome of these electric industry-restructuring issues on its financial position, liquidity, or results of operations.

Performance Standards: In July 2001, the MPSC proposed electric distribution performance standards applicable to Consumers and other Michigan distribution utilities. The proposal would establish standards related to restoration after an outage, safety, and customer relations. Failure to meet the proposed performance standards would result in customer bill credits. Consumers submitted comments to the MPSC. In December 2001, the MPSC issued an order stating its intent to initiate a formal rulemaking proceeding to develop and adopt performance standards. Consumers will continue to participate in this process. Consumers cannot predict the outcome of the proposed performance standards or the likely effect, if any, on Consumers.

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."

Nuclear Matters: In June 2001, an unplanned outage began at Palisades that negatively affected power supply costs in the third and fourth quarter of 2001. On June 20, 2001, the Palisades reactor was shut down so technicians could inspect a small steam leak on a control rod drive assembly. In August 2001, Consumers completed an expanded inspection that included all similar control rod drive assemblies and elected to completely replace the defective components In December 2001, installation of the new components was completed and the plant returned to service on January 21, 2002. For further information and material changes relating to nuclear matters, see Note 2, Uncertainties, "Other Electric Uncertainties — Nuclear Matters."

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) the need to make additional capital expenditures and increase operating expenses for compliance with the Clean Air Act; 2) environmental liabilities arising from various federal, state and local environmental laws and regulations, including potential liability or expenses relating to the Michigan Natural Resources and Environmental Protection Acts and Superfund; 3) uncertainties relating to the storage and ultimate disposal of spent nuclear fuel and the successful operation of the Palisades plant by NMC; 4) electric industry restructuring issues, including those described above; 5) Consumers' ability to meet peak electric demand requirements at a reasonable cost, without market disruption, and initiatives undertaken to reduce exposure to electric price increases for purchased power; 6) the restructuring of the MEPCC and the termination of joint merchant operations with Detroit Edison; 7) Consumers' ability to sell wholesale power at market-based rates; 8) the recovery of electric restructuring implementation costs; 9) sufficient reserves for OATT rate refunds; and 10) the effects of derivative accounting and potential earnings volatility. For further information about these trends or uncertainties, see Note 2, Uncertainties.

GAS BUSINESS OUTLOOK

Growth: Over the next five years, Consumers anticipates gas deliveries, including gas customer choice deliveries (excluding transportation to the MCV Facility and off-system deliveries), to grow at an average of about one percent per year based primarily on a steadily growing customer base. Actual gas deliveries in future periods may be affected by abnormal weather, alternative electric costs, changes in competitive and economic conditions, and the level of natural gas consumption per customer.

Gas Rate Case: In June 2001, Consumers filed an application with the MPSC seeking a distribution service rate increase. Contemporaneously with this filing, Consumers requested partial and immediate relief in the annual amount of $33 million. In October 2001, Consumers revised its filing to reflect lower operating costs and is now requesting a $133 million annual distribution service rate increase. In December 2001, the MPSC authorized a $15 million annual interim increase in distribution service revenues. In February 2002, Consumers revised its filing to reflect lower estimated gas inventory prices and revised depreciation expense and is now requesting a $105 million distribution service rate increase. See Note 2, Uncertainties "Gas Rate Case" for further information.

Unbundling Study: In July 2001, the MPSC directed gas utilities under its jurisdiction to prepare and file an unbundled cost of service study. The purpose of the study is to allow parties to advocate or oppose the unbundling of the following services: metering, billing information, transmission, balancing, storage, backup and peaking, and customer turn-on and turn-off services. Unbundled services could be separately priced in the future and made subject to competition by other providers. The subject is likely to remain the topic of further study by the utilities in 2002 and under further consideration by the MPSC. Consumers cannot predict the outcome of unbundling costs on its financial results and conditions.

Uncertainties: Several gas business trends or uncertainties may affect Consumers' financial results and conditions. These trends or uncertainties have, or Consumers reasonably expects could have, a material impact on net sales, 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) future gas industry restructuring initiatives; 3) any initiatives undertaken to protect customers against gas price increases; and 4) market and regulatory responses to increases in gas costs. For further information about these uncertainties, see Note 2, Uncertainties.

OTHER OUTLOOK

Terrorist Attacks: Since the September 11, 2001 terrorists attack in the United States, Consumers has increased security at all facilities and over its infrastructure, and will continue to evaluate security on an ongoing basis. Consumers may be required to comply with federal and state regulatory security measures promulgated in the future. As a result, Consumers anticipates increased operating costs related to security after September 11, 2001 that could be significant. Consumers would attempt to seek recovery of these costs from its customers.

Energy-Related Services: Consumers offers a variety of energy-related services to retail customers that focus on 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 providing energy-related services to its customers. The ability to offer all or some of these services and other utility related revenue generating services, which provide approximately $50 million in annual revenues, may be restricted by the new code of conduct issued by the MPSC as discussed above in Electric Business Outlook, "Competition and Regulatory Restructuring — Code of Conduct."

Pension and OPEB Costs: Consumers provides post retirement benefits under its Pension Plan, and post retirement health and life benefits under its OPEB plan to substantially all its employees. Pension and OPEB plan assets, net of contributions, have reduced in value from the previous year due to a downturn in the equities market. As a result, Consumers expects to see an increase in pension and OPEB expense levels over the next few years unless market performance improves. Consumers anticipates pension expense and OPEB expense to rise in 2002 by approximately $10 million and $20 million, respectively, over 2001 expenses. For pension expense, this increase is due to underperformance of pension assets during the past two years, forecasted increases in pay and added service, decline in the interest rate used to value the liability of the plan, and expiration of the transition gain amortization. For OPEB expense, the increase is due to the trend of rising health care costs, the market return on plan assets being below expected levels and a lower discount rate, based on recent economic conditions, used to compute the benefit obligation. Health care cost decreases gradually under the assumptions used in the OPEB plan from current levels through 2009; however, Consumers cannot predict the impact that interest rates or market returns will have on pension and OPEB expense in the future. For further information, see Note 7, Retirement Benefits.

OTHER MATTERS

NEW ACCOUNTING STANDARDS

In addition to the identified critical accounting policies discussed above, future results may be affected by a number of new accounting standards that have recently been issued which are discussed below.

SFAS No. 141, ***Business Combinations:*** SFAS No. 141, issued in July 2001, requires that all business combinations initiated after June 30, 2001, be accounted for under the purchase method; use of the pooling-of-interests method is no longer permitted. The adoption of SFAS No. 141, effective July 1, 2001, will result in Consumers accounting for any future business combinations under the purchase method of accounting.

SFAS No. 142, ***Goodwill and Other Intangible Assets:*** SFAS No. 142, also issued in July 2001, requires that goodwill no longer be amortized to earnings, but instead be reviewed for impairment. When effective, January 1, 2002, the provisions of SFAS No. 142 will have no impact on Consumers' consolidated results of operations or financial position.

SFAS No. 143, ***Accounting for Asset Retirement Obligations:*** Issued by the FASB in August 2001, the provisions of SFAS No. 143 require adoption as of January 1, 2003. The standard requires entities to record the fair value of a liability for an asset retirement obligation in the period in which it is incurred. When the liability is initially recorded, the entity would capitalize an offsetting amount by increasing the carrying amount of the related long-lived asset. Over time, the liability is accreted to its present value while the capitalized cost is depreciated over the useful life of the related asset. Consumers is currently studying the new standard but has yet to quantify the effects of adoption on its financial statements.

SFAS No. 144, ***Accounting for the Impairment or Disposal of Long-Lived Assets:*** This new standard was issued by the FASB in October 2001, and supersedes SFAS No. 121, and APB Opinion No. 30. SFAS No. 144 requires long-lived assets to be measured at the lower of either the carrying amount or of the fair value less the cost to sell, whether reported in continuing operations or in discontinued operations Therefore, discontinued operations will no longer be measured at net realizable value or include amounts for operating losses that have not yet occurred SFAS No 144 also broadens the reporting of discontinued operations to include all components of an entity with operations that can be distinguished from the rest of the entity and that will be eliminated from the ongoing operations of the entity in a disposal transaction. The adoption of SFAS No. 144, effective January 1, 2002, will result in Consumers accounting for any future impairment or disposal of long-lived assets under the provisions of SFAS No. 144, but will not change the accounting used for previous asset impairments or disposals

Derivative Implementation Group Issues: In December 2001, the FASB issued revised guidance for DIG Statement No. C15 and in October 2001, issued final guidance for DIG Statement No. C16. These issues are effective April 1, 2002, however, early application is permitted for DIG Statement No. C15, and Consumers chose to implement the effects of this issue as of December 31, 2001. Upon initial adoption of the revised guidance in DIG Statement No. C15, Consumers recorded an $11 million, net of tax, cumulative effect adjustment as a decrease to earnings. Consumers has completed its study of DIG Statement No. C16, and has determined that this issue will not affect the accounting for its fuel supply contracts. For further information, see Note 1, Corporate Structure and Summary of Significant Accounting Policies, "Implementation of New Accounting Standards" and Note 2, Uncertainties, "Other Electric Uncertainties — Derivative Activities."

Derivatives and Hedges

Market Risk Information: Consumers is exposed to market risks including, but not limited to, changes in interest rates, commodity prices, and equity security prices. Consumers' market risk, and activities designed to minimize this risk, are subject to the direction of an executive oversight committee consisting of designated members of senior management and a risk committee, consisting of business unit managers. The role of the risk committee is to review the corporate commodity position and ensure that net corporate exposures are within the economic risk tolerance levels established by Consumers' Board of Directors. Established policies and procedures are used to manage the risks associated with market fluctuations.

Consumers uses various derivative instruments, including swaps, options, and forward contracts to manage its risks associated with the variability in expected future cash flows attributable to fluctuations in interest rates and commodity prices. When management uses these instruments, it intends that any losses incurred on derivative instruments used to hedge risk would be offset by an opposite movement in the value of the hedged risk. Consumers enters into all derivative instruments for purposes other than trading.

Derivative instruments may be subject to derivative and hedge accounting in accordance with SFAS No. 133. In order for derivative instruments to qualify for hedge accounting under SFAS No. 133, the hedging relationship must be formally documented at inception and be highly effective in achieving offsetting cash flows or offsetting changes in fair value attributable to the risk being hedged. If hedging a forecasted transaction, the forecasted transaction must be probable. If a derivative instrument, used as a cash flow hedge, is terminated early because it is probable that a forecasted transaction will not occur, any gain or loss as of such date is immediately recognized in earnings. If a derivative instrument, used as a cash flow hedge, is terminated early for other economic reasons, any gain or loss as of the termination date is deferred and recorded when the forecasted transaction affects earnings

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.

In accordance with SEC disclosure requirements, Consumers performs sensitivity analyses to assess the potential loss in fair value, cash flows and earnings based upon a hypothetical 10 percent adverse change in market rates or prices. Consumers determines fair value based upon mathematical models using current and historical pricing data. Management does not believe that sensitivity analyses alone provide an accurate or reliable method for monitoring and controlling risks; therefore, Consumers relies on the experience and judgment of its senior management to revise strategies and adjust positions, as it deems necessary. Losses in excess of the amounts determined in sensitivity analyses could occur if market rates or prices exceed the ten percent shift used for the analyses.

Interest Rate Risk: Consumers is exposed to interest rate risk resulting from the issuance of fixed-rate debt and variable-rate debt, and from interest rate swap and rate lock agreements. Consumers uses a combination of these instruments to manage and mitigate interest rate risk exposure when it deems it appropriate, based upon market conditions. These strategies attempt to provide and maintain the lowest cost of capital. As of December 31, 2001 and 2000, Consumers had entered into floating-to-fixed interest rate swap agreements for a notional amount of $75 million and $300 million, respectively. As of December 31, 2001 and 2000, Consumers had outstanding $1.189 billion and $843 million of variable-rate debt, respectively. At December 31, 2001 and 2000, assuming a hypothetical 10 percent adverse change in market interest rates, Consumers' exposure to earnings, before tax on its variable rate debt, would be $2 million and $5 million, respectively. As of December 31, 2001 and 2000, Consumers had outstanding long-term fixed-rate debt including fixed-rate swaps of $2.682 billion and $2.583 billion, respectively, with a fair value of $2.676 billion and $2.515 billion, respectively. As of December 31, 2001 and 2000, assuming a hypothetical 10 percent adverse change in market rates, Consumers would have an exposure of $144 million and $133 million to the fair value of these instruments, respectively, if it had to refinance all of its long-term fixed-rate debt. Consumers does not intend to refinance its fixed-rate debt in the near term and believes that any adverse change in debt price and interest rates would not have a material effect on either its consolidated financial position, results of operation or cash flows.

Commodity Market Risk: Consumers enters into, for purposes other than trading, electricity and gas fuel for generation call options and swap contracts. The electric call options are used to protect against risk due to fluctuations in the market price of electricity and to ensure a reliable source of capacity to meet its customers' electric needs. The gas fuel for generation call options and swap contracts are used to protect generation activities against risk due to fluctuations in the market price of natural gas.

As of December 31, 2001 and 2000, the fair value based on quoted future market prices of electricity-related call option and swap contracts was $15 million and $126 million, respectively. At December 31, 2001 and 2000, assuming a hypothetical 10 percent adverse change in market prices, the potential reduction in fair value associated with these contracts would be $3 million and $16 million, respectively. As of December 31, 2001 and 2000, Consumers had an asset of $48 million and $86 million, respectively, related to premiums incurred for electric call option contracts. Consumers' maximum exposure associated with the call option contracts is limited to the premiums incurred.

Equity Security Price Risk: Consumers has a less than 20 percent equity investment in CMS Energy. At December 31, 2001 and 2000, a hypothetical 10 percent adverse change in market price would have resulted in an $8 million and $11 million change in its equity investment, respectively. This instrument is currently marked-to-market through equity. Consumers believes that such an adverse change would not have a material effect on its consolidated financial position, results of operation or cash flows.

For further information on market risk and derivative activities, see Note 1, Corporate Structure and Summary of Significant Accounting Policies, "Risk Management Activities and Derivative Transactions" and "Implementation of New Accounting Standards", Note 2, Uncertainties, "Other Electric Uncertainties — Derivative Activities", and Note 3, Short-Term Financings and Capitalization, "Derivative Activities."

OTHER

Change in Paid Personal Absences Plan: During the first and third quarters of 2000, Consumers implemented the results of a change in its paid personal absences plan, in part due to provisions of a new union labor contract. The change resulted in employees receiving the benefit of paid personal absence immediately at the beginning of each fiscal year, rather than earning it in the previous year. The change for non-union employees affected the first quarter of 2000. The change for union employees affected the third quarter of 2000. The total effect of these one-time changes decreased operating expenses by $16 million collectively, and increased earnings, net of tax, by $6 million in the first quarter and $4 million in the third quarter.

CONSUMERS ENERGY COMPANY

CONSOLIDATED STATEMENTS OF INCOME

	Years Ended December 31		
	2001	2000	1999
		In Millions	
Operating Revenue			
Electric	$2,633	$2,676	$2,667
Gas	1,338	1,196	1,156
Other	43	63	51
	4,014	3,935	3,874
Operating Expenses			
Operation			
Fuel for electric generation	330	324	336
Purchased power — related parties	543	534	560
Purchased and interchange power	476	402	297
Cost of gas sold	707	616	519
Cost of gas sold — related parties	123	103	118
Loss on power purchase agreement — MCV Partnership	126	—	—
Other	635	526	570
	2,940	2,505	2,400
Maintenance	203	172	174
Depreciation, depletion and amortization	339	426	424
General taxes	187	197	201
	3,669	3,300	3,199
Pretax Operating Income			
Electric	212	481	494
Gas	98	98	132
Other	35	56	49
	345	635	675
Other Income (Deductions)			
Dividends and interest from affiliates	6	10	11
Accretion income (Note 1)	—	2	4
Accretion expense (Note 1)	(10)	(7)	(14)
Other, net	5	(5)	17
	1	—	18
Interest Charges			
Interest on long-term debt	151	141	140
Other interest	41	44	41
Capitalized interest	(6)	(2)	—
	186	183	181
Net Income Before Income Taxes	160	452	512
Income Taxes	49	148	172
Net Income Before Cumulative Effect of Change in Accounting Principle	111	304	340
Cumulative Effect of Change in Accounting for Derivative Instruments, Net of $6 Tax Benefit (Note 1)	(11)	—	—
Net Income	100	304	340
Preferred Stock Dividends	2	2	6
Preferred Securities Distributions	41	34	21
Net Income Available to Common Stockholder	$ 57	$ 268	$ 313

The accompanying notes are an integral part of these statements

CONSUMERS ENERGY COMPANY

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	2001	2000	1999
		In Millions	
Cash Flows From Operating Activities			
Net income	$100	$304	$340
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation, depletion and amortization (includes nuclear decommissioning of $6, $39 and $50, respectively)	339	426	424
Loss on power purchase agreement — MCV Partnership	126	—	—
Deferred income taxes and investment tax credit	80	(9)	2
Capital lease and other amortization	20	32	35
Cumulative effect of accounting change	11	—	—
Undistributed earnings of related parties (net of dividends, $8, $8 and $10, respectively)	(30)	(49)	(40)
Changes in assets and liabilities			
Decrease (increase) in accounts receivable and accrued revenue	144	(171)	12
Increase (decrease) in accounts payable	50	15	36
Decrease (increase) in inventories	(307)	(59)	5
Regulatory liability — gas customer choice	(24)	33	—
Changes in other assets and liabilities	8	(7)	(23)
Net cash provided by operating activities	517	515	791
Cash Flows From Investing Activities			
Capital expenditures (excludes assets placed under capital lease)	(745)	(498)	(444)
Cost to retire property, net	(118)	(125)	(93)
Investment in Electric Restructuring Implementation Plan	(13)	(29)	(32)
Investments in nuclear decommissioning trust funds	(6)	(39)	(50)
Proceeds from nuclear decommissioning trust funds	29	37	43
Associated company preferred stock redemption	50	50	50
Other	—	—	7
Net cash used in investing activities	(803)	(604)	(519)
Cash Flows From Financing Activities			
Retirement of bonds and other long-term debt	(401)	(9)	(87)
Payment of common stock dividends	(190)	(245)	(262)
Preferred securities distributions	(41)	(34)	(21)
Payment of capital lease obligations	(20)	(32)	(33)
Contribution from (return of equity to) stockholder, net	(14)	—	150
Payment of preferred stock dividends	(1)	(2)	(10)
Retirement of preferred stock	—	—	(200)
Increase (decrease) in notes payable, net	13	189	—
Proceeds from preferred securities, net	121	—	169
Proceeds from senior notes and bank loans	355	225	15
Proceeds from securitization bonds, net	459	—	—
Net cash provided from (used in) financing activities	281	92	(279)
Net Increase (Decrease) in Cash and Temporary Cash Investment	(5)	3	(7)
Cash and temporary cash investments — Beginning of year	21	18	25
End of year	$ 16	$ 21	$ 18

	Years Ended December 31		
	2001	2000	1999
		In Millions	
Other cash flow activities and non-cash investing and financing activities were:			
Cash transactions			
Interest paid (net of amounts capitalized)	$169	$183	$168
Income taxes paid (net of refunds)	56	149	187
Non-cash transactions			
Nuclear fuel placed under capital lease	$ 13	$ 4	$ 6
Other assets placed under capital lease	21	15	14

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

The accompanying notes are an integral part of these statements.

CONSUMERS ENERGY COMPANY

CONSOLIDATED BALANCE SHEETS

	December 31 2001	December 31 2000
	In Millions	
ASSETS		
Plant (At original cost)		
Electric	$7,661	$7,241
Gas	2,593	2,503
Other	23	23
	10,277	9,767
Less accumulated depreciation, depletion and amortization	5,934	5,768
	4,343	3,999
Construction work-in-progress	464	279
	4,807	4,278
Investments		
Stock of affiliates	59	86
First Midland Limited Partnership	253	245
Midland Cogeneration Venture Limited Partnership	300	290
	612	621
Current Assets		
Cash and temporary cash investments at cost, which approximates market	16	21
Accounts receivable and accrued revenue, less allowances of $4 in 2001 and $3 in 2000	125	225
Accounts receivable — related parties	17	111
Inventories at average cost		
Gas in underground storage	569	271
Materials and supplies	69	66
Generating plant fuel stock	52	46
Prepaid property taxes	144	136
Regulatory assets	19	19
Deferred income taxes	—	2
Other	14	13
	1,025	910
Non-current Assets		
Regulatory Assets		
Securitization costs	717	709
Postretirement benefits	209	232
Abandoned Midland project	12	22
Other	167	168
Nuclear decommissioning trust funds	581	611
Other	176	222
	1,862	1,964
Total Assets	$8,306	$7,773

	December 31 2001	December 31 2000
	In Millions	
STOCKHOLDERS' INVESTMENT AND LIABILITIES		
Capitalization (Note 3)		
Common stockholder's equity		
Common stock	$ 841	$ 841
Paid-in capital	632	646
Revaluation capital	4	33
Retained earnings since December 31, 1992	373	506
	1,850	2,026
Preferred stock	44	44
Company-obligated mandatorily redeemable preferred securities of subsidiaries (a)	520	395
Long-term debt	2,472	2,110
Non-current portion of capital leases	56	49
	4,942	4,624
Current Liabilities		
Current portion of long-term debt and capital leases	257	231
Notes payable	416	403
Accounts payable	291	254
Accrued taxes	219	247
Accounts payable — related parties	80	67
Deferred income taxes	12	—
Other	260	253
	1,535	1,455
Non-current Liabilities		
Deferred income taxes	747	716
Postretirement benefits	279	366
Regulatory liabilities for income taxes, net	276	246
Power purchase agreement — MCV Partnership	169	54
Deferred investment tax credit	102	109
Other	256	203
	1,829	1,694
Commitments and Contingencies (Notes 1, 2, 8 and 11)		
Total Stockholders' Investment and Liabilities	$8,306	$7,773

(a) See Note 3, Short-Term Financings and Capitalization

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

CONSUMERS ENERGY COMPANY

CONSOLIDATED STATEMENTS OF LONG-TERM DEBT

	Series(%)	Due	December 31 2001	December 31 2000
			In Millions	
First Mortgage Bonds	$6^3/_8$	2003	$ 300	$ 300
	$7^3/_8$	2023	208	263
			508	563
Senior Notes	Floating	2001	—	125
	Floating	2002	100	100
	$6^3/_8$	2008	159	250
	$6^7/_8$	2018	180	225
	$6^1/_5$	2008(a)	250	250
	$6^1/_2$	2018(b)	141	200
	$6^1/_2$	2028	143	145
	$6^1/_4$	2006	332	—
			1,813	1,858
Long-Term Bank Debt			184	190
Pollution Control Revenue Bonds			126	126
Securitization Bonds			469	—
Other			8	—
Nuclear Fuel Disposal(c)			135	130
Principal Amount Outstanding			2,735	2,304
Current Amounts			(244)	(175)
Net Unamortized Discount			(19)	(19)
Total Long-Term Debt			$2,472	$2,110

Long-Term Debt Maturities

	Securitization Bonds	First Mortgage Bonds	Senior Notes	Long-Term Bank Debt	Other	Total
			In Millions			
2002	$ 16	$ —	$100	$127	$1	$244
2003	27	300	250(a)	57	—	634
2004	28	—	—	—	—	28
2005	29	—	141(b)	—	—	170
2006	30	—	332	—	—	362

(a) These Notes are subject to a Call Option by the Callholder or a Mandatory Put on May 1, 2003

(b) Senior Remarketed Notes subject to optional redemption by Consumers after June 15, 2005

(c) Due date uncertain (see Note 1)

The accompanying notes are an integral part of these statements.

CONSUMERS ENERGY COMPANY

CONSOLIDATED STATEMENTS OF PREFERRED STOCK

	Series	Optional Redemption Price	December 31			
			2001	2000	2001	2000
			Number of Shares		In Millions	
Preferred Stock						
Cumulative, $100 par value, authorized 7,500,000 shares, with no mandatory redemption	$4.16	$103 25	68,451	68,451	$ 7	$ 7
	4.50	110.00	373,148	373,148	37	37
Total Preferred Stock					$44	$44

The accompanying notes are an integral part of these statements.

CONSUMERS ENERGY COMPANY

CONSOLIDATED STATEMENTS OF COMMON STOCKHOLDER'S EQUITY

	Years Ended December 31		
	2001	2000	1999
		In Millions	
Common Stock			
At beginning and end of period(a)	$ 841	$ 841	$ 841
Other Paid-in Capital			
At beginning of period	646	645	502
Capital stock expense	—		(7)
Stockholder's contribution	150	—	150
Return of stockholder's contribution	(164)	—	—
Miscellaneous	—	1	—
At end of period	632	646	645
Revaluation Capital			
Investments			
At beginning of period	33	37	68
Unrealized gain (loss) on investments(b)	(16)	(4)	(31)
Reclassification adjustments included in net income(b)	(1)	—	—
At end of period	16	33	37
Derivative Instruments			
At beginning of period(c)	18	—	—
Unrealized gain (loss) on derivative instruments(b)	(30)	—	—
At end of period	(12)	—	—
Retained Earnings			
At beginning of period	506	485	434
Net income(b)	100	304	340
Cash dividends declared — Common Stock	(190)	(247)	(262)
Cash dividends declared — Preferred Stock	(2)	(2)	(6)
Preferred securities distributions	(41)	(34)	(21)
At end of period	373	506	485
Total Common Stockholder's Equity	$1,850	$2,026	$2,008

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

(b) Disclosure of Comprehensive Income:

	2001	2000	1999
Revaluation capital			
Investments			
Unrealized gain (loss) on investments, net of tax of $9, $2 and $17, respectively	$ (16)	$ (4)	$ (31)
Reclassification adjustments included in net income, net of tax of $1, $— and $—, respectively	(1)	—	—
Derivative Instruments			
Unrealized gain (loss) on derivative instruments, net of tax of $15, $— and $—, respectively	(30)	—	—
Net income	100	304	340
Total Comprehensive Income	$ 53	$ 300	$ 309

(c) Cumulative effect of change in accounting principle, as of 1/1/01 and 7/1/01, net of $(9) tax (Note 1).

The accompanying notes are an integral part of these statements.

CONSUMERS ENERGY COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1: CORPORATE STRUCTURE AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Corporate Structure: Consumers, a subsidiary of CMS Energy, a holding company, is an electric and gas utility company that provides service to customers in Michigan's Lower Peninsula. Consumers' customer base includes a mix of residential, commercial and diversified industrial customers, the largest segment of which is the automotive industry.

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

Use of Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements. Estimates and assumptions are also used in the disclosure of contingent assets and liabilities and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The recording of estimated liabilities for contingent losses within the financial statements is guided by the principles in SFAS No. 5. SFAS No. 5 requires a company to record estimated liabilities in the financial statements when it is probable that a loss will be paid in the future as a result of a current event, and that amount can be reasonably estimated. Consumers has used this accounting principle to record estimated liabilities discussed in Note 2, Uncertainties.

Revenue Recognition Policy: Revenues from deliveries of electricity and natural gas, and the storage of natural gas, are recognized as services are provided. Therefore, revenues include the accrual of electricity or gas consumed and/or delivered, but not billed at month-end.

Accretion Income and Expense: In 1991, the MPSC allowed Consumers to recover a portion of its abandoned Midland investment over a 10-year period, but did not allow Consumers to earn a return on that amount. Consumers reduced the recoverable investment to the present value of the future recoveries. During the recovery period, Consumers adjusts the unrecovered asset to its present value. It reflects this adjustment as accretion income. Conversely, in 1992 and 2001, Consumers recorded a loss for the present value of its estimated future underrecoveries of power supply costs resulting from purchases from the MCV Partnership (see Note 2). It now recognizes accretion expense annually to reflect the time value of money on the recorded loss.

Gas Inventory: Consumers uses the weighted average cost method for valuing working gas inventory. Beginning October 2000, gas inventory also includes recoverable cushion gas. Consumers records non-recoverable cushion gas in the appropriate gas utility plant account. Consumers stores gas inventory in its underground storage facilities.

Maintenance, Depreciation and Depletion: Consumers charges property repairs and minor property replacements to maintenance expense. Depreciable property retired or sold, plus cost of removal (net of salvage credits), is charged to accumulated depreciation. Consumers bases depreciation provisions for utility property on straight-line and units-of-production rates approved by the MPSC. For 2001, 2000 and 1999, the composite depreciation rate for electric utility property was 3.1 percent, 3.1 percent and 3.0 percent, respectively. For 2001, 2000 and 1999, the composite rate for gas utility property was 4.4 percent annually. For 2001, 2000 and 1999, the composite rate for other property was 11.2 percent, 10.7 percent, and 8.6 percent, respectively.

Nuclear Fuel Cost: Consumers amortizes nuclear fuel cost to fuel expense based on the quantity of heat produced for electric generation. Through November 2001, Consumers expensed the interest on leased nuclear fuel as it was incurred. Effective December 2001, Consumers no longer leases its nuclear fuel.

For nuclear fuel used after April 6, 1983, Consumers charges disposal costs to nuclear fuel expense, recovers these costs 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. As of December 31, 2001, Consumers has a recorded liability to the DOE of $135 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 1997, a federal court decision has confirmed that the DOE was to begin accepting deliveries of spent nuclear fuel for disposal by January 31, 1998. Subsequent litigation in which Consumers and certain other utilities participated has not been successful in producing more specific relief for the DOE's failure to comply.

In July 2000, the DOE reached a settlement agreement with one utility to address the DOE's delay in accepting spent fuel. The DOE may use that settlement agreement as a framework that it could apply to other nuclear power plants; however, certain other utilities are challenging the validity of the settlement. Additionally, there are two court decisions that support the right of utilities to pursue damage claims in the United States Court of Claims against the DOE for failure to take delivery of spent fuel. A number of utilities have commenced litigation in the Court of Claims. Consumers is evaluating its options with respect to its contract with the DOE.

Nuclear Plant Decommissioning: In 2001, Consumers collected $6 million from its electric customers for the decommissioning of its Palisades nuclear plant. Amounts collected from electric retail customers and deposited in trusts (including trust earnings) are credited to accumulated depreciation. In March 2001, Consumers filed updated decommissioning cost estimates for Big Rock and Palisades that were $340 million and $739 million in 2000 dollars, respectively. Using the inflation factors presented in the filing to the MPSC to escalate the estimated decommissioning costs to 2001 dollars, the Big Rock and Palisades estimated decommissioning costs are $346 million and $752 million, respectively. Consumers' site-specific decommissioning cost estimates for Big Rock and Palisades assume that each plant site will eventually be restored to conform to the adjacent landscape, and all contaminated equipment will be disassembled and disposed of in a licensed burial facility. On December 31, 2000, Big Rock trusts were fully funded per the March 22, 1999 MPSC order and Consumers discontinued depositing funds in the trust. The December 16, 1999 MPSC order set the annual decommissioning surcharge for Palisades at $6 million a year. In December 2000, the NRC extended the Palisades' operating license to March 2011 and the impact of this extension was included as part of Consumers' March filing with the MPSC. Consumers is required to file the next "Report on the Adequacy of the Existing Annual Provision for Nuclear Plant Decommissioning" (Report) with the MPSC by March 31, 2004.

In 1997, Big Rock closed permanently and plant decommissioning began Consumers estimates that the Big Rock site will be returned to a natural state by the end of 2012 if the DOE begins removing the spent nuclear fuel by 2010. For 2001, Consumers incurred costs of $28 million that were charged to the accumulated depreciation reserve for decommissioning and withdrew $29 million from the Big Rock nuclear decommissioning trust fund. In total, Consumers has incurred costs of $190 million that have been charged to the accumulated depreciation reserve for decommissioning and withdrew $179 million from the Big Rock nuclear decommissioning trust fund. These activities had no material impact on net income. At December 31, 2001, Consumers is the beneficiary of the investment in nuclear decommissioning trust funds of $149 million for Big Rock.

In 1996, Consumers and several wholesale electric customers entered into five-year contracts that fixed their contribution to nuclear decommissioning costs for the term. Since that time, the total estimated decommissioning costs for Big Rock increased substantially over the estimates used to calculate the decommissioning costs in the wholesale contracts. As a result of a reduction in decommissioning trust earnings in August 2001, along with the higher estimated costs of decommissioning, Consumers, in September 2001, expensed approximately $5 million related to this issue to recognize the unrecoverable portion of Big Rock decommissioning costs associated with these customers.

After retirement of Palisades, Consumers plans to maintain the facility in protective storage if radioactive waste disposal facilities are not available. Consumers will incur most of the Palisades decommissioning costs after the plant's NRC operating license expires Palisades' current NRC license will expire in 2011 and the trust funds were estimated to have accumulated $921 million, at that time, assuming currently approved MPSC surcharge levels. Consumers estimates that at the time Palisades is fully decommissioned in the year 2049, the trust funds will have provided $2.5 billion, including trust earnings, to pay for the anticipated expenditures over the entire decommissioning period. At December 31, 2001, Consumers is the beneficiary of the investment in the MPSC nuclear decommissioning trust funds of $423 million for Palisades In addition, at December 31, 2001, Consumers has a FERC decommissioning trust fund with a balance of approximately $8 million.

Unamortized Debt Premium, Discount and Expense: Consumers amortizes premiums, discounts and expenses incurred in connection with the issuance of presently outstanding long-term debt over the terms of the respective issues. For the regulated portions of our businesses, if debt is refinanced, Consumers amortizes any unamortized premiums, discounts and expenses over the term of the new debt, as allowed under regulated utility accounting.

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

Related-Party Transactions: Consumers completed its five-year redemption program of its investment of $250 million in ten shares of Enterprises' preferred stock. The balances as of December 31, 2001 and 2000 were $0 and $50 million, respectively. In addition, Consumers has an investment in 2.4 million shares of CMS Energy Common Stock with a fair value totaling $57 million at December 31, 2001 (see Note 5). In 2001, 2000 and 1999, Consumers received dividends from these two investments totaling $6 million, $10 million, and $11 million, respectively. In 2001, 2000, and 1999, Consumers paid parent company overhead costs to CMS Energy of $11 million, $1 million and $8 million, respectively.

In 2001, 2000 and 1999, Consumers paid $55 million, $51 million and $52 million, respectively, for electric generating capacity and energy from affiliates of Enterprises. From time to time, Consumers purchases a portion of its gas from CMS Oil and Gas and CMS Marketing Services and Trading. In 2001, Consumers did not make a purchase from CMS Oil and Gas. In 2000 and 1999, Consumers purchased $3 million and $19 million, respectively. In 2001, 2000 and 1999, Consumers gas purchases from CMS Marketing Services and Trading were $120 — million, $95 million and $70 million, respectively. Consumers pays a portion of its gas transportation costs to Panhandle and its subsidiary Trunkline. In 2001, 2000 and 1999 transportation fees paid were $21 million, $38 million and $33 million, respectively. In 2001, 2000 and 1999, Consumers and its subsidiaries sold, stored and transported natural gas and provided other services to the MCV Partnership totaling $27 million, $26 million and $23 million, respectively. For additional discussion of related-party transactions with the MCV Partnership and the FMLP, see Notes 2 and 11. Other related-party transactions are immaterial.

Utility Regulation: Consumers accounts for the effects of regulation based on the regulated utility accounting standard SFAS No. 71. 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 and as a result discontinued application of SFAS No. 71 for the electric supply portion of its business. Discontinuation of SFAS No. 71 for the generation 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 electric 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. As of December 31, 2001, Consumers had a net investment in electric supply facilities of $1.319 billion included in electric plant and property. See Note 2, Uncertainties, "Electric Rate Matters — Electric Restructuring "

SFAS No. 121 imposes strict criteria for retention of regulatory-created assets by requiring that such assets be probable of future recovery at each balance sheet date. Management believes these assets are probable of future recovery.

The following regulatory assets (liabilities), which include both current and non-current amounts, are reflected in the Consolidated Balance Sheets. These costs are expected to be recovered through rates over periods of up to 14 years.

	December 31	
	2001	2000
	In Millions	
Securitization costs (Note 2)	$ 717	$ 709
Postretirement benefits (Note 7)	228	251
Electric Restructuring Implementation Plan	82	75
Manufactured gas plant sites (Note 2)	70	63
Abandoned Midland project	12	22
Income taxes (Note 4)	6	24
Unamortized nuclear costs	—	6
DSM — deferred costs	—	6
Other	15	18
Total regulatory assets	$1,130	$1,174
Income taxes (Note 4)	$ (282)	$ (270)
Gas customer choice	(9)	(33)
Other	—	(6)
Total regulatory liabilities	$ (291)	$ (309)

In October 2000, Consumers received an MPSC order authorizing Consumers to securitize certain regulatory assets up to $469 million, net of tax, see Note 2, Uncertainties, "Electric Rate Matters — Electric Restructuring". Accordingly, in December 2000, Consumers established a regulatory asset for Securitization costs of $709 million, before tax, that had previously been recorded in other regulatory asset accounts. As a result, regulatory assets totaling $709 million were transferred to the regulatory asset Securitization costs accounts. In order to prepare the Securitization assets for sale in November 2001, issuance fees of $10 million and $1 million were incurred in 2001 and 2000, respectively, and capitalized as a part of Securitization costs. These costs represent the increase in Securitization costs between periods. These issuance costs will be amortized each month for up to fourteen years, which approximated $2 million in 2001. The components of the Securitization costs are illustrated below.

	December 31	
	2001	2000
	In Millions	
Unamortized nuclear costs	$405	$405
Postretirement benefits	84	84
Income taxes	203	203
Uranium enrichment facility	16	16
Other	9	1
Total securitized regulatory assets	$717	$709

Risk Management Activities and Derivative Transactions: Consumers is exposed to market risks including, but not limited to, changes in interest rates, commodity prices, and equity security prices Consumers' market risk, and activities designed to minimize this risk, are subject to the direction of an executive oversight committee consisting of designated members of senior management and a risk committee, consisting of business unit managers. The role of the risk committee is to review the corporate commodity position and ensure that net corporate exposures are within the economic risk tolerance levels established by Consumers' Board of Directors. Established policies and procedures are used to manage the risks associated with market fluctuations.

Consumers uses various derivative instruments, including swaps, options, and forward contracts to manage its risks associated with the variability in expected future cash flows attributable to fluctuations in interest rates and commodity prices. When management uses these instruments, it intends that an opposite movement in the value of the hedged item would offset any losses incurred on the derivative instruments. Consumers enters into all derivative instruments for purposes other than trading.

Derivative instruments may be subject to derivative and hedge accounting in accordance with SFAS No. 133. In order for derivative instruments to qualify for hedge accounting under SFAS No. 133, the hedging relationship must be formally documented at inception and be highly effective in achieving offsetting cash flows or offsetting changes in fair value attributable to the risk being hedged. If hedging a forecasted transaction, the forecasted transaction must be probable. If a derivative instrument, used as a cash flow hedge, is terminated early because it is probable that a forecasted transaction will not occur, any gain or loss as of such date is immediately recognized in earnings. If a derivative instrument, used as a cash flow hedge, is terminated early for other economic reasons, any gain or loss as of the termination date is deferred and recorded when the forecasted transaction affects earnings.

For further discussion see "Implementation of New Accounting Standards" below, Note 2, Uncertainties, "Other Electric Uncertainties — Derivative Activities" and Note 3, Short-Term Financing and Capitalization, "Derivative Activities."

Implementation of New Accounting Standards: Effective January 1, 2001, Consumers adopted SFAS No. 133. The new standard requires Consumers to recognize at fair value, all contracts that meet the definition of a derivative instrument on the balance sheet as either assets or liabilities. The standard also requires Consumers to record all changes in fair value directly in earnings, or other comprehensive income if the derivative meets certain qualifying hedge criteria. Consumers determines fair value based upon quoted market prices and mathematical models using current and historical pricing data. The ineffective portion, if any, of all hedges are recognized in earnings.

Consumers believes that the majority of its contracts qualify for the normal purchases and sales exception of SFAS No. 133 and, therefore, are not subject to derivative accounting. There are, however, certain contracts used to limit Consumers' exposure to electricity and gas commodity price risk and interest rate risk that require derivative accounting.

On January 1, 2001, upon initial adoption of the standard, Consumers recorded a $21 million, net of tax, cumulative effect adjustment as an unrealized gain increasing accumulated other comprehensive income. This adjustment relates to the difference between the fair value and recorded book value of contracts related to gas call options, gas fuel for generation swap contracts, and interest rate swap contracts that qualified for cash flow hedge accounting prior to the initial adoption of SFAS No 133 and Consumers' proportionate share of the effects of adopting SFAS No. 133 related to its equity investment in the MCV Partnership. Based on the pretax initial transition adjustment of $32 million recorded in accumulated other comprehensive income on the January 1, 2001 transition date, Consumers reclassified to earnings $12 million as a reduction to the cost of gas, $1 million as a reduction to the cost of power supply, $2 million as an increase in interest expense, and $8 million as an increase in other revenue for the twelve months ended December 31, 2001. The difference between the initial transition adjustment and the amounts reclassified to earnings represents an unrealized loss in the fair value of the derivative instruments since January 1, 2001, decreasing other comprehensive income. As of December 31, 2001, there are no remaining amounts included in accumulated other comprehensive income related to the initial transition adjustment.

As of December 31, 2001, Consumers had a total of $8 million, net of tax, recorded as an unrealized loss in other comprehensive income related to its proportionate share of the effects of derivative accounting related to its equity investment in the MCV Partnership. Consumers expects to reclassify this loss as a decrease to other operating revenue during the next 12 months, if this value remains.

On January 1, 2001, upon initial adoption of SFAS No. 133, derivative and hedge accounting for certain utility industry contracts, particularly electric call option contracts and option-like contracts, and contracts subject to Bookouts was uncertain. Consumers accounted for these types of contracts as derivatives that qualified for the normal purchase exception of SFAS No. 133 and, therefore, did not record these contracts on the balance sheet at fair value. In June and December 2001, the FASB issued guidance that resolved the accounting for these contracts. As a result, on July 1, 2001, Consumers recorded a $3 million, net of tax, cumulative effect adjustment as an unrealized loss decreasing accumulated other comprehensive income, and on December 31, 2001, recorded an $11 million, net of tax, cumulative effect adjustment as a decrease to earnings. These adjustments relate to the difference between the fair value and the recorded book value of electric call option contracts.

For further discussion of derivative activities, see Note 2, Uncertainties, "Other Electric Uncertainties — Derivative Activities" and Note 3, Short-Term Financings and Capitalization, "Derivative Activities."

Other: For significant accounting policies regarding income taxes, see Note 4; for executive incentive compensation, see Note 6; for pensions and other postretirement benefits, see Note 7; and for leases, see Note 8.

2: UNCERTAINTIES

ELECTRIC CONTINGENCIES

Electric Environmental Matters: Consumers is subject to costly and increasingly stringent environmental regulations. Consumers expects that the cost of future environmental compliance, especially compliance with clean air laws, will be significant.

Clean Air — In 1997, the EPA introduced new regulations regarding the standard for ozone and particulate-related emissions that were the subject of litigation. The United States Supreme Court determined that the EPA has the power to revise the standards but that the EPA implementation plan was not lawful. In 1998, the EPA Administrator issued final regulations requiring the state of Michigan to further limit nitrogen oxide emissions. The EPA has also issued additional final regulations regarding nitrogen oxide emissions that require certain generators, including some of Consumers' electric generating facilities, to achieve the same emissions rate as that required by the 1998 plan. These regulations will require Consumers to make significant capital expenditures estimated between $530 million and $570 million, calculated in year 2001 dollars. Much of the future expenditures are for retrofit post-combustion technology. Cost estimates have been developed, in part, by independent contractors with expertise in this field The estimates are dependent on regulatory outcome, market forces associated with emission reduction, and with regional and national economic conditions. As of December 2001, Consumers has incurred $296 million in capital expenditures to comply with these regulations and anticipates that the remaining capital expenditures will be incurred between 2002 and 2004. At some point after 2004, if new environmental standards for multi-pollutants become effective, Consumers may need additional capital expenditures to comply with the standards. Consumers is unable to estimate the additional capital expenditures required until the proposed standards are further defined. Beginning January 2004, an annual return of and on these types of capital expenditures, to the extent they are above depreciation levels, are expected to be recoverable, subject to an MPSC prudency hearing, in future rates.

These and other required environmental expenditures, if not recovered in Consumers rates, may have a material adverse effect upon Consumers' financial condition and results of operations.

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. Consumers believes that these costs will be 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. As of December 31, 2001, Consumers had accrued the minimum amount of the range for its estimated Superfund liability.

In October 1998, 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. In April 2000, Consumers proposed a plan to deal with the remaining materials and is awaiting a response from the EPA.

ELECTRIC RATE MATTERS

Electric Restructuring: In June 2000, the Michigan Legislature passed electric utility restructuring legislation known as the Customer Choice Act. This act: 1) permits all customers to exercise choice of electric generation suppliers by January 1, 2002; 2) cuts residential electric rates by five 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 low-cost Securitization bonds to refinance Stranded Costs as a means of offsetting the earnings impact of the five percent residential rate reduction; 5) establishes a market power supply test that may require the transfer of control of a portion of generation resources in excess of that required to serve firm retail sales requirements (a requirement with which Consumers believes itself to be in compliance with at this time); 6) requires Michigan utilities to join a FERC-approved RTO or divest their interest in transmission facilities to an independent transmission owner; 7) requires the joint expansion of available transmission capability by Consumers, Detroit Edison and American Electric Power by at least 2,000 MW by June 5, 2002; 8) allows for the deferred recovery of an annual return of and on capital expenditures in excess of depreciation levels incurred during and before the rate cap period; and 9) allows for the recovery of "net" Stranded Costs and implementation costs incurred as a result of the passage of the act. Consumers is highly confident that it will meet the conditions of items 5 and 7 above, prior to the earliest rate cap termination dates specified in the act. Failure to do so could result in an extension of the rate caps to as late as December 31, 2013. As of December 31, 2001, Consumers spent $26 million on the required expansion of transmission capabilities. Consumers anticipates it could spend up to an additional $9 million in 2002, until Consumers sells METC to MTH, as discussed below under "Transmission."

In October 2000 and January 2001, the MPSC issued orders that authorized Consumers to issue Securitization bonds. Securitization typically involves the issuance of asset backed bonds with a higher credit rating than conventional utility corporate financing. The orders authorized Consumers to securitize approximately $469 million in qualified costs, which were primarily regulatory assets plus recovery of the Securitization expenses. Securitization is expected to result in lower interest costs and a longer amortization period for the securitized assets, that would offset the majority of the revenue impact of the five percent residential rate reduction of approximately $22 million in 2000 and $49 million on an annual basis thereafter that Consumers was required to implement by the Customer Choice Act. The orders direct Consumers to apply any cost savings in excess of the five percent residential rate reduction to rate reductions for non-residential customers and reductions in Stranded Costs for retail open access customers after the bonds are sold. Excess savings are currently estimated to be approximately $13 million annually.

In November 2001, Consumers Funding LLC, a special purpose consolidated subsidiary of Consumers formed to issue the bonds, issued $469 million of Securitization bonds, Series 2001-1. The Securitization bonds mature at different times over a period of up to 14 years and have an average interest rate of 5.3 percent. The last expected maturity date is October 20, 2015. Net proceeds from the sale of the Securitization bonds after issuance expenses were approximately $460 million. The net proceeds were used by Consumers to buy back $164 million of its common stock from its parent, CMS Energy. Beginning in December 2001, and completed in March 2002, the remainder of these proceeds were used to pay down long-term debt. CMS Energy used the $164 million received from Consumers to pay down its own short-term debt.

Consumers and Consumers Funding LLC will recover the repayment of principal, interest and other expenses relating to the issuance of the bonds through a securitization charge and a tax charge that began in December 2001. These charges are subject to an annual true-up until one year prior to the last expected bond maturity date, and no more than quarterly thereafter. Current electric rate design covers these charges, and there will be no impact on rates for most of Consumers' electric customers until the rate freeze imposed under the Customer Choice Act expires. Securitization charges collected will be remitted to a trustee for the Securitization bonds and are not available to Consumers' creditors.

Regulatory assets are normally amortized over their period of regulated recovery. Beginning January 1, 2001, the amortization of the approved regulatory assets being securitized as qualified costs was deferred, which effectively offset the loss in revenue in 2001 resulting from the five percent residential rate reduction. In December 2001, after the Securitization bonds were sold, the amortization was re-established based on a schedule that is the same as the recovery of the principal amounts of the securitized qualified costs. In 2002, the amortization amount is expected to be approximately $31 million and the securitized assets will be fully amortized by the end of 2015.

In 1998, Consumers submitted a plan for electric retail open access to the MPSC and in March 1999 the MPSC issued orders that generally supported the plan Implementation began in September 1999. The Customer Choice 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. In September 2000, as required by the MPSC, Consumers once again filed tariffs governing its retail open access program and addressed revisions appropriate to comply with the Customer Choice Act. In December 2001, the MPSC approved revised retail open access service tariffs. The revised tariffs establish the rates, terms, and conditions under which retail customers will be permitted to choose an alternative electric supplier for generation services. The tariffs are effective January 1, 2002, and in general do not require any significant modifications in the existing retail open access program. The terms of the tariff allow retail open access customers, upon thirty days notice to Consumers, to return to Consumers' generation service at current tariff rates. Consumers may not have sufficient, reasonably priced, capacity to meet the additional demand needs of returning retail open access customers, and may be forced to purchase electricity on the spot market at prices higher than it could recover from its customers.

Power Supply Costs: During periods when electric demand is high, the cost of purchasing electricity 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 intends to maintain sufficient generation and to purchase electricity from others to create a power supply reserve, also called a reserve margin, of approximately 15 percent. The reserve margin provides Consumers with additional power supply above its anticipated peak power supply 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. For the summers 2002 and 2003, as it has in previous summers, Consumers is planning for a reserve margin of 15 percent. The actual reserve margin needed will depend primarily on summer weather conditions, the level of retail open access requirements being served by others during the summer, and any unscheduled plant outages As of February 2002, alternative electric suppliers are providing generation services to customers with 309 MW of demand.

To reduce the risk of high electric prices during peak demand periods and to achieve its reserve margin target, Consumers employs a strategy of purchasing electric call option contracts for the physical delivery of electricity during the months of June through September. The cost of these electric call option contracts for 2001 was approximately $66 million. Consumers expects to use a similar strategy in the future, but cannot predict the cost of this strategy at this time. As of December 31, 2001, Consumers had purchased or had commitments to purchase electric call option contracts covering the estimated reserve margin requirement for the summer 2002 and partially covering the estimated reserve margin requirements for summers 2003 through 2008, and has recorded an asset of $48 million for these call options, of which $10 million pertains to 2002.

In 1996, as a result of the FERC's efforts to move the electric industry in Michigan to competition, Detroit Edison gave Consumers the required four-year contractual notice of its intent to terminate the agreements under which the companies had jointly operated the MEPCC. Detroit Edison and Consumers restructured and continued certain parts of the MEPCC control area and joint transmission operations, but expressly excluded any merchant operations (electricity purchasing, sales, and dispatch operations). The former joint merchant operations began operating independently on April 1, 2001. The termination of joint merchant operations with Detroit Edison has opened Detroit Edison and Consumers to wholesale market competition as individual companies. Consumers cannot predict the long-term financial impact of terminating these joint merchant operations with Detroit Edison.

Prior to 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, including the actual cost of fuel for electric generation, and purchased and interchange 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. As a result of the rate freeze imposed by the Customer Choice Act, the current rates will remain in effect for all customers until at least December 31, 2003 and therefore the PSCR process remains suspended. Therefore, changes in power supply costs as a result of fluctuating electric prices will not be reflected in rates charged to Consumers' customers during the rate freeze period.

Consumers is authorized by the FERC to sell electricity at wholesale market prices. In authorizing sales at market prices, the FERC considers several factors, including the extent to which the seller possesses "market power" as a result of the seller's dominance of generation resources and surplus generation resources in adjacent wholesale markets. In order to continue to be authorized to sell at market prices, Consumers filed a traditional market dominance analysis in October 2001. In November 2001, the FERC issued an order modifying the method to be used to determine an entity's degree of market power. Due, however, to several reliability issues brought before the FERC regarding this order, the FERC has issued a stay of the order. If the modified market power test in the order is not amended, Consumers cannot be certain at this time if it will be granted authorization to continue to sell wholesale electricity at market-based prices and may be limited to charging prices no greater than its cost-based rates. A final decision about the proposed assessment method is not expected for several months.

Transmission: In 1999, the FERC issued Order No 2000, that strongly encouraged utilities like Consumers to either transfer operating control of their transmission facilities to an RTO, or sell their transmission facilities to an independent company. In addition, in June 2000, the Michigan legislature passed Michigan's Customer Choice Act, which contains a requirement that utilities transfer the operating authority of transmission facilities to an independent company or divest the facilities.

In 1999, Consumers and four other electric utility companies joined together to form a coalition known as the Alliance companies for the purpose of creating a FERC-approved RTO. In December 2001, the FERC denied the RTO plan submitted by the Alliance companies and ordered the Alliance companies to explore membership in the Midwest ISO, whose RTO plan was approved by the FERC. Membership in the Midwest ISO could potentially increase Consumers' costs during the period of the rate freeze or rate caps where Consumers could not raise retail electric rates in Michigan. Consumers and METC are evaluating their options regarding RTO membership as a result of the December 2001 FERC order.

In October 2000, Consumers filed a request with the FERC to transfer ownership and control of its electric transmission facilities to METC. This request was granted in January 2001. In December 2000, the MPSC issued an order authorizing an anticipated sale or ownership transfer of Consumers' electric transmission facilities. In April 2001, the transfer of the electric transmission facilities to METC took place.

In October 2001, in compliance with Michigan's Customer Choice Act, and in conformance with FERC Order No. 2000, Consumers executed an agreement to sell METC for approximately $290 million, depending upon the final date of the sale, to MTH, a non-affiliated limited partnership whose general partner is a subsidiary of Trans-Elect, Inc. Certain of Trans-Elect's officers and directors are former officers and directors of CMS Energy, Consumers and certain of their subsidiaries, but all had left the employment of such affiliates prior to the period when the transaction was discussed internally and negotiated with purchasers. Trans-Elect, Inc. submitted the winning bid to purchase METC through a competitive bidding process, and the transaction is subject to approval by various federal agencies. Consumers is not providing any financial or credit support to Trans-Elect, Inc. in connection with the purchase of METC. Proceeds from the sale of METC will be used to improve Consumers' balance sheet. Consumers, through, METC will continue to own and operate the system until the companies meet all conditions of closing, including approval of the transaction by the FERC. In February 2002, MTH and Consumers received conditional approval of the transaction from the FERC. Consumers and Trans-Elect, Inc. have petitioned for rehearing to resolve certain remaining issues. Trans-Elect, Inc. has also submitted filings to the FERC designed to bring it into the Midwest ISO and to establish rates to be charged over the Trans-Elect, Inc. owned system. Final regulatory approvals and operational transfer are expected to take place in the first or second quarter of 2002; however, Consumers can make no assurances as to when or whether the transaction will be completed. After the sale, Consumers will continue to maintain the system under a long-term contract with MTH.

Consumers chose to sell its transmission facilities as a form of compliance with Michigan's Customer Choice Act and FERC Order No 2000 rather than own and invest in an asset that it cannot control. After selling its transmission facilities, Consumers anticipates a reduction in after-tax earnings of approximately $6 million and $14 million in 2002 and 2003, respectively, as a result of the loss in revenue associated with wholesale and retail open access customers that would buy services directly from MTH and the loss of a return on the transmission assets upon the sale of METC to MTH.

Under the agreement with MTH, and subject to additional RTO surcharges, transmission rates charged to Consumers will be fixed at current levels until December 31, 2005, and will be subject to FERC ratemaking thereafter. MTH will complete the capital program to expand the transmission system's capability to import electricity into Michigan, as required by the Customer Choice Act.

In the past, when IPPs connected to transmission systems they paid a fee that was used by transmission companies to offset capital costs incurred to connect the IPP to the transmission system and provide the system upgrades needed as a result of the interconnection. In order to promote competition in the electric generation market, the FERC recently issued an order that requires the system upgrade portion of the fee to be refunded to IPPs over time as transmission service is taken. As a result, transmission companies no longer have the benefit of lowering their capital costs for transmission system upgrades. This has resulted in METC recording a $30 million liability for a refund to IPPs.

In June 2001, the Michigan South Central Power Agency and the Michigan Public Power Agency filed suit against Consumers and METC in a Michigan circuit court. The suit sought to prevent the sale or transfer of transmission facilities without first binding a successor to honor the municipal agencies' ownership interests, contractual agreements and rights that preceded the transfer of the transmission facilities to METC. In

August 2001, the parties reached two settlements. The settlements were approved by the Michigan circuit court and were amended in February 2002 to assure that closing could occur if all conditions to closing are satisfied. The circuit court has retained jurisdiction over the matter and should dismiss the lawsuit after closing.

Electric Proceedings: 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 rate freeze imposed by the Customer Choice Act, the MPSC issued an order in June 2000 dismissing the ABATE complaint. In July 2000, ABATE filed a rehearing petition with the MPSC, which was denied in October 2001. This proceeding is now final.

The Customer Choice Act allows for the recovery by an electric utility of the cost of implementing the act's requirements and ''net'' Stranded Costs, without defining the term. The act directs the MPSC to establish a method of calculating ''net'' Stranded Costs and of conducting related true-up adjustments. In December 2001, the MPSC adopted a methodology for calculating ''net'' Stranded Costs as the shortfall between (a) the revenue needed to cover the costs associated with fixed generation assets, generation-related regulatory assets, and capacity payments associated with purchase power agreements and (b) the revenues received from retail and wholesale customers under existing rates available to cover those revenue needs. According to the MPSC, ''net'' Stranded Costs are to be recovered from retail open access customers through a Stranded Cost surcharge. Even though the MPSC ruled that the Stranded Cost surcharge to be in effect on January 1, 2002 for the recovery of ''net'' Stranded Costs for calendar year 2000 for Consumers is zero, the MPSC also indicated that the ''net'' Stranded Costs for 2000 would be subject to further review in the context of its subsequent determinations of ''net'' Stranded Costs for 2001 and later years. The MPSC authorized Consumers to use deferred accounting to recognize the future recovery of assets determined to be stranded by application of the MPSC's methodology. Consumers is seeking a rehearing and clarification of the methodology adopted, and will be making future ''net'' Stranded Cost filings with the MPSC in March or April of 2002. The outcome of these proceedings before the MPSC is uncertain at this time.

Between 1999 and 2001, Consumers filed applications with the MPSC for the recovery of electric utility restructuring implementation costs of $75 million, incurred between 1997 and 2000. Consumers received final orders that granted recovery of $41 million of restructuring implementation costs for the years 1997 through 1999, and disallowed recovery of $10 million, based upon a conclusion that this amount did not represent costs incremental to costs already reflected in rates. Consumers expects to receive a final order for the 2000 restructuring implementation costs in 2002. In the orders received for the years 1997 through 1999, the MPSC also ruled that it reserved the right to undertake another review of the total restructuring implementation costs depending upon the progress and success of the retail open access program, and ruled that due to the rate freeze imposed by the Customer Choice Act, it was premature to establish a cost recovery method for the allowable costs. For the year 2001, Consumers incurred, and deferred as a regulatory asset, an additional $8 million in implementation costs for which an application for recovery will be filed with the MPSC in 2002. In addition, Consumers has recorded a regulatory asset of $9 million for the cost of money associated with restructuring implementation costs. Consumers believes the restructuring implementation costs and the associated cost of money are fully recoverable in accordance with the Customer Choice Act; however, Consumers cannot predict the amounts the MPSC will approve as recoverable costs

In 1996, Consumers filed new OATT transmission rates with the FERC for approval. Certain interveners contested these rates, and hearings were held before an ALJ in 1998. During 1999, the ALJ rendered an initial decision, which if upheld by the FERC, would ultimately reduce Consumers' OATT rates and require Consumers to refund, with interest, any over-collections for past services. Consumers, since that time has been reserving a portion of revenues billed to customers under these OATT rates At the time of the initial decision, Consumers believed that certain issues would be decided in its favor, and that a relatively quick order would be issued by the FERC regarding this matter. However, due to changes in regulatory interpretations, Consumers believes that a successful resolution of certain issues is less likely. As a result, in September 2001, Consumers reserved an additional $12 million, including interest, to fully reflect its estimate of the financial impacts of the initial decision. Consumers expects that its reserve levels for future transmission service will be sufficient to satisfy its estimated refund obligation.

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

	Years Ended December 31		
	2001	2000	1999
		In Millions	
Pretax operating income	$36	$56	$49
Income taxes and other	11	18	15
Net income	$25	$38	$34

Power Supply 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 requires Consumers 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. However, due to the current freeze of Consumers' retail rates that the Customer Choice Act requires, the capacity charge for the 325 MW is now frozen at 3.17 cents per kWh. After September 2007, the PPA's terms require Consumers to pay the MCV Partnership capacity and energy charges that the MPSC has authorized for recovery from electric customers

In 1992, Consumers recognized a loss for the present value of the estimated future underrecoveries of power supply costs under the PPA based on MPSC cost recovery orders. Consumers continually evaluates the adequacy of the PPA liability for future underrecoveries. These evaluations consider management's assessment of operating levels at the MCV Facility through 2007 along with certain other factors including MCV related costs that are included in Consumers' frozen retail rates. During the third quarter of 2001, in connection with Consumers' long-term electric supply planning, management reviewed the PPA liability assumptions related to increased expected long-term dispatch of the MCV Facility and increased MCV related costs. As a result, in September 2001, Consumers increased the PPA liability by $126 million. Management believes that, following the increase, the PPA liability adequately reflects the present value of the PPA's future affect on Consumers. At December 31, 2001 and 2000, the remaining after-tax present value of the estimated future PPA liability associated with the loss totaled $119 million and $44 million, respectively For further discussion on the impact of the frozen PSCR, see "Electric Rate Matters" in this Note.

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.

	2002	2003	2004	2005	2006
			In Millions		
Estimated cash underrecoveries at 98.5%, net of tax	$37	$37	$36	$36	$36

In February 1998, the MCV Partnership appealed the January 1998 and February 1998 MPSC orders related to electric utility restructuring. At the same time, MCV Partnership filed suit in the United States District Court in Grand Rapids seeking a declaration that the MPSC's failure to provide Consumers and MCV Partnership a certain source of recovery of capacity payments after 2007 deprived MCV Partnership of its rights under the Public Utilities Regulatory Policies Act of 1978. In July 1999, the District Court granted MCV Partnership's motion for summary judgment. The Court permanently prohibited enforcement of the restructuring orders in any manner that denies any utility the ability to recover amounts paid to qualifying facilities such as the MCV Facility or that precludes the MCV Partnership from recovering the avoided cost rate. The MPSC appealed the Court's order to the 6th Circuit Court of Appeals in Cincinnati. In June 2001, the 6th Circuit overturned the lower court's order and dismissed the case against the MPSC. The appellate court determined that the case was premature and concluded that the qualifying facilities needed to wait until 2008 for an actual factual record to develop before bringing claims against the MPSC in federal court. The MCV Partnership has requested rehearing of the appellate court's order.

Nuclear Matters: In May 2001, Palisades received its annual performance review in which the NRC stated that Palisades operated in a manner that preserved public health and safety. The NRC classified all inspection findings to have very low safety significance. At the time of the annual performance review, the NRC had planned to conduct only baseline inspections at the facility through May 31, 2002. The NRC, however, conducted an inspection to oversee the Palisades June 2001 through January 2002 unplanned outage, which is discussed in more detail below.

The amount of spent nuclear fuel discharged from the reactor to date exceeds Palisades' temporary on-site storage pool capacity. Consequently, Consumers is using NRC-approved steel and concrete vaults, commonly known as "dry casks", for temporary on-site storage. As of December 31, 2001, Consumers had loaded 18 dry casks with spent nuclear fuel at Palisades. Palisades will need to load additional dry casks by 2004 in order to continue operation. Palisades currently has three empty storage-only dry casks on-site, with storage pad capacity for up to seven additional loaded dry casks. Consumers anticipates that licensed transportable dry casks for additional storage, along with more storage pad capacity, will be available prior to 2004.

In February 2000, Consumers submitted an analysis to the NRC that shows that the NRC's current screening criteria for reactor vessel embrittlement at Palisades will not be met until 2014. In December 2000, the NRC issued an amendment revising the operating license for Palisades and extending the expiration date to March 2011, with no restrictions related to reactor vessel embrittlement.

In 2000, Consumers made an equity investment and entered into an operating agreement with NMC. NMC was formed in 1999 by four utilities to operate and manage the nuclear generating plants owned by these utilities. Consumers benefits by consolidating expertise, cost control and resources among all of the nuclear plants being operated on behalf of the NMC member companies.

In November 2000, Consumers requested approval from the NRC to transfer operating authority for Palisades to NMC and the request was granted in April 2001. The formal transfer of authority from Consumers to NMC took place in May 2001. Consumers retains ownership of Palisades, its 789 MW output, the current and future spent fuel on site, and ultimate responsibility for the safe operation, maintenance and decommissioning of the plant. Under the agreement that transferred operating authority of the plant to NMC, salaried Palisades' employees became NMC employees on July 1, 2001. Union employees work under the supervision of NMC pursuant to their existing labor contract as Consumers' employees. With Consumers as a partner, NMC currently has responsibility for operating eight units with 4,500 MW of generating capacity in Wisconsin, Minnesota, Iowa and Michigan. As a result of the equity ownership in NMC, Consumers may be exposed to additional financial impacts from the operation of all of those units.

On June 20, 2001, the Palisades reactor was shut down so technicians could inspect a small steam leak on a control rod drive assembly. There was no risk to the public or workers. In August 2001, Consumers completed an expanded inspection that included all similar control rod drive assemblies and elected to completely replace the defective components. Installation of the new components was completed in December 2001 and the plant returned to service on January 21, 2002. Consumers' capital expenditures for the components and their installation was approximately $31 million.

From the start of the June 20th outage through the end of 2001, the impact on net income of replacement power supply costs associated with the outage was approximately $59 million. Subsequently, in January 2002, the impact on 2002 net income was $5 million.

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 supply 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. The June 2001 through January 2002 Palisades outage, however, was not an insured event. If certain covered losses occur at its own or other nuclear plants similarly insured, Consumers could be required to pay maximum assessments of $26 9 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. NEIL limits its coverage from multiple acts of terrorism during a twelve-month period to a maximum aggregate of $3.24 billion, allocated among the claimants, plus recoverable reinsurance, indemnity and other sources. The nuclear liability insurers for Palisades and Big Rock also limit the amount of their coverage for liability from terrorist acts to $200 million. This could affect the amount of loss coverage for Consumers should multiple acts of terrorism occur. The Price Anderson Act expires on August 1, 2002 and is currently in the process of reauthorization by the U. S. Congress. It is possible that the Price Anderson Act will not be reauthorized or changes may be made that significantly affect the insurance provisions for nuclear plants.

Capital Expenditures: In 2002, 2003, and 2004, Consumers estimates electric capital expenditures, including new lease commitments and environmental costs under the Clean Air Act, of $448 million, $405 million, and $440 million. For further information, see the Capital Expenditures Outlook section in the MD&A.

Commitments for Future Purchases: Consumers enters into a number of unconditional purchase obligations that represent normal business operating contracts. These contracts are used to assure an adequate supply of goods and services necessary for the operation of its business and to minimize exposure to market price fluctuations. Consumers believes that these future costs are prudent and reasonably assured of recovery in future rates.

Coal Supply: Consumers has entered into coal supply contracts with various suppliers for its coal-fired generating stations. Under the terms of these agreements, Consumers is obligated to take physical delivery of the coal and make payment based upon the contract terms. Consumers' current contracts have expiration dates that range from 2002 to 2004, and total an estimated $269 million. Long-term coal supply contracts account for approximately 60 to 85 percent of Consumers annual coal requirements In 2001, coal purchases totaled $255 million of which $197 million (71 percent of the tonnage requirement) was under long-term contract. Consumers supplements its long-term contracts with spot-market purchases.

Power Supply, Capacity and Transmission: As of December 31, 2001, Consumers had future unrecognized commitments to purchase power supply and transmission services under fixed price forward contracts for the years 2002 and 2003 totaling $26 million Consumers also had commitments to purchase capacity and energy under long-term power purchase agreements with various generating plants including the MCV Facility. These contracts require monthly capacity payments based on the plants' availability or deliverability. These payments for the years 2002 through 2033 total an estimated $17 billion, undiscounted, which includes $13 billion related to the MCV Facility. This amount may vary depending upon plant availability and fuel costs. If a plant were not available to deliver electricity to Consumers, then Consumers would not be obligated to make the capacity payment until the plant could deliver. For further information, see Note 2, Uncertainties, "The Midland Cogeneration Venture" for information concerning power purchases from the MCV Facility.

Derivative Activities: Consumers' electric business uses purchased electric call option contracts to meet its regulatory obligation to serve, which requires providing a physical supply of electricity to customers, and to manage electric cost and to ensure a reliable source of capacity during periods of peak demand. On January 1, 2001, upon initial adoption of SFAS No. 133, derivative and hedge accounting for certain utility industry contracts, particularly electric call option contracts and option-like contracts, and contracts subject to Bookouts was uncertain. Consumers accounted for these types of contracts as derivatives that qualified for the normal purchase exception of SFAS No. 133 and, therefore, did not record these contracts on the balance sheet at fair value. In June 2001, the FASB issued guidance that effectively resolved the accounting for these contracts as of July 1, 2001. Consumers evaluated its option and option-like contracts and determined that the majority of these contracts qualified for the normal purchase exception of SFAS No. 133; however, certain electric call option contracts were required to be accounted for as derivatives. On July 1, 2001, upon initial adoption of the standard for these contracts, Consumers recorded a $3 million, net of tax, cumulative effect adjustment as an unrealized loss decreasing accumulated other comprehensive income. This adjustment relates to the difference between the fair value and the recorded book value of these electric call option contracts. The adjustment to accumulated other comprehensive income relates to electric call option contracts that qualified for cash flow hedge accounting prior to the initial adoption of SFAS No. 133. After July 1, 2001, these contracts will not qualify for hedge accounting under SFAS No. 133 and, therefore, Consumers will record any change in fair value subsequent to July 1, 2001 directly in earnings, which could cause earnings volatility. The initial amount recorded in other comprehensive income will be reclassified to earnings as the forecasted future transactions occur or the call options expire. The majority of these contracts expired in the third quarter 2001 and the remaining contracts will expire in 2002. As of December 31, 2001, $2 million, net of tax, was reclassified to earnings as part of cost of power supply. The remainder is expected to be reclassified to earnings in the third quarter of 2002.

In December 2001, the FASB issued revised guidance regarding derivative accounting for electric call option contracts and option-like contracts. The revised guidance amends the criteria to be used to determine if derivative accounting is required Consumers re-evaluated its electric call option and option-like contracts and determined that under the revised guidance additional contracts require derivative accounting. Therefore, as of December 31, 2001, upon initial adoption of the revised guidance for these contracts, Consumers recorded an $11 million, net of tax, cumulative effect adjustment as a decrease to earnings This adjustment relates to the difference between the fair value and the recorded book value of these electric call option contracts. Consumers will record any change in fair value subsequent to December 31, 2001 directly in earnings, which could cause earnings volatility.

Consumers' electric business also uses purchased gas call option and gas swap contracts to hedge against price risk due to the fluctuations in the market price of gas used as fuel for generation of electricity. These contracts are financial contracts that will be used to offset increases in the price of probable forecasted gas purchases. These contracts are designated as cash flow hedges and, therefore, Consumers will record any change in the fair value of these contracts in other comprehensive income until the forecasted transaction occurs. Once the forecasted gas purchases occur, the net gain or loss on these contracts will be reclassified to earnings and recorded as part of the cost of power supply. These contracts have been highly effective in achieving offsetting cash flows of future gas purchases, and no component of the gain or loss was excluded from the assessment of the hedge's effectiveness. As a result, for the year ended December 31, 2001, no net gain or loss has been recognized in earnings as a result of hedge ineffectiveness. These contracts expired in December 2001.

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 former manufactured gas plant facilities, which were operated by Consumers for some part of their operating lives, including sites in which it has a partial or no current ownership interest. Consumers has completed initial investigations at the 23 sites. For 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. The estimated total costs are between $82 million and $113 million; these estimates are based on discounted 2001 costs and follow EPA recommended use of discount rates between 3 and 7 percent for this type of activity. Consumers expects to recover a significant portion of these costs through insurance proceeds and through MPSC approved rates charged to its customers. As of December 31, 2001, Consumers has an accrued liability of $57 million, (net of $25 million of expenditures incurred to date), and a regulatory asset of $70 million. Any significant change in assumptions, such as an increase in the number of sites, different remediation techniques, nature and extent of contamination, and legal and regulatory requirements, could affect Consumers' estimate of remedial action costs. The MPSC currently allows Consumers to recover $1 million of manufactured gas plant facilities environmental clean-up costs annually. Consumers defers and amortizes, over a period of ten years, manufactured gas plant facilities environmental clean-up costs above the amount currently being recovered in rates. Additional rate recognition of amortization expense cannot begin until after a prudency review in a future general gas rate case. Consumers' position in the current general gas rate case is that all manufactured gas plant facilities environmental clean-up expenditures for years 1998 through 2002 are prudent.

GAS RATE MATTERS

Gas Restructuring: From April 1, 1998 to March 31, 2001, Consumers conducted an experimental gas customer choice pilot program that froze gas distribution and GCR rates through the period. On April 1, 2001, a permanent gas customer choice program commenced under which Consumers returned to a GCR mechanism that allows it to recover from its bundled customers all prudently incurred costs to purchase the natural gas commodity and transport it to Consumers for ultimate distribution to customers.

Gas Cost Recovery: As part of a settlement agreement approved by the MPSC in July 2001, Consumers agreed not to bill a price in excess of $4.69 per mcf of natural gas under the GCR factor mechanism through March 2002. This agreement is not expected to affect Consumers' earnings outlook because Consumers recovers from customers the amount that it actually pays for natural gas in the reconciliation process. The settlement does not affect Consumers' June 2001 request to the MPSC for a distribution service rate increase. The MPSC also approved a methodology to adjust bills for market price increases quarterly without returning to the MPSC for approval. In December 2001, Consumers filed its GCR Plan for the period April 2002 through March 2003. Consumers is requesting authority to bill a GCR factor up to $3.50 per mcf for this period.

Gas Rate Case: In June 2001, Consumers filed an application with the MPSC seeking a distribution service rate increase. Consumers is seeking a 12.25% authorized return on equity. Contemporaneously with this filing, Consumers requested partial and immediate relief in the annual amount of $33 million. The relief is primarily for higher carrying costs on more expensive natural gas inventory than is currently included in rates. In October 2001, Consumers revised its filing to reflect lower operating costs and requested a $133 million annual distribution service rate increase. In December 2001, the MPSC authorized a $15 million annual interim increase in distribution service rate revenues. The order authorizes Consumers to apply the interim increase on its gas sales customers' bills for service effective December 21, 2001. The increase is under bond and subject to refund if the final rate increase is less than the interim rate increase In February 2002, Consumers revised its filing to reflect lower estimated gas inventory prices and revised depreciation expense and is now requesting a $105 million annual distribution service rate increase. If the MPSC approves Consumers' total request, then Consumers could bill an additional amount of approximately $4.78 per month, representing a 7.7 percent increase in the typical residential customer's average monthly bill.

OTHER GAS UNCERTAINTIES

Capital Expenditures: In 2002, 2003, and 2004, Consumers estimates gas capital expenditures, including new lease commitments, of $174 million, $165 million, and $150 million. For further information, see the Capital Expenditures Outlook section in the MD&A.

Commitments for Gas Supplies: Consumers contracts to purchase gas and transportation from various suppliers for its natural gas business. These contracts have expiration dates that range from 2002 to 2005. Consumers' 2001 gas requirements totaled 229 bcf at a cost of $962 million. As of the end of 2001, Consumers expected gas requirements for 2002 are 205 bcf of which 54 percent is covered by existing contracts.

OTHER UNCERTAINTIES

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

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

3: SHORT-TERM FINANCINGS AND CAPITALIZATION

Authorization: At December 31, 2001, Consumers had FERC authorization to issue or guarantee through June 2002, up to $1.4 billion 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 $570 million of long-term securities for refinancing or refunding purposes and for general corporate purposes, respectively.

In October 2001, FERC granted Consumers' August 2001 request for authorization of up to $500 million of First Mortgage Bonds to be issued as collateral for the outstanding short-term securities. Further, in November 2001, FERC granted Consumers' August 2001 request for authorization of an additional $500 million of long-term securities for general corporate purposes and up to an additional $500 million of First Mortgage Bonds to be issued solely as security for the long-term securities.

Short-Term Financings: Consumers has an unsecured $300 million credit facility maturing in July 2002 and unsecured lines of credit aggregating $215 million. These facilities are available to finance seasonal working capital requirements and to pay for capital expenditures between long-term financings. At December 31, 2001, a total of $416 million was outstanding at a weighted average interest rate of 2.7 percent, compared with $403 million outstanding at December 31, 2000, at a weighted average interest rate of 7.4 percent.

Consumers currently has in place a $450 million trade receivables sale program. At December 31, 2001 and 2000, receivables sold under the program totaled $334 million and $325 million, respectively. Accounts receivable and accrued revenue in the Consolidated Balance Sheets have been reduced to reflect receivables sold.

Long-Term Financings: In September 2001, Consumers sold $350 million aggregate principal amount of 6.25 percent senior notes, maturing in September 2006. Net proceeds from the sale were $347 million.

Consumers used the net proceeds to reduce borrowings on various lines of credit and on a revolving credit facility. In March 2002, Consumers sold $300 million principal amount of six percent senior notes, maturing in March 2005. Net proceeds from the sale were $299 million. Consumers used the net proceeds to replace a first mortgage bond that was to mature in 2003. For further information about long-term financing, see the Consolidated Statements of Long-Term Debt.

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

Mandatorily Redeemable Preferred Securities: Consumers has wholly owned statutory business trusts that are consolidated within its financial statements. Consumers created these trusts for the sole purpose of issuing Trust Preferred Securities. The primary asset of the trusts is a note or debenture of Consumers. The terms of the Trust Preferred Security parallel the terms of the related Consumers' note or debenture. The term, rights and obligations of the Trust Preferred Security and related note or debenture are also defined in the related indenture through which the note or debenture was issued, Consumers' guarantee of the related Trust Preferred Security and the declaration of trust for the particular trust. All of these documents together with their related note or debenture and Trust Preferred Security constitute a full and unconditional guarantee by Consumers of the trust's obligations under the Trust Preferred Security. In addition to the similar provisions previously discussed, specific terms of the securities follow:

Trust and Securities Years Ended December 31	Rate	Amount Outstanding 2001	2000	1999	Maturity	Earliest Redemption Year
		In Millions				
Consumers Power Company Financing I, Trust Originated Preferred Securities	8.36%	$100	$100	$100	2015	2000
Consumers Energy Company Financing II, Trust Originated Preferred Securities	8.20%	$120	$120	$120	2027	2002
Consumers Energy Company Financing III, Trust Originated Preferred Securities	9.25%	$175	$175	$175	2029	2004
Consumers Energy Company Financing IV, Trust Preferred Securities	9.00%	$125	$ —	$ —	2031	2006
Total		$520	$395	$395		

In March 2002, Consumers reduced its outstanding debt to Consumers Power Company Financing I, Trust Originated Preferred Securities by $30 million.

Other: Consumers has a total of $126 million of long-term pollution control revenue bonds outstanding, secured by first mortgage bonds and insurance policies These bonds had a weighted average interest rate of 2.8 percent at December 31, 2001.

Under the provisions of its Articles of Incorporation, Consumers had $233 million of unrestricted retained earnings available to pay common dividends at December 31, 2001. In January 2002, Consumers declared a $55 million common dividend which was paid in February 2002.

Derivative Activities: Consumers uses interest rate swaps to hedge the risk associated with forecasted interest payments on variable rate debt. These interest rate swaps are designated as cash flow hedges. As such, Consumers will record any change in the fair value of these contracts in other comprehensive income unless the swap is sold. These swaps fix the interest rate on $75 million of variable rate debt, and expire in December 2002. As of December 31, 2001, these interest rate swaps had a negative fair value of $3 million. This amount, if sustained, will be reclassified to earnings increasing interest expense when the swaps are settled on a monthly basis.

In September 2001, Consumers entered into a cash flow hedge to fix the interest rate on $100 million of debt to be issued In September 2001, the swap terminated and resulted in a $2 million loss that has been recorded in other comprehensive income and will be amortized to interest expense over the life of the debt using the effective interest method.

Consumers also uses interest rate swaps to hedge the risk associated with the fair value of its debt. These interest rate swaps are designated as fair value hedges. During the third quarter 2001, Consumers entered into fair value hedges to hedge the risk associated with the fair value of $400 million of fixed rate debt. These swaps were terminated in the third and fourth quarter 2001 and resulted in an $8 million gain that has been deferred and recorded as part of the debt. It is anticipated that this gain will be recognized over the remaining life of the debt. In March 2002, Consumers entered into a fair value hedge to hedge the risk associated with the fair value of $300 million of fixed rate debt issued in March 2002.

4: INCOME TAXES

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

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

	Years Ended December 31		
	2001	2000	1999
		In Millions	
Current federal income taxes	$ (39)	$149	$170
Deferred income taxes, includes $6 for 2001 change in accounting (Note 1)	89	7	11
Deferred ITC, net	(7)	(8)	(9)
	$ 43	$148	$172

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

	December 31	
	2001	2000
	In Millions	
Property	$ (557)	$ (522)
Unconsolidated investments	(211)	(226)
Securitization costs (Note 2)(a)	(194)	(185)
Postretirement benefits (Note 7)	(76)	(88)
Gas inventories	(57)	—
Employee benefit obligations, includes postretirement benefits of $104 and $122 (Note 7)	124	148
FAS 109 regulatory liability	117	86
Power purchases (Note 2)	64	24
AMT carryforward	30	53
Other, net	1	(4)
	$ (759)	$ (714)
Gross deferred tax liabilities	$(1,270)	$(1,365)
Gross deferred tax assets	511	651
	$ (759)	$ (714)

(a) During 2000, Consumers Energy established a regulatory asset for securitization costs of $709 million, before tax, which had previously been recorded in other regulatory asset accounts. As a result, deferred taxes totaling $185 million were transferred from the following components:

Property	$ (81)
FAS 109 regulatory liability	(70)
Postretirement benefits	(29)
Other	(5)
	$(185)

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

	Years Ended December 31		
	2001	2000	1999
	In Millions		
Net income	$100	$304	$340
Income tax expense, includes $6 for 2001 change in accounting (Note 1)	43	148	172
Preferred securities distributions	(41)	(34)	(21)
Pretax income	102	418	491
Statutory federal income tax rate	x 35%	x 35%	x 35%
Expected income tax expense	36	146	172
Increase (decrease) in taxes from			
Capitalized overheads previously flowed through	2	5	5
Differences in book and tax depreciation not previously deferred	15	11	10
ITC amortization/adjustments	(7)	(9)	(9)
Affiliated companies' dividends	(2)	(3)	(4)
Other, net	(1)	(2)	(2)
Actual income tax expense	$ 43	$148	$172
Effective tax rate	42.2%	35.4%	35.0%

5: FINANCIAL INSTRUMENTS

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

	December 31					
	2001			2000		
Available-for-sale securities	Cost	Fair Value	Unrealized Gain	Cost	Fair Value	Unrealized Gain
	In Millions					
Common stock of CMS Energy	$ 35	$ 57	$ 22	$ 40	$ 86	$ 46
SERP	22	24	2	21	26	5
Nuclear decommissioning investments(a)	467	581	114	480	611	131

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

At December 31, 2001, the carrying amount of long-term debt was $2.5 billion and at December 31, 2000, $2.1 billion, and the fair values were $2.5 billion and $2.0 billion, respectively. For held-to-maturity securities and related-party financial instruments, see Note 1.

6: EXECUTIVE INCENTIVE COMPENSATION

Consumers participates in CMS Energy's Performance Incentive Stock Plan. Under the plan, restricted shares of Common Stock of CMS Energy, stock options and stock appreciation rights related to Common Stock may be granted to key employees based on their contributions to the successful management of CMS Energy and its subsidiaries. Certain plan awards are subject to performance-based business criteria. The plan reserves for award not more than five percent, as amended January 1, 1999, of CMS Energy's Common Stock outstanding on January 1 each year, less (1) the number of shares of restricted Common Stock awarded and (2) Common Stock subject to options granted under the plan during the immediately preceding four calendar years. The number of shares of restricted Common Stock awarded under this plan cannot exceed 20 percent of the aggregate number of shares reserved for award. Any forfeiture of shares previously awarded will increase the number of shares available to be awarded under the plan. As of December 31, 2001, under the plan, awards of up to 2,321,094 shares of CMS Energy Common Stock may be issued.

Restricted shares of Common Stock are outstanding shares with full voting and dividend rights. These awards vest over five years at the rate of 25 percent per year after two years. The restricted shares are subject to achievement of specified levels of total shareholder return and are subject to forfeiture if employment terminates before vesting. If performance objectives are exceeded, the plan provides for additional awards. Restricted shares vest fully if control of CMS Energy changes, as defined by the plan. At December 31, 2001, 172,240 of the 239,665 shares of restricted CMS Energy Common Stock outstanding are subject to performance objectives.

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

	Restricted Stock	Options	
	Number of Shares	Number of Shares	Weighted Average Exercise Price
CMS Energy Common Stock			
Outstanding at January 1, 1999	328,351	530,656	$32.21
Granted	71,025	250,020	$38.56
Exercised or Issued	(80,489)	(68,609)	$29.76
Forfeited	(41,890)	—	
Expired	—	(37,900)	$39.21
Class G Common Stock Converted	6,060	19,503	$32.64
Outstanding at December 31, 1999	283,057	693,670	$34.37
Granted	81,030	221,900	$17.00
Exercised or Issued	(48,979)	(43,368)	$17.48
Forfeited	(55,731)	—	
Expired	—	(30,083)	$31.87
Outstanding at December 31, 2000	259,377	842,119	$30 75
Granted	71,930	294,150	$30 04
Exercised or Issued	(34,704)	(35,317)	$19.34
Forfeited	(56,938)	—	
Expired	—	—	$31.87
Outstanding at December 31, 2001	239,665	1,100,952	$30.93

	Restricted Stock	Options	
	Number of Shares	Number of Shares	Weighted Average Exercise Price
Class G Common Stock			
Outstanding at January 1, 1999	30,490	73,900	$22.37
Granted	3,427	—	
Exercised or Issued	(7,360)	(19,000)	$18.45
Forfeited	(17,949)	—	
Expired	—	(27,200)	$24.50
Converted to CMS Energy Common Stock	(8,608)	(27,700)	$22.98
Outstanding at December 31, 1999	—	—	—
Outstanding at December 31, 2000	—	—	—
Outstanding at December 31, 2001	—	—	—

The following table summarizes information about CMS Energy Common Stock options outstanding at December 31, 2001:

Range of Exercise Prices	Number of Shares Outstanding	Weighted Average Remaining Life	Weighted Average Exercise Price
CMS Energy Common Stock:			
$17.00 — $22.00	243,048	7.14 years	$17.93
$24.75 — $30.63	154,643	4.06 years	$27.83
$31.04 — $31.04	256,650	9.15 years	$31.04
$33.11 — $39.06	338,447	6.99 years	$37.61
$43.38 — $43.38	108,164	6.57 years	$43.38
$17.00 — $43.38	1,100,952	7.07 years	$30.93

In 2001, 2000, and 1999, the weighted average fair value of options granted for CMS Energy Common Stock was $6.37, $1.91, and $6.08. Fair value is estimated using the Black-Scholes model, a mathematical formula used to value options traded on securities exchanges, with the following assumptions:

	Years Ended December 31		
	2001	2000	1999
CMS Energy Common Stock Options			
Risk-free interest rate	4.80%	6.56%	5.66%
Expected stock price volatility	29.48%	26.53%	16.96%
Expected dividend rate	$.365	$.365	$.365
Expected option life (years)	4.6	4.4	4.7

Consumers applies APB Opinion No. 25 and related interpretations in accounting for the Performance Incentive Stock Plan. Since stock options are granted at market price, no compensation cost has been recognized for stock options granted under the plan For 2001, if compensation cost for stock options had been determined in accordance with SFAS No. 123, Consumers' net income would have decreased by $1 million, and less than $1 million for 2000 and 1999. In 2001, 2000, and 1999, the compensation cost charged against income for restricted stock was $3 million, $1 million, and $3 million.

7: RETIREMENT BENEFITS

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

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

	Weighted-Average Assumptions					
	Pension & SERP			OPEB		
	Years Ended December 31					
	2001	2000	1999	2001	2000	1999
Discount rate	7.25%	7.75%	7.75%	7.25%	7.75%	7.75%
Expected long-term rate of return on plan assets	9.75%	9.75%	9.25%	8.30%	7.00%	7.00%
Rate of compensation increase:						
Pension — to age 45	5.25%	5.25%	5.25%			
— age 45 to assumed retirement	3.75%	3.75%	3.75%			
SERP	5.5%	5.50%	5.50%			

Retiree health care costs at December 31, 2001 are based on the assumption that costs would decrease gradually from the 2001 trend rate of 7.5 percent to 5.5 percent in 2009 and thereafter.

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

	Pension & SERP			OPEB		
	Years Ended December 31					
	2001	2000	1999	2001	2000	1999
	In Millions					
Service cost	$ 37	$ 31	$ 32	$ 13	$ 11	$ 12
Interest expense	84	79	69	57	52	44
Expected return on plan assets	(99)	(92)	(84)	(40)	(34)	(24)
Amortization of unrecognized transition (asset)	(5)	(5)	(5)	—	—	—
Ad Hoc Retiree Increase	—	—	3	—	—	—
Amortization of:						
Net (gain) or loss	—	—	—	—	(1)	(1)
Prior service cost	8	4	4	(1)	—	—
Net periodic pension and postretirement benefit cost	$ 25	$ 17	$ 19	$ 29	$ 28	$ 31

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

	One Percentage Point Increase	One Percentage Point Decrease
	In Millions	
Effect on total service and interest cost component	$ 11	$ (9)
Effect on postretirement benefit obligation	$119	$(99)

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

	Pension Plan		SERP		OPEB	
	2001	2000	2001	2000	2001	2000
			In Millions			
Benefit obligation January 1	$1,081	$ 971	$ 18	$ 19	$ 754	$ 685
Service cost	36	30	1	1	13	11
Interest cost	83	78	1	1	57	52
Plan amendment	—	54	—	—	(16)	—
Business combinations	—	—	—	—	—	—
Actuarial loss (gain)	96	25	—	1	102	40
Benefits paid	(101)	(77)	(1)	(1)	(34)	(34)
Benefit obligation December 31	1,195	1,081	19	21	876	754
Plan assets at fair value at January 1	994	1,094	—	—	450	418
Actual return on plan assets	(113)	(23)	—	—	(23)	(16)
Company contribution	65	—	—	—	48	48
Business combinations	—	—	—	—	—	—
Actual benefits paid	(101)	(77)	—	—	—	—
Plan assets at fair value at December 31(a)	845	994	—	—	475	450
Benefit obligation less than (in excess of) plan assets	(350)	(87)	(21)	(21)	(401)	(304)
Unrecognized net (gain) loss from experience different than assumed	235	(71)	3	2	176	13
Unrecognized prior service cost	68	76	1	1	(15)	(1)
Unrecognized net transition (asset)	—	(5)	—	—	—	—
Panhandle adjustment	(7)	(9)	—	—	—	—
Recorded liability	$ (54)	$ (96)	$(17)	$(18)	$(240)	$(292)

(a) Primarily stocks and bonds, including CMS Energy Common Stock of $126 million and $166 million in the pension plan assets and $3 million and $4 million in the OPEB plan assets at December 31, 2001 and 2000, respectively.

SERP benefits are paid from a trust established in 1988 SERP is not a qualified plan under the Internal Revenue Code, and as such, earnings of the trust are taxable and trust assets are included in consolidated assets. At December 31, 2001 and 2000, trust assets were $24 million and $26 million, respectively, and were classified as other non-current assets In 2001 and 2000, the accumulated benefit obligation for SERP was $16 million and $15 million

Contributions to the 401(k) plan are invested in CMS Energy Common Stock. Amounts charged to expense for this plan were $20 million in 2001, and $18 million in 2000.

Beginning January 1, 1986, the amortization period for the Pension Plan's unrecognized net transition asset is 16 years. As of December 31, 2001, the net transition asset has been fully amortized. Prior service costs are amortized on a straight-line basis over the average remaining service period of active employees.

In 1992, Consumers adopted the required accounting for postretirement benefits and recorded a liability of $466 million for the accumulated transition obligation and a corresponding regulatory asset for anticipated recovery in utility rates (see Note 1, Utility Regulation). The MPSC authorized recovery of the electric utility portion of these costs in 1994 over 18 years and the gas utility portion in 1996 over 16 years.

8: LEASES

Consumers leases various assets, including vehicles, railcars, aircraft, construction equipment, computer equipment, and buildings. In November 2001, Consumers' nuclear fuel capital leasing arrangement expired upon mutual agreement by the lessor and Consumers. At termination of the lease, Consumers paid the lessor $48 million, which was the lessor's remaining investment at that time. Consumers has both full-service and net leases, the latter of which requires Consumers to pay for taxes, maintenance, operating costs, and insurance.

Minimum rental commitments under Consumers' non-cancelable leases at December 31, 2001, were:

	Capital Leases	Operating Leases
	In Millions	
2002	$19	$ 12
2003	16	15
2004	13	13
2005	12	11
2006	11	11
2007 and thereafter	10	98
Total minimum lease payments	81	$160
Less imputed interest	12	
Present value of net minimum lease payments	69	
Less current portion	13	
Non-current portion	$56	

Consumers recovers lease charges from customers and accordingly charges payments for its capital and operating leases to operating expense. For the years ended December 31, 2001, 2000 and 1999, operating lease charges, including charges to clearing and other accounts, were $15 million, $16 million, and $14 million, respectively.

For the years ended December 31, 2001, 2000 and 1999, capital lease expenses were $26 million, $41 million, and $41 million, respectively. Included in these amounts, for the years ended 2001, 2000 and 1999, are nuclear fuel lease expenses of $9 million, $22 million and $23 million, respectively.

In April 2001, Consumers Campus Holdings entered into a lease agreement for the construction of an office building to be used as the main headquarters for Consumers in Jackson, Michigan. Consumers' current headquarters building leases expire in June 2003. The lessor has committed to fund up to $70 million for construction of the building. Consumers is acting as the construction agent of the lessor for this project. During construction, the lessor has a maximum recourse of 89.9 percent against Consumers in the unlikely event of certain defaults. For several other remote events of default, primarily bankruptcy or intentional misapplication of funds, there could be full recourse for the amounts expended by the lessor at that time. The agreement is a seven-year lease term with payments commencing upon completion of construction, which is projected for March of 2003. Consumers Campus Holdings has the right to acquire the property at any time during the life of the agreement. At the end of the lease term, Consumers Campus Holdings has the option to renew the lease, purchase the property, or return the property and assist the lessor in the sale of the building. The return option obligates Consumers Campus Holdings to pay the lessor an amount equal to the outstanding debt associated with the building. This lease is classified as an operating lease. Estimated minimum lease commitments, assuming an investment of $70 million, based on LIBOR at inception of the lease, under this non-cancelable operating lease would be approximately $5 million each year from 2003 through 2007 and a total of $52 million for the remainder of the lease. Actual lease payments will depend upon final total construction costs and LIBOR rates.

9: JOINTLY OWNED UTILITY FACILITIES

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

	Net Investment		Accumulated Depreciation	
	December 31			
	2001	2000	2001	2000
	In Millions			
Campbell Unit 3 — 93.3 percent	$279	$291	$312	$299
Ludington — 51 percent	76	100	88	105
Transmission facilities — various	37	31	40	17
Distribution lines — various	10	0	0	0

10: REPORTABLE SEGMENTS

Consumers has two reportable segments: electric and gas. The electric segment consists of regulated activities associated with the generation, transmission and distribution of electricity. The gas segment consists of regulated activities associated with the transportation, storage and distribution of natural gas. Consumers' reportable segments are domestic strategic business units organized and managed by the nature of the product and service each provides. The accounting policies of the segments are the same as those Consumers describes in the summary of significant accounting policies. Consumers' management evaluates performance based on pretax operating income. The Consolidated Statements of Income show operating revenue and pretax operating income by reportable segment. For 2001, 2000 and 1999, these amounts include earnings from investments accounted for by the equity method of $38 million, $57 million and $50 million, respectively. For 2001, 2000 and 1999, Consumers had investments accounted for by the equity method of $553 million, $535 million and $487 million, respectively. Consumers accounts for intersegment sales and transfers at current market prices and eliminates them in consolidated pretax operating income by segment. Other segment information follows:

	Years Ended December 31		
	2001	2000	1999
	In Millions		
Depreciation, depletion and amortization			
Electric	$ 219	$ 311	$ 315
Gas	118	113	107
Other	2	2	2
Total Consolidated	$ 339	$ 426	$ 424
Interest Charges			
Electric	$ 153	$ 145	$ 133
Gas	50	48	48
Other	21	27	19
Subtotal	224	220	200
Eliminations	(38)	(37)	(19)
Total Consolidated	$ 186	$ 183	$ 181

	Years Ended December 31		
	2001	2000	1999
		In Millions	
Income Taxes			
Electric(a)	$ 17	$ 115	$ 126
Gas	25	24	41
Other	1	9	5
Total Consolidated	$ 43	$ 148	$ 172
Total assets			
Electric(b)	$5,454	$5,231	$4,675
Gas(b)	2,197	1,780	1,731
Other	1,124	1,117	1,122
Subtotal	8,775	8,128	7,528
Eliminations	(469)	(355)	(358)
Total Consolidated	$8,306	$7,773	$7,170
Capital expenditures(c)			
Electric	$ 623	$ 430	$ 385
Gas	145	120	120
Total	$ 768	$ 550	$ 505

(a) 2001 amount includes the $6 million tax benefit due to the change in accounting for derivative instruments.

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

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

11: SUMMARIZED FINANCIAL INFORMATION OF SIGNIFICANT RELATED ENERGY SUPPLIER

Under the PPA with the MCV Partnership discussed in Note 2, Consumers' 2001 obligation to purchase electric capacity from the MCV Partnership provided 15.3 percent of Consumers' owned and contracted electric generating capacity. Summarized financial information of the MCV Partnership follows:

Statements of Income

	Years Ended December 31		
	2001	2000	1999
		In Millions	
Operating revenue(a)	$611	$604	$617
Operating expenses	453	392	401
Operating income	158	212	216
Other expense, net	110	122	136
Net income	$ 48	$ 90	$ 80

Balance Sheets

	December 31	
	2001	2000
	In Millions	
Assets		
Current assets(b)	$ 341	$ 429
Plant, net	1,610	1,671
Other assets	166	175
	$2,117	$2,275

	December 31	
	2001	2000
	In Millions	
Liabilities and Equity		
Current liabilities	$ 320	$ 316
Non-current liabilities(c)	1,245	1,431
Partners' equity(d)	552	528
	$2,117	$2,275

(a) For 2001, 2000, and 1999, revenue from Consumers totaled $550 million, $569 million and $586 million, respectively.

(b) At December 31, 2001 and 2000, receivables from Consumers totaled $49 and $43 million, respectively.

(c) FMLP is the sole beneficiary of an owner trust that is the lessor in a long-term direct finance lease with the lessee, MCV Partnership CMS Holdings holds a 46.4 percent ownership interest in FMLP. At December 31, 2001 and 2000, the MCV Partnership owed lease obligations of $1.11 billion and $1.24 billion, respectively, to the owner trust. CMS Holdings' share of the interest and principal portion for the 2001 lease payments was $36 million and $54 million, respectively, and for the 2000 lease payments was $52 million and $67 million, respectively. As of December 31, 2001 and 2000 the lease payments service $597 million and $733 million in non-recourse debt outstanding, respectively, of the owner-trust. The MCV Partnership's lease obligations, assets, and operating revenues secures FMLP's debt. For 2001 and 2000, the owner-trust made debt payments (including interest) of $217 million and $212 million, respectively. FMLP's earnings for 2001, 2000, and 1999 were $30 million, $30 million, and $24 million, respectively.

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

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Consumers Energy Company:

We have audited the accompanying consolidated balance sheets and consolidated statements of long-term debt and preferred stock of CONSUMERS ENERGY COMPANY (a Michigan corporation and wholly owned subsidiary of CMS Energy Corporation) and subsidiaries as of December 31, 2001 and 2000, and the related consolidated statements of income, common stockholder's equity and cash flows for each of the three years in the period ended December 31, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Consumers Energy Company and subsidiaries as of December 31, 2001 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2001 in conformity with accounting principles generally accepted in the United States.

As explained in Note 1 to the financial statements, effective January 1, 2001, July 1, 2001 and December 31, 2001, Consumers Energy Company changed its method of accounting related to derivatives and hedging activities in accordance with the adoption of Statement of Financial Accounting Standards No. 133, "Accounting for Derivatives and Hedging Activities" and the related implementation guidance issued by the Derivatives Implementation Group and approved by the Financial Accounting Standards Board.

Arthur Andersen LLP

Detroit, Michigan,
March 22, 2002

CONSUMERS ENERGY COMPANY

QUARTERLY FINANCIAL INFORMATION

Quarters Ended	2001 (Unaudited) March 31	June 30	Sept. 30	Dec. 31	2000 (Unaudited) March 31	June 30	Sept. 30	Dec. 31
				In Millions				
Operating revenue	$1,219	$873	$899	$1,023	$1,126	$808	$874	$1,127
Pretax operating income (loss)	$ 213	$108	$(53)	$ 77	$ 187	$ 92	$142	$ 214
Net income (loss) before cumulative effect of change in accounting principle	$ 107	$ 43	$(62)	$ (23)	$ 94	$ 33	$ 72	$ 105
Cumulative effect of change in accounting for derivative instruments, net of $6 tax	—	—	—	$ (11)	—	—	—	—
Net income (loss)	$ 107	$ 43	$(62)	$ 12	$ 94	$ 33	$ 72	$ 105
Preferred stock dividends	—	—	—	$ 2	—	—	—	$ 2
Preferred securities distributions	$ 9	$ 10	$ 12	$ 10	$ 9	$ 9	$ 9	$ 7
Net income (loss) available to common stockholder	$ 98	$ 33	$(74)	$ 0	$ 85	$ 24	$ 63	$ 96