Consumers Power

POWERING MICHIGAN'S PROGRESS

Palisades Nuclear Plant: 27780 Blue Star Memorial Highway, Covert, MI 49043

David W. Rogers
Plant Safety and Licensing Director

May 10, 1994

Nuclear Regulatory Commission
ATTN: Document Control Desk
Washington, DC 20555

DOCKET 50-155 - LICENSE DPR-6 - BIG ROCK POINT PLANT
DOCKET 50-255 - LICENSE DPR-20 - PALISADES PLANT -
RE: ANNUAL FINANCIAL REPORT

In accordance with the requirements of 10 CFR 50.71(b), enclosed is the 1993 Consumers Power Company's annual financial report including the certified financial statements.

David W. Rogers

David W. Rogers
Plant Safety and Licensing Director

CC Administrator, Region III, USNRC
NRC Resident Inspector - Palisades
NRC Resident Inspector - Big Rock Point

Attachment

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1993 ANNUAL REPORT

CONSUMERS POWER COMPANY

Consumers Power

POWERING MICHIGAN'S PROGRESS

1994 ANNUAL MEETING

Consumers Power Company's annual meeting is scheduled for 10:30 a.m. Eastern Daylight Saving Time on Friday, May 27, 1994, at the Dearborn Inn, 20301 Oakwood Boulevard, Dearborn, Mich. A notice of meeting, proxy statement and proxy will be mailed to shareholders in April 1994. The prompt return of signed proxies is appreciated.

GENERAL OFFICES

212 West Michigan Avenue
Jackson, Mich. 49201
Telephone (517) 788-0550

THE COMPANY

Consumers is the principal subsidiary of CMS Energy Corporation. Consumers is Michigan's largest public utility, America's 13th-largest investor-owned electric company and sixth-largest gas distribution company. Consumers provides electricity and/or natural gas service in 67 of the 68 counties in Michigan's Lower Peninsula and serves 6 million people, about two-thirds of Michigan's residents.

STOCK LISTING

Consumers' preferred stock is listed on the New York Stock Exchange under the symbol CMS A, B, D, E, G and H.

TRANSFER AGENT AND REGISTRAR, PREFERRED STOCK

Consumers Power Company
212 West Michigan Avenue
Jackson, Mich. 49201

TRUSTEE, FIRST MORTGAGE BONDS

Chemical Bank
450 W. 33rd St.
New York, N.Y. 10001

TRUSTEE, SINKING FUND DEBENTURES

United States Trust Company of New York
45 Wall Street
New York, N.Y. 10005

TRANSFER AGENT AND PAYING AGENT, REGISTERED FIRST MORTGAGE BONDS

Consumers Power Company
212 West Michigan Avenue
Jackson, Mich. 49201

MANAGEMENT'S DISCUSSION AND ANALYSIS

Consumers is a combination electric and gas utility company serving most of the Lower Peninsula of Michigan, and is the principal subsidiary of CMS Energy, an energy holding company. Consumers' customer base includes a mix of residential, commercial and diversified industrial customers, the largest of which is the automotive industry.

Consolidated 1993 Earnings

Consolidated net income after dividends on preferred stock totaled $187 million in 1993, compared to net losses of $255 million in 1992 and $260 million in 1991. The increased net income reflects the Settlement Order related to power purchases from the MCV Partnership. Earnings also reflect record setting electric sales and gas deliveries.

Cash Position, Financing and Investing

Consumers' operating cash requirements are met by its operating and financing activities. In 1993 and 1992, Consumers' cash from operations mainly resulted from its sale and transportation of natural gas and its sale and transmission of electricity. Cash from operations for 1993 primarily reflects record setting electric sales and gas deliveries and reduced after-tax cash shortfalls resulting from Consumers' purchases of power from the MCV Partnership.

During 1992, Consumers' cash from operations increased as compared to 1991 primarily due to lower interest charges resulting from reduced levels of debt, partially offset by higher operating expenditures and reduced electric rates. In 1991, Consumers generated cash primarily from its consolidated operating and investing activities, including $859 million of net proceeds from the sale of a majority of the MCV Bonds.

Over the last three years, Consumers has used its cash primarily to fund its extensive construction expenditures and to improve the reliability of its transmission and distribution systems. Consumers has also used its cash to retire portions of long-term debt and to pay cash dividends.

FINANCING ACTIVITIES

As a result of the 1992 quasi-reorganization (see Note 7 to the Consolidated Financial Statements), and [illegible]quent accumulated earnings, Consumers paid $[illegible] million in common stock dividends during 1993 and declared a $16 million common stock dividend in January 1994 from 1993 earnings.

CONTENTS

During 1993, Consumers significantly reduced its future interest charges by retiring approximately $51 million of high-cost outstanding debt and refinancing approximately $573 million of other debt at lower interest rates. For further information, see Note 7.

INVESTING ACTIVITIES

Capital expenditures (excluding assets placed under capital leases of $58 million) and deferred demand-side management costs totaled $503 million in 1993 as compared to $437 million in 1992. These amounts primarily represent capital investments in Consumers' electric and gas utility segments. In December 1993, Consumers sold $309 million of MCV Bonds it held and used the net proceeds to temporarily reduce short-term borrowings and ultimately plans to reduce long-term debt and to finance its construction program.

OUTLOOK

Consumers estimates that capital expenditures, including demand-side management and new lease commitments, related to its electric and gas utility operations will total approximately $1.5 billion over the next three years.

IN MILLIONS

YEARS ENDED DECEMBER 31	1994	1995	1996
Consumers			
Construction (including DSM)	$474	$425	$391
Nuclear fuel lease	46	4	45
Capital leases other than nuclear fuel	27	27	28
Michigan Gas Storage	6	5	7
	$553	$461	$471

Consumers is required to redeem or retire approximately $741 million of long-term debt during 1994 through 1996. Cash generated by operations is expected to satisfy a substantial portion of these capital expenditures and debt retirements.

Consumers has several other available sources of credit including unsecured, committed lines of credit totaling $165 million and a $470 million working capital facility. Consumers has FERC authorization to issue or guarantee up to $900 million in short-term debt through December 31, 1994. Consumers uses short-term borrowings to finance working capital, seasonal fuel inventory and to pay for capital expenditures between long-term financings. Consumers has an agreement permitting the sales of certain accounts receivable for up to $500 million. As of December 31, 1993 and 1992, receivables sold totaled $285 million and $225 million, respectively. On February 15, 1994, Consumers increased the level of receivables sold to $335 million.

In October 1993, Consumers received MPSC authorization and is proceeding to issue $200 million of preferred stock in 1994. In February 1994, Consumers called or redeemed approximately $101 million of first mortgage bonds.

At December 31, 1993, Consumers' capital structure consisted of approximately 32 percent common equity, 4 percent preferred stock, and 64 percent long- and short-term debt (including capital leases and notes payable). Consumers' long term goal is to achieve and maintain a capital structure consisting of approximately 37 percent common equity, 8 percent preferred stock and 55 percent debt. Management expects to achieve this structure through debt reductions, accumulated earnings, the issuance of new preferred stock and equity investments from CMS Energy.

Electric Utility Operations

COMPARATIVE RESULTS OF OPERATIONS

Electric Pretax Operating Income: The improvement in 1993 pretax operating income compared to 1992 reflects an increase of $126 million relating to the resolution of the recoverability of MCV power purchase costs under the PPA and increased electric system sales of $45 million, partially offset by higher costs to improve system reliability. The 1992 decrease of $66 million from the 1991 level primarily resulted from an increased emphasis on system reliability improvements and decreased electric rates resulting from the full-year impact of a mid-1991 rate decrease.

IN MILLIONS

	1993 Over (Under) 1992	1992 Over (Under) 1991
Sales growth	$ 34	$ 11
Weather	11	(16)
Resolution of MCV power cost issues	126	—
Other regulatory issues	5	(13)
O&M, general taxes and depreciation [(a)]	(44)	(48)
Total change	$132	$(66)

(a) Largely caused by Consumers' system reliability improvement program

Electric Sales: Electric system sales in 1993 totaled a record 31.7 billion kWh, a 3.8 percent increase from 1992 levels. In 1993, residential and commercial sales increased 3.4 percent and 3.0 percent, respectively, while industrial sales increased 6.5 percent. Growth in the industrial sector was the strongest in the auto-related segments of fabricated and primary metals and transportation equipment. Electric system sales in 1992 totaled 30.5 billion kWh, essentially unchanged from the 1991 levels.

ELECTRIC SALES

		MILLIONS OF KWH	
	1993	1992	1991
Residential	**10,066**	9,733	9,997
Commercial	**8,909**	8,652	8,692
Industrial	**11,541**	10,831	10,692
Sales for resale	**1,142**	1,292	1,311
System sales [(a)]	**31,658**	30,508	30,692
Total customers (000)	**1,526**	1,506	1,492

(a) Excludes intersystem exchanges of power with other utilities through joint dispatching for the economic benefit of customers. The level of intersystem sales has been essentially unchanged during each of the last three years.

Power Costs: Power costs for 1993 totaled $908 million, a $31 million increase from the corresponding 1992 period. This increase primarily reflects greater power purchases from outside sources to meet increased sales demand and to supplement decreased generation at Palisades due to an extended outage. Power costs for 1992 totaled $877 million, a $17 million decrease as compared to 1991.

Operation and Maintenance: Increases in other operation and maintenance expense for 1993 and 1992 reflected increased expenditures to improve electric system reliability.

Depreciation: The increased depreciation for 1993 reflects additional capital investments in plant. The 1992 increase resulted from higher depreciation rates, increased amortization of abandoned nuclear investment and increased nuclear plant decommissioning expense.

ELECTRIC UTILITY RATES

Power Purchases from the MCV Partnership: Consumers is obligated to purchase the following amounts of contract capacity from the MCV Partnership under the PPA.

Year	1993	1994	1995 and thereafter
MW	1,023	1,132	1,240

Since 1990, recovering capacity and fixed-energy costs for power purchased from the MCV Partnership has been a significant issue. Effective Janu. y 1, 1993, the Settlement Order allowed Consumers to recover from electric retail customers substantially all of the payments for its ongoing purchase of 915 MW of contract capacity from the MCV Partnership, significantly reducing the amount of future underrecoveries for these power costs. ABATE and the Attorney General have filed claims of appeal of the Settlement Order with the Court of Appeals.

Prior to the Settlement Order, Consumers had recorded losses for underrecoveries from 1990 through 1992. In December 1992, Consumers recognized an after-tax loss of $343 million for the present value of estimated future underrecoveries of power costs under the PPA as a result of the Settlement Order, based on management's best estimates regarding the future availability of the MCV Facility, and the effect of the future wholesale power market on the amount, timing and price at which various increments of the capacity above the MPSC-authorized level could be resold. Except for adjustments to the above loss to reflect the after-tax time value of money through accretion expense, no additional losses are expected unless actual future experience materially differs from management's estimates. The after-tax expense for the time value of money for the $343 million loss is estimated to be approximately $24 million in 1994, and various lower levels thereafter, including $22 million in 1995 and $20 million in 1996. Although the settlement losses were recorded in 1992, the after-tax cash underrecoveries associated with the Settlement Order were $59 million in 1993. Consumers believes there is and will be a market for the resale of capacity purchases from the MCV Partnership above the MPSC-authorized level. If Consumers is unable to sell any capacity above the current MPSC-authorized level, future additional after-tax losses and after-tax cash underrecoveries could be incurred. Estimates for the next five years if none of the additional capacity is sold are as follows:

			AFTER-TAX, IN MILLIONS		
	1994	1995	1996	1997	1998
Expected cash underrecoveries	$56	$65	$62	$61	$ 8
Possible additional underrecoveries and losses [(a)]	$14	$20	$20	$22	$72

(a) If unable to sell any capacity above the MPSC's authorized level.

The PPA, while requiring payment of a fixed energy charge, contains a "regulatory out" provision which permits Consumers to reduce the fixed energy charges payable to the MCV Partnership throughout the entire contract term if Consumers is not able to recover these amounts from its customers. Consumers and the MCV Partnership have commenced arbitration proceedings under the PPA to determine whether Consumers is entitled to exercise its regulatory out regarding fixed energy charges on the portion of available MCV capacity above the current MPSC-authorized levels. An arbitrator acceptable to both parties has been selected. If the arbitrator determines that Consumers cannot exercise its regulatory out, Consumers would be required to make these fixed energy payments to the MCV Partnership. The arbitration proceedings will also determine who is entitled to the fixed energy amounts for which Consumers did not receive full cost recovery during the years prior to settlement. As of December 31, 1993, these amounts total $26 million. Although Consumers intends to aggressively pursue its right to exercise the regulatory out, management cannot predict the outcome of the arbitration proceedings or any possible settlement of the matter. Accordingly, losses were recorded prior to 1993 for all fixed energy amounts at issue in the arbitration. In December 1993, Consumers made an irrevocable offer to pay through September 15, 2007, fixed energy charges to the MCV Partnership on all kWh delivered by the MCV Partnership to Consumers from the contract capacity in excess of 915 MW, which represents a portion of the fixed energy charges in dispute. Consumers made the offer to facilitate the sale of the remaining MCV Bonds in 1993.

The lessors of the MCV Facility have filed a lawsuit in federal district court against CMS Energy, Consumers and CMS Holdings. It alleges breach of contract, breach of fiduciary duty and negligent or willful misrepresentation relating to the MCV Partnership's failure to object to the Settlement Order in light of Consumers' interpretation of the Settlement Order, which is the subject of an arbitration between the MCV Partnership and Consumers. The action alleges damages in excess of $1 billion and seeks injunctive relief relative to Consumers' payments of the fixed energy charge. CMS Energy and Consumers believe that at all times they and CMS Holdings have conducted themselves properly and that the action is without merit. They also believe that a significant portion of the alleged damages represent fixed energy charges in dispute in the arbitration. CMS Energy and Consumers are unable to predict the outcome of this action. For further information regarding power purchases from the MCV Partnership, see Note 3.

PSCR Matters: Consumers began a planned refueling and maintenance outage at Palisades in June 1993. Following several required, unanticipated repairs that extended the outage, the plant returned to service in early November. Recovery of replacement power costs incurred by Consumers during the outage will be reviewed by the MPSC during the 1993 PSCR reconciliation of actual costs and revenues to determine the prudency of actions taken during the outage and any associated delays. Net replacement power costs were approximately $180,000 per day above the cost of fuel incurred when the plant is operating.

The Energy Act imposes an obligation on the utility industry, including Consumers, to decommission DOF uranium enrichment facilities. Consumers currently estimates its payments for decommissioning those facilities to be $2.4 million per year for 15 years beginning in 1992, escalating based on an inflation factor. Consumers believes these costs are recoverable from its customers under traditional regulatory policies.

Electric Rate Case: Consumers filed a request with the MPSC in May 1993 to increase its electric rates. Subsequently, as a result of changed estimates, Consumers revised its requested electric rate increase to $133 million annually based on a 1994 test year. Consumers also requested an additional annual electric rate increase of $38 million based on a 1995 test year. In March 1994, an ALJ issued a proposal for decision that recommended Consumers' 1994 final annual rate increase total approximately $83 million, and that the incremental requested 1995 increase not be granted at this time. The ALJ's recommendation included a lower return on electric common equity, reflected reduced anticipated debt costs due to the projected availability of more favorable interest rates and proposed a lower equity ratio for Consumers' projected capitalization structure. The ALJ did, however, generally support Consumers' rate design proposal to significantly reduce the level of subsidization of residential customers by commercial and industrial customers and generally supported a performance incentive which Consumers also supported. For further information, see Note 4.

ELECTRIC CONSERVATION EFFORTS

In October 1993, Consumers completed the customer participation portion of several incentive-based demand-side management programs which were designed to encourage the efficient use of energy, primarily through conservation measures. Based on the MPSC's determination of Consumers' effectiveness in implementing these programs, Consumers' future rate of return on electric common equity may be adjusted either upward by up to 1 percent or downward by up to 2 percent, for one year following reconciliation hearings with the MPSC. Consumers believes it will receive an increase on its return on common equity based on having achieved all of the agreed upon objectives. For further information, see Note 4.

ELECTRIC CAPITAL EXPENDITURES

Consumers estimates capital expenditures, including demand-side management and new lease commitments, related to its electric utility operations of $396 million for 1994, $324 million for 1995 and $332 million for 1996.

ELECTRIC ENVIRONMENTAL MATTERS AND HEALTH CONCERNS

The 1990 amendment of the federal Clean Air Act significantly increased the environmental constraints that utilities will operate under in the future. While the Clean Air Act's provisions will require Consumers to make certain capital expenditures in order to comply with the amendments for nitrogen oxide reductions, Consumers' generating units are presently operating at or near the sulfur dioxide emission limits which will be effective in the year 2000. Therefore, management believes that Consumers' annual operating costs will not be materially affected.

In 1990, the State of Michigan passed amendments to the Environmental Response Act, under which Consumers expects that it will ultimately incur costs at a number of sites, even those in which it has a partial or no current ownership interest. It is expected that in most cases, parties other than Consumers with current or former ownership interests may also be considered liable under the law and may be required to share in the costs of any site investigations and remedial actions. Consumers believes costs incurred for both investigation and any required remedial actions would be recoverable from its electric customers under established regulatory policies and accordingly are not likely to materially affect its financial position or results of operations.

Consumers is a so-called "Potentially Responsible Party" at several sites being administered under Superfund. Along with Consumers, there are numerous credit-worthy, potentially responsible parties with substantial assets cooperating with respect to the individual sites. Based on information currently known by management, Consumers believes that it is unlikely that its liability at any of the known Superfund sites, individually or in total, will have a material adverse effect on its financial position or results of operations.

ELECTRIC OUTLOOK

Consumers expects economic growth, competitive rates and other factors to increase the demand for electricity within its service territory by approximately 1.8 percent per year over the next five years.

For the near term, Consumers currently plans a reserve margin of 20 percent and expects to fill the additional capacity required through long- and short-term power purchases. Long-term purchased power will likely be obtained through a competitive bidding solicitation process utilizing the framework established by the MPSC in 1992. Capacity from the MCV Facility above the levels authorized by the MPSC may be offered by Consumers in connection with the solicitation.

A recent NRC review of Consumers' performance at Palisades showed a decline in performance. Management believes that an increased emphasis on internal assessments will improve performance at Palisades. To provide NRC senior management with a more in-depth assessment of plant performance, the NRC has initiated a diagnostic evaluation team inspection at Palisades. The inspection will be a broad-based evaluation of all aspects of nuclear plant operation and management which is expected to commence in March 1994, with results of the evaluation expected to be available in May 1994. The outcome of this evaluation cannot be predicted. Similar reviews conducted at nuclear plants of other utilities in recent years have in some cases resulted in increased regulatory oversight or required actions to improve plant operations, maintenance or condition.

Consumers is currently collecting $45 million annually from electric retail customers for the future decommissioning of its two nuclear plants. Consumers believes these amounts will be adequate to meet current decommissioning cost estimates. For further information regarding nuclear decommissioning, see Note 2.

Consumers' on-site storage pool at Palisades is at capacity, and it is unlikely that the DOE will begin accepting any spent nuclear fuel by the originally scheduled date in 1998. Consumers is using NRC-approved dry casks, which are steel and concrete vaults, for temporary storage. Several appeals relating to NRC approval of the casks are now pending at the U.S. Sixth Circuit Court of Appeals. If Consumers is unable to continue to use the casks as planned, significant costs, including replacement power costs during any resulting plant shutdown, could be incurred.

Consumers has experienced an increase in complaints in 1993 relating primarily to the effect of so-called stray voltage on certain livestock. A complaint seeking certification as a class action suit has been filed against Consumers alleging significant damages, primarily related to certain livestock, which Consumers believes to be without merit (see Note 12).

Some of Consumers' larger industrial customers are exploring the possibility of constructing and operating their own on-site generating facilities. Consumers is actively working with these customers to develop rate and service alternatives that are competitive with self-generation options. Although Consumers' electric rates are competitive with other regional utilities, Consumers has on file with the FERC two open access interconnection tariffs which could have the effect of increasing competition for wholesale customers. As part of its current electric rate case, Consumers has requested that the MPSC reduce the level of rate subsidization of residential customers by commercial and industrial customers so as to further improve rate competitiveness for its largest customers.

The MPSC has completed a hearing on a proposal by ABATE to create an experimental retail wheeling tariff. Certain other parties have proposals in support of retail wheeling under development. In August 1993, an ALJ recommended that the MPSC reject the proposed experiment. An MPSC order is expected early in 1994.

Gas Utility Operations

COMPARATIVE RESULTS OF OPERATIONS

Gas Pretax Operating Income: For 1993, pretax operating income increased $37 million compared to 1992, reflecting higher gas deliveries (both sales and transportation volumes) and more favorable regulatory recovery of gas costs related to transportation. During 1992, gas pretax operating income increased $45 million from the 1991 level, essentially for many of the same reasons as the current period.

IN MILLIONS

	1993 Over (Under) 1992	1992 Over (Under) 1991
Sales growth	**$ 7**	$ 14
Weather	**10**	6
Regulatory recovery of gas cost	**12**	48
O&M, general taxes and depreciation	**8**	(23)
Total change	**$ 37**	$ 45

Gas Deliveries: Gas sales and gas transported in 1993 totaled 410.6 bcf, a 6.9 percent increase from 1992. In 1992, gas sales and gas transported totaled 384.1 bcf, a 6.1 percent increase from 1991 deliveries.

GAS DELIVERIES

BCF

	1993	1992	1991
Residential	**174.9**	166.7	157.2
Commercial	**55.9**	53.4	50.2
Industrial	**13.9**	13.5	14.5
Other	**.2**	.2	.2
Gas sales	**244.9**	233.8	222.1
Transportation deliveries	**70.5**	66.4	61.5
Transportation for MCV	**73.4**	63.5	55.0
Off-system transportation service	**21.8**	20.4	23.4
Total deliveries	**410.6**	384.1	362.0
Total customers (000)	**1,423**	1,402	1,382

GAS UTILITY RATES

Consumers currently plans to file a request in 1994 with the MPSC to increase its gas rates. The request would include, among other things, costs for postretirement benefits computed under SFAS 106, *Employers' Accounting for Postretirement Benefits Other than Pensions*. A final order should be received approximately nine to twelve months after the request is filed.

Certain of Consumers' direct gas suppliers have contract prices tied to the price Consumers pays Trunkline for its gas. The Trunkline contract covers gas deliveries through October 1994 and is at a price reduced in September 1993. Some of Consumers' direct gas suppliers have claimed that the reduced Trunkline gas cost is not a proper reference price under their contracts with Consumers and that their contracts are terminable after a 12-month period. Consumers is disputing these claims.

In 1992, the FERC issued Order 636, which makes a number of significant changes to the structure of the services provided by interstate natural gas pipelines to be implemented by the 1993-94 winter heating season. Consumers is a significant purchaser of gas from an interstate pipeline (Trunkline) and is a major transportation customer of a number of pipelines. Management believes that Consumers will recover any transition costs it may incur and such restructuring will not have a significant impact on its financial position or results of operations.

In July 1993, Michigan Gas Storage submitted a notice of rate change with the FERC to revise its operation and maintenance expenses for 1993 and update plant costs to reflect the addition of approximately $27 million of new plant additions in 1993 and began collecting the revised rates subject to refund and a hearing in February 1994. Hearings or settlement conferences will follow.

For further information regarding gas utility rates, see Note 4.

GAS CAPITAL EXPENDITURES

Consumers estimates capital expenditures, including new lease commitments, related to its gas utility operations of $99 million for 1994, $88 million for 1995 and $81 million for 1996.

GAS ENVIRONMENTAL MATTERS

Under the Environmental Response Act, Consumers expects that it will ultimately incur costs at a number of sites, including some of the 23 sites that formerly housed manufactured gas plant facilities, even those in which it has a partial or no current ownership interest. It is expected that in most cases, parties other than Consumers with current or former ownership interests may also be considered liable under the law and may be required to share in the costs of any site investigations and remedial actions. There is limited knowledge of manufactured gas plant contamination at these sites at this time. However, Consumers is continuing to monitor this issue.

In addition, at the request of the DNR, Consumers prepared plans for remedial investigation/feasibility studies for three of these sites. Work plans for remedial investigation/feasibility studies for four other sites have also been prepared. The DNR has approved two of the three plans for remedial investigation/feasibility studies submitted and is currently reviewing the one remaining. Consumers currently estimates the total cost of conducting the three studies submitted to the DNR to be less than $1 million.

The timing and extent of any further site investigation and remedial actions will depend, among other things, on requests received from the DNR and on future site usage by Consumers or other owners. Under the current schedule, Consumers anticipates the first remedial investigation/feasibility study would be completed in mid-1994. Consumers believes the results of the remedial investigation/feasibility studies will allow management to estimate a range of remedial cost estimates for the sites under study, which may be substantial. In 1993, the MPSC addressed the question of recovery of investigation and remedial costs for another Michigan gas utility as part of that utility's gas rate case. In that proceeding, the MPSC determined that prudent investigation and remedial costs could be deferred and amortized over 10-year periods and prudent unamortized costs can be included for recovery in the utility's rate cases. Consumers believes costs incurred for both investigation and any required remedial actions would be recoverable from gas utility customers under established regulatory policies and accordingly are not likely to materially affect its financial position or results of operations.

GAS OUTLOOK

In 1993, Consumers purchased approximately 85 percent of its required gas supply under long-term contracts, and the balance on the spot-market. Trunkline supplied approximately 41 percent of the total requirement. Consumers expects gas supply reliability to be ensured through long-term supply contracts, with purchases in the short-term spot-market when economically beneficial. Management believes that Consumers' ability to purchase gas during the off-season and store it in its extensive underground storage facilities will continue to help provide customers with low-cost, competitive gas rates.

Consumers anticipates growth in gas deliveries of approximately 0.6 percent per year over the next five years. Management believes that environmental benefits, along with the federal requirements included in the Energy Act, create an opportunity for growth in the natural gas vehicle industry.

Other

Other Income: The 1993 other income level reflects lower Midland-related losses than experienced in 1992. The 1992 loss included a $343 million charge related to the Settlement Order. The 1991 loss included $294 million, related to an MPSC order received in 1991 that allowed Consumers to recover only $760 million of remaining abandoned Midland investment, and a $92 million loss related to the cancellation of the CMS Debentures.

Public Utility Holding Company Act Exemption: CMS Energy is exempt from registration under PUHCA. However, the Attorney General and the MMCG have asked the SEC to revoke CMS Energy's exemption from registration under PUHCA. On April 15, 1992, the MPSC filed a statement with the SEC recommending that CMS Energy's current exemption be revoked and a new exemption be issued conditioned upon certain reporting and operating requirements. If CMS Energy were to lose its current exemption, it would become more heavily regulated by the SEC; Consumers could ultimately be forced to divest either its electric or gas utility business; and CMS Energy would be restricted from conducting businesses that are not functionally related to the conduct of its utility business as determined by the SEC. CMS Energy is opposing this request and believes it will maintain its current exemption from registration under PUHCA.

Consolidated Statements of Income

YEARS ENDED DECEMBER 31		1993	1992	1991
				IN MILLIONS
Operating Revenue	Electric	$2,077	$1,863	$1,849
	Gas	1,160	1,126	1,061
	Other	6	(11)	(2)
	Total operating revenue	3,243	2,978	2,908
Operating Expenses	Operation			
	Fuel for electric generation	293	305	308
	Purchased power - related parties	467	460	442
	Purchased and interchange power	148	112	144
	Cost of gas sold	678	673	[illegible]
	Other	516	492	[illegible]
	Total operation	2,102	2,042	2,042
	Maintenance	203	201	169
	Depreciation, depletion and amortization	316	307	242
	General taxes	187	179	174
	Total operating expenses	2,808	2,729	2,627
Pretax Operating Income (Loss)	Electric	286	154	220
	Gas	146	109	64
	Other	3	(14)	(3)
	Total pretax operating income	435	249	281
Income Taxes		116	51	48
Net Operating Income		319	198	233
Other Income (Deductions)	MCV Bond income	32	34	45
	Dividends from affiliates	16	16	13
	Accretion income (Note 4)	14	15	24
	Accretion expense (Note 3)	(36)	—	—
	Loss on MCV power purchases - settlement (Note 3)	—	(520)	—
	Write-down of abandoned Midland project costs (Note 4)	—	—	(398)
	Income from contractual arrangements (Note 16)	—	—	129
	Loss on exchange of related party debentures (Note 16)	—	—	(125)
	Other income taxes, net	25	178	123
	Other, net	1	(1)	33
	Total other income (deductions)	52	(278)	(156)
Interest Charges	Interest on long-term debt	152	150	249
	Other interest	22	15	64
	Capitalized interest	(1)	(1)	(1)
	Net interest charges	173	164	312
Net Income (Loss) Before Extraordinary Item		198	(244)	(235)
Extraordinary Item, Early Redemption of Debt, Net		—	—	(14)
Net Income (Loss)		198	(244)	(249)
Preferred Stock Dividends		11	11	11
Net Income (Loss) after Dividends on Preferred Stock		$ 187	$ (255)	$ (260)

The accompanying notes are an integral part of these statements.

Consolidated Statements of Cash Flows

YEARS ENDED DECEMBER 31		1993	1992	1991
				IN MILLIONS
Cash Flows From Operating Activities	Net income (loss)	$ 198	$ (244)	$ (249)
	Adjustments to reconcile net income (loss) to net cash provided by operating activities			
	Depreciation, depletion and amortization	292	298	275
	Nuclear decommissioning	54	50	15
	Deferred income taxes	59	(172)	(173)
	Deferred investment tax credit	(9)	(7)	33
	Accretion expense (Note 3)	36	—	—
	Accretion income - abandoned Midland project (Note 4)	(14)	(15)	(24)
	MCV power purchases - settlement (Note 3)	(84)	—	—
	Loss on MCV power purchases - settlement (Note 3)	—	520	—
	Write-down of abandoned Midland project costs	—	—	398
	Income from contractual arrangements	—	—	(129)
	Loss on exchange of related party debentures	—	—	125
	MCV Bond income	—	—	(42)
	Changes in other assets and liabilities (Note 14)	(125)	50	121
	Other	(3)	3	26
	Net cash provided by operating activities	404	483	376
Cash Flows From Investing Activities	Capital expenditures (excludes assets placed under capital leases of $58 in 1993, $69 in 1992 and $27 in 1991) (Note 14)	(451)	(411)	(279)
	Investments in nuclear decommissioning trust funds	(54)	(50)	(15)
	Deferred demand-side management costs	(52)	(26)	—
	Cost to retire property, net	(32)	(14)	(18)
	Sale of subsidiary (Note 2)	(14)	—	—
	Other	(2)	(1)	(2)
	Proceeds from Midland-related assets (Note 3)	322	10	1,024
	Proceeds from sale of property	1	12	5
	Proceeds from loan to affiliate	—	50	—
	Proceeds from Bechtel settlement	—	46	—
	Net cash provided by (used in) investing activities	(282)	(384)	715
Cash Flows From Financing Activities	Proceeds from bonds (Note 7)	644	—	—
	Increase (decrease) in notes payable, net	44	(79)	(40)
	Retirement of bonds (Note 7)	(640)	(12)	(606)
	Payment of common stock dividends	(133)	—	(75)
	Repayment of bank loans	(31)	—	(310)
	Payment of capital lease obligations	(24)	(35)	(38)
	Payment of preferred stock dividends	(11)	(11)	(11)
	Retirement of other long-term debt	(1)	—	—
	Proceeds from bank loans	—	60	—
	Retirement of preferred stock	—	—	(4)
	Net cash used in financing activities	(152)	(77)	(1,084)
Net Increase (Decrease) in Cash and Temporary Cash Investments		(30)	22	7
	Cash and temporary cash investments			
	Beginning of year	70	48	41
	End of year	$ 40	$ 70	$ 48

The accompanying notes are an integral part of these statements.

Consolidated Balance Sheets

ASSETS

DECEMBER 31		1993	1992
			IN MILLIONS
Plant (At original cost)	Electric	$5,347	$5,076
	Gas	1,837	1,728
	Other	253	228
		7,437	7,032
	Less accumulated depreciation, depletion and amortization (Note 2)	3,550	3,348
		3,887	3,684
	Construction work-in-progress	248	252
		4,135	3,936
Investments	Stock of affiliates (Note 16)	291	291
	First Midland Limited Partnership (Notes 3 and 17)	213	208
	Midland Cogeneration Venture Limited Partnership (Notes 3 and 17)	67	68
	Other	6	6
		577	573
Current Assets	Cash and temporary cash investments at cost, which approximates market (Note 3)	40	70
	Accounts receivable and accrued revenue, less allowances of $4 in 1993 and $5 in 1992 (Note 6)	110	142
	Accounts receivable - related parties	12	11
	Inventories at average cost		
	Gas in underground storage	228	204
	Materials and supplies	73	70
	Generating plant fuel stock	41	37
	Deferred income taxes (Note 5)	17	—
	Investment in MCV Bonds (Note 3)	—	322
	Prepayments and other	205	217
		726	1,073
Non-current Assets	Postretirement benefits (Note 10)	485	460
	Nuclear decommissioning trust funds (Note 2)	165	111
	Abandoned Midland project (Note 4)	162	175
	Trunkline settlement (Note 4)	86	116
	Other	215	152
		1,113	1,014
Total Assets		$6,551	$6,596

STOCKHOLDERS' INVESTMENT AND LIABILITIES

DECEMBER 31		IN MILLIONS 1993	1992
Capitalization (Note 7)	Common stockholder's equity		
	Common stock	$ 841	$ 841
	Paid-in-capital	391	391
	Retained earnings since December 31, 1992	54	—
		1,286	1,232
	Preferred stock	163	163
	Long-term debt	1,839	2,079
	Non-current portion of capital leases	106	88
		3,394	3,562
Current Liabilities	Current portion of long-term debt and capital leases	355	123
	Notes payable	259	215
	Accounts payable	148	174
	Accounts payable - related parties	49	47
	Accrued taxes	171	232
	MCV power purchases - settlement (Note 3)	82	81
	Accrued interest	39	48
	Accrued refunds	28	77
	Deferred income taxes (Note 5)	—	24
	Other	183	184
		1,314	1,205
Non-current Liabilities	Postretirement benefits (Note 10)	527	494
	Deferred income taxes (Note 5)	485	329
	MCV power purchases - settlement (Note 3)	391	439
	Deferred investment tax credit	190	199
	Trunkline settlement (Note 4)	86	116
	Regulatory liabilities for income taxes, net (Note 5)	6	62
	Other	158	190
		1,843	1,829
	Commitments and Contingencies (Notes 2, 3, 4, 11 and 12)		
Total Stockholders' Investment and Liabilities		$6,551	$6,596

The accompanying notes are an integral part of these statements.

Consolidated Statements of Long-Term Debt

DECEMBER 31	Series (%)	Due	1993	IN MILLIONS 1992
First Mortgage Bonds				
	13 7/8	1993	$ —	$ 4
	5 5/8	1996	36	36
	6	1997	50	50
	8 3/4	1997	5	11
	8 3/4	1998	248	250
	6 3/8	1998	45	45
	6 5/8	1998	43	43
	9 1/8	1998	5	8
	7 3/8	1999	48	48
	8 1/4	1999	—	55
	8 7/8	1999	200	200
	8 5/8	2000	—	50
	7 1/2	2001	57	57
	8 1/8	2001	—	57
	7 1/4	2002	62	62
	7 1/2	2002	43	43
	6 5/8	2003	300	—
	8 5/8	2003	—	75
	9	2006	—	60
	8 7/8	2007	—	35
	8 5/8	2007	—	100
	9	2008	—	68
	7 3/8	2023	300	—
			1,442	1,407
Long-Term Bank Debt			469	500
Pollution Control Revenue Bonds			131	133
Nuclear Fuel Disposal			90	88
4 5/8% Debentures			26	26
Other			12	12
Principal Amount Outstanding			2,170	2,166
Current Amounts			(321)	(85)
Net Unamortized Discount			(10)	(2)
Total Long-Term Debt			$1,839	$2,079

The table below shows maturities and improvement fund obligations for long-term debt:

LONG-TERM DEBT MATURITIES AND OBLIGATIONS

IN MILLIONS

	First Mortgage Bonds	Improvement Fund	Long-Term Bank Debt	Other	Total
1994	$ 91	$9	$188	$ 33	$321
1995	—	8	188	1	197
1996	36	8	93	102	239
1997	50	8	—	1	59
1998	336	7	—	2	345

The accompanying notes are an integral part of these statements.

Consolidated Statements of Preferred Stock

December 31	Series	Optional Redemption Price	Number of Shares 1993	Number of Shares 1992	In Millions 1993	In Millions 1992
Preferred Stock						
Cumulative, $100 par value, authorized 7,500,000 shares,	$4.16	$103.25	**68,451**	68,451	**$ 7**	$ 7
with no mandatory	4.50	110.00	**373,148**	373,148	**37**	37
redemption	7.45	101.00	**379,549**	379,549	**38**	38
	7.68	101.00	**207,565**	207,565	**21**	21
	7.72	101.00	**289,642**	289,642	**29**	29
	7.76	102.21	**308,072**	308,072	**31**	31
Total Preferred Stock					**$163**	$163

The accompanying notes are an integral part of these statements.

Consolidated Statements of Common Stockholder's Equity

In millions except number of shares

	Number of Shares	Common Stock	Other Paid-in Capital	Retained Earnings (Deficit)	Total
Balance at January 1, 1991	84,108,789	$841	$ 864	$ 16	$1,721
Net loss				(249)	(249)
Cash dividends declared:					
Common stock				(75)	(75)
Preferred stock				(11)	(11)
Increase in preferred stock of affiliate (Note 16)			100		100
Net gain on retired stock			1		1
Balance at December 31, 1991	84,108,789	841	965	(319)	1,487
Net loss				(244)	(244)
Preferred stock dividends declared				(11)	(11)
Quasi-reorganization (Note 7)			(574)	574	—
Balance at December 31, 1992	84,108,789	841	391	—	1,232
Net income				**198**	**198**
Cash dividends declared:					
Common stock				**(133)**	**(133)**
Preferred stock				**(11)**	**(11)**
Balance at December 31, 1993	**84,108,789**	**$841**	**$ 391**	**$ 54**	**$1,286**

The accompanying notes are an integral part of these statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 Corporate Structure

Consumers is a combination electric and gas utility company serving most of the Lower Peninsula of Michigan, and is the principal subsidiary of CMS Energy, an energy holding company. Consumers' customer base includes a mix of residential, commercial and diversified industrial customers, the largest of which is the automotive industry.

2 Summary of Significant Accounting Policies and Other Matters

BASIS OF PRESENTATION

The consolidated financial statements include Consumers and its wholly owned subsidiaries. Consumers eliminates all material transactions between its consolidated companies. Consumers uses the equity method of accounting for investments in its companies and partnerships where it has more than a 20 percent but less than a majority ownership interest.

GAS INVENTORY

Consumers uses the weighted average cost method for valuing working gas inventory. Cushion gas, which is gas stored to maintain reservoir pressure for recovery of working gas, is recorded in the appropriate gas utility plant account. Consumers stores gas inventory in its underground storage facilities.

MAINTENANCE, DEPRECIATION AND DEPLETION

Property repairs and minor property replacements are charged 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 plant on straight-line and units-of-production rates approved by the MPSC. In May 1991, the MPSC approved an increase of approximately $15 million annually in Consumers' electric and common utility plant depreciation rates. The composite depreciation rate for electric utility property was 3.4 percent for 1993 and 1992 and 3.3 percent for 1991. The composite rate for gas utility plant was 4.4 percent for 1993 and 4.3 percent for 1992 and 1991. The composite rate for other plant and property was 4.7 percent for 1993, 5.8 percent for 1992 and 3.7 percent for 1991.

NEW ACCOUNTING STANDARDS

In November 1992, the FASB issued SFAS 112, *Employers' Accounting for Postemployment Benefits*, which Consumers adopted January 1, 1994. Consumers pays for several postemployment benefits, the most significant being workers compensation. Because Consumers' postemployment benefit plans do not vest or accumulate, the standard did not materially impact Consumers' financial position or results of operations. For new accounting standards related to financial instruments, see Note 8.

NUCLEAR FUEL, DECOMMISSIONING AND OTHER NUCLEAR MATTERS

Consumers amortizes nuclear fuel cost to fuel expense based on the quantity of heat produced for electric generation. Interest on leased nuclear fuel is expensed as incurred. Under federal law, the DOE is responsible for permanent disposal of spent nuclear fuel at costs to be paid by affected utilities under various payment options. However, in a statement released February 17, 1994, the DOE asserted that it does not have a legal obligation to accept spent nuclear fuel without an operational repository. The DOE is exploring options to offset the costs incurred by nuclear utilities in continuing to store spent nuclear fuel on site. For fuel burned after April 6, 1983, Consumers charges disposal costs to nuclear fuel expense, recovers it through electric rates and remits it to the DOE quarterly. Consumers has elected to defer payment for disposal of spent nuclear fuel burned before April 7, 1983 until the spent fuel is delivered to the DOE. As of December 31, 1993, Consumers has recorded a liability to the DOE of $90 million, including interest, to dispose of spent nuclear fuel burned before April 7, 1983. Consumers has been recovering through electric rates the amount of this liability, excluding a portion of interest. Consumers' liability to the DOE becomes due when the DOE takes possession of Consumers' spent nuclear fuel, which was originally scheduled to occur in 1998.

In April 1993, the NRC approved the design of the dry spent fuel storage casks now being used by Consumers at Palisades. In May 1993, the Attorney General and certain other parties commenced litigation to block Consumers' use of the storage casks, alleging that the NRC had failed to comply adequately with the National Environmental Policy Act. As of mid-February 1994, the courts have declined to prevent such use and have refused to issue temporary restraining orders or stays. Several appeals relating to this matter are now pending at the U.S. Sixth Circuit Court of Appeals. Consumers loaded two dry storage casks with spent nuclear fuel in 1993 and expects to load additional casks in 1994 prior to Palisades' 1995 refueling. If Consumers is unable to continue to use the casks as planned, significant costs, including replacement power costs during any resulting plant shutdown, could be incurred.

Consumers currently estimates decommissioning costs (decontamination and dismantlement) of $208 million and $399 million, in 1993 dollars, for the Big Rock Point and Palisades nuclear plants, respectively. At December 31, 1993, Consumers had recorded $171 million of decommissioning costs and classified the obligation as accumulated depreciation. In January 1987, Consumers began collecting estimated costs to decommission its two nuclear plants through a monthly surcharge to electric customers which currently totals $45 million annually. Consumers expects to file updated decommissioning estimates with the MPSC on or before March 31, 1995. Amounts collected from electric retail customers are deposited in trust. Trust earnings are recorded as an investment with a corresponding credit included in accumulated depreciation. The total amount of the trust will be available for decommissioning Big Rock Point and Palisades at the end of their respective license periods in 2000 and 2007. Consumers believes the amounts being collected are adequate to meet its currently estimated decommissioning costs and current NRC requirements.

In November 1993, Palisades returned to service following a planned refueling and maintenance outage that had been extended due to several unanticipated repairs. The results of an NRC review of Consumers' performance at Palisades published shortly thereafter showed a decline in performance ratings for the plant. Management believes that an increased emphasis on internal assessments will improve performance at Palisades. In order to provide NRC senior management with a more in-depth assessment of plant performance, the NRC has initiated a diagnostic evaluation team inspection at Palisades. The inspection will be a broad-based evaluation of all aspects of nuclear plant operation and management. The evaluation is expected to commence in March 1994, with results of the evaluation expected to be available in May 1994. The outcome of this evaluation cannot be predicted. Similar reviews conducted at nuclear plants of other utilities in recent years have in some cases resulted in increased regulatory oversight or required actions to improve plant operations, maintenance or condition.

PLATEAU RESOURCES LTD.

In August 1993, Consumers sold its ownership interest in Plateau to U. S. Energy Corp. As a result of the sale, approximately $14 million of Plateau's cash and cash equivalents, other assets and liabilities, including certain future decommissioning, environmental and other contingent liabilities were transferred to U. S. Energy Corp. In view of prior write-offs, this transaction did not result in any material gains or additional losses.

RECLASSIFICATIONS

Consumers and the MCV Partnership (see Note 17) have reclassified certain prior year amounts for comparative purposes. These reclassifications did not affect the net losses for the years presented.

REVENUE AND FUEL COSTS

Consumers accrues revenue for electricity and gas used by its customers but not billed at the end of an accounting period. Consumers also accrues or reduces revenue for any underrecovery or overrecovery of electric power supply costs and natural gas costs by establishing a corresponding asset or liability until Consumers bills these unrecovered costs or refunds the excess recoveries to customers after reconciliation hearings conducted before the MPSC.

UTILITY REGULATION

Consumers accounts for the effects of regulation under SFAS 71, *Accounting for the Effects of Certain Types of Regulation*. As a result, the actions of regulators affect when revenues, expenses, assets and liabilities are recognized.

OTHER

For significant accounting policies regarding cash equivalents, see Note 14; for income taxes, see Note 5; and for pensions and other postretirement benefits, see Note 10.

3 The Midland Cogeneration Venture

The MCV Partnership, which leases and operates the MCV Facility, contracted to supply electricity and steam to The Dow Chemical Company and to sell electricity to Consumers for a 35-year period beginning in March 1990. At December 31, 1993, Consumers, through its subsidiaries, held the following assets related to the MCV: 1) CMS Midland owned a 49 percent general partnership interest in the MCV Partnership; and 2) CMS Holdings held through the FMLP a 35 percent lessor interest in the MCV Facility. In late 1993, Consumers sold its remaining $309 million investment in the MCV Bonds.

POWER PURCHASES FROM THE MCV PARTNERSHIP

Consumers is obligated to purchase the following amounts of contract capacity from the MCV Partnership under the PPA:

Year	1991	1992	1993	1994	1995 and thereafter
MW	806	915	1,023	1,132	1,240

During 1992 and 1991, the MPSC only allowed Consumers to recover costs of power purchased from the MCV Partnership based on delivered energy at rates less than Consumers paid for 840 MW in 1992 and 806 MW in 1991. As a result, Consumers recorded after-tax losses of $86 million in 1992 and $124 million in 1991.

On March 31, 1993, the MPSC approved, with modifications, the Revised Settlement Proposal which had been co-sponsored by Consumers, the MPSC staff and 10 small power and cogeneration developers. These parties accepted the Settlement Order and the MCV Partnership confirmed that it did not object to its terms. ABATE and the Attorney General have filed claims of appeal of the Settlement Order with the Court of Appeals.

The Settlement Order determined the cost of power purchased from the MCV Partnership that Consumers can recover from its electric retail customers and will significantly reduce the amount of future underrecoveries for these power costs. Effective January 1, 1993, the Settlement Order allowed Consumers to recover substantially all of the payments for its ongoing purchase of 915 MW of contract capacity from the MCV Partnership. Capacity and energy purchases from the MCV Partnership above the 915 MW level can be competitively bid into Consumers' next solicitation for power or, if necessary, utilized for current power needs with a prudency review and a pricing recovery determination in annual PSCR cases. In either instance, the MPSC would determine the levels of recovery from customers for the power purchased. The Settlement Order also provides Consumers the right to remarket all of the remaining capacity to third parties.

The PPA requires Consumers to pay a minimum 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. The Settlement Order provided Consumers two options for the recovery that could be used for capacity charges paid to the MCV Partnership. Under the option selected, Consumers is scheduling deliveries of energy from the MCV Partnership whenever it has energy available up to hourly availability limits, or "caps," for the 915 MW of capacity authorized for recovery in the Settlement Order. Consumers can recover an average 3.62 cents per kWh capacity charge and the prescribed energy charges associated with the scheduled deliveries within the caps, whether or not those deliveries are scheduled on an economic basis. Through December 31, 1997, there is no cap applied during on-peak hours to Consumers' recovery for the purchase of capacity made available within the 915 MW authorized. Recovery for purchases during off-peak hours is capped at 80 percent in 1993, 82 percent in 1994 and 1995, 84 percent in 1996 and 1997, increasing to 88.7 percent in 1998 and thereafter at which time the 88.7 percent cap is applicable during all hours. For all economic energy deliveries above the caps to 915 MW, the option also allows Consumers to recover 1/2 cent per kWh capacity payment in addition to the corresponding energy charge.

In December 1992, Consumers recognized an after-tax loss of $343 million for the present value of estimated future underrecoveries of power costs under the PPA as a result of the Settlement Order. This loss included management's best estimates regarding the future availability of the MCV Facility, and the effect of the future wholesale power market on the amount, timing and price at which various increments of the capacity above the MPSC authorized level could be resold. Except for adjustments to the above loss to reflect the after-tax time value of money through accretion expense, no additional losses are expected unless actual future experience materially differs from management's estimates. Because the calculation of the 1992 loss depended in part upon estimates of future unregulated sales of energy to third parties, a more conservative or risk-free investment rate of 7 percent was used to calculate $188 million of the total $343 million after-tax loss. The remaining portion of the loss was calculated using an 8.5 percent discount rate reflecting Consumers' incremental borrowing rate as required by SFAS 90, *Regulated Enterprises-Accounting for Abandonments and Disallowances of Plant Costs*. The after-tax expense for the time value of money for the loss is estimated to be approximately $24 million in 1994, and various lower levels thereafter, including $22 million in 1995 and $20 million in 1996. Although the settlement losses were recorded in 1992, the after-tax cash underrecoveries, including fixed energy charges, associated with the Settlement Order were $59 million in 1993. Consumers believes there is and will be a market for the resale of capacity purchases from the MCV Partnership above the MPSC-authorized level. However, if Consumers is unable to sell any capacity above the current MPSC-authorized level, future additional after-tax losses and after-tax cash underrecoveries could be incurred. Consumers' estimates of its future after-tax cash underrecoveries and possible additional losses for the next five years if none of the additional capacity is sold are as follows:

AFTER-TAX, IN MILLIONS	1994	1995	1996	1997	1998
Expected cash underrecoveries	$56	$65	$62	$61	$ 8
Possible additional underrecoveries and losses (a)	$14	$20	$20	$22	$72

(a) If unable to sell any capacity above the MPSC's authorized level.

The undiscounted, after-tax amount of the $343 million loss was $789 million. At December 31, 1993, the after-tax present value of the Settlement Order liability had been reduced to $307 million, which reflects after-tax cash underrecoveries related to capacity totaling $(54) million, after-tax accretion expense of $23 million and a $(5) million adjustment due to the 1993 corporate tax rate change (see Note 5).

The PPA, while requiring payment of a fixed energy charge, contains a "regulatory out" provision which permits Consumers to reduce the fixed energy charges payable to the MCV Partnership throughout the entire contract term if Consumers is not able to recover these amounts from its customers. In connection with the MPSC's approval of the Revised Settlement Proposal, Consumers and the MCV Partnership have commenced arbitration proceedings under the PPA to determine whether Consumers is entitled to exercise its regulatory out regarding fixed energy charges on the portion of available MCV capacity above the current MPSC-authorized levels. An arbitrator acceptable to both parties has been selected. If the arbitrator determines that Consumers cannot exercise its regulatory out, Consumers would be required to make these fixed energy payments to the MCV Partnership even though Consumers may not be recovering these costs. The arbitration proceedings will also determine who is entitled to the fixed energy amounts for which Consumers did not receive full cost recovery during the years prior to settlement. Although Consumers believes its position on arbitration is sound and intends to aggressively pursue its right to exercise the regulatory out, management cannot predict the outcome of the arbitration proceedings or any possible settlement of the matter. Accordingly, losses were recorded prior to 1993 for all fixed energy amounts at issue in the arbitration. As of December 31, 1993, approximately $20 million has been escrowed by Consumers and is included in Consumers' temporary cash investments. In December 1993, Consumers made an irrevocable offer to pay through September 15, 2007, fixed energy charges to the MCV Partnership on all kWh delivered by the MCV Partnership to Consumers from the contract capacity in excess of 915 MW, which represents a portion of the fixed energy charges in dispute. Consumers made the offer to facilitate the sale of the remaining MCV Bonds in 1993.

The lessors of the MCV Facility have filed a lawsuit in federal district court against CMS Energy, Consumers and CMS Holdings. It alleges breach of contract, breach of fiduciary duty and negligent or willful misrepresentation relating to the MCV Partnership's failure to object to the Settlement Order in light of Consumers' interpretation of the Settlement Order, which is the subject of an arbitration between the MCV Partnership and Consumers. The action alleges damages in excess of $1 billion and seeks injunctive relief relative to Consumers' payments of the fixed energy charge. CMS Energy and Consumers believe that at all times they and CMS Holdings have conducted themselves properly and that the action is without merit. They also believe that a significant portion of the alleged damages represent fixed energy charges in dispute in the arbitration. CMS Energy and Consumers are unable to predict the outcome of this action.

PSCR Matters: Consistent with the terms of the Settlement Order, Consumers has withdrawn its appeals of various MPSC orders issued in connection with the 1992, 1991 and 1990 PSCR cases. Consumers also agreed not to appeal any MCV-related issues raised in future orders for these plan cases and related reconciliations to the extent those issues are resolved by the Settlement Order. Consumers made refunds, including interest, of $69 million in 1993 and $29 million in 1992 to customers for overrecoveries in connection with the 1991 and 1990 PSCR reconciliation cases, respectively. These amounts were included in losses recorded prior to 1993. In 1992, Consumers recovered MCV power purchase costs consistent with the MPSC's 1992 plan case order, and does not anticipate that any MCV-related refunds will be required.

4 Rate Matters

ELECTRIC RATE CASE

Consumers filed a request with the MPSC in May 1993 to increase its electric rates. Subsequently, as a result of changed estimates, Consumers revised its requested electric rate increase to $133 million annually based on a 1994 test year. Consumers also requested an additional annual electric rate increase of $38 million based on a 1995 test year. Consumers' request included increased future expenditures primarily related to capital additions, demand-side management programs, operation and maintenance, higher depreciation and postretirement benefits computed under SFAS 106, *Employers' Accounting for Postretirement Benefits Other than Pensions*. The filing also proposed experimental incentive provisions that would either reward or penalize Consumers, based on its operating performance. In addition, Consumers would share any returns above its MPSC-authorized level with customers in exchange for the ability to earn not lower than one percentage point below its authorized level.

In March 1994, an ALJ issued a proposal for decision that recommended Consumers' 1994 final annual rate increase total approximately $83 million, and that the incremental requested 1995 increase not be granted at this time. The ALJ's recommendation included a lower return on electric common equity, reflected reduced anticipated debt costs due to the projected availability of more favorable interest rates and proposed a lower equity ratio for Consumers' projected capitalization structure. The ALJ did, however, generally support Consumers' rate design proposal to significantly reduce the level of subsidization of residential customers by commercial and industrial customers and generally supported the performance incentive but not the shared return mechanism discussed above.

Abandoned Midland Project: In July 1984, Consumers abandoned construction of its unfinished nuclear power plant located in Midland, Michigan, and subsequently took a series of write-downs. In May 1991, Consumers began collecting $35 million pretax annually for the next 10 years and is amortizing the assets against current income over the recovery period using an interest method. Amortization for 1993, 1992 and 1991 was $28 million, $28 million and $18 million, respectively.

Consumers was not permitted to earn a return on the portion of the abandoned Midland investment for which the MPSC was allowing recovery. Therefore, under SFAS 90, the recorded losses described above included amounts that reduced the recoverable asset to the present value of future recoveries. During the remaining recovery period, part of the prior losses will be reversed to adjust the unrecovered asset to its present value and is reflected as accretion income. An after-tax total of approximately $35 million of the prior losses remains to be included in accretion income through April 2001. Several parties, including the Attorney General, have filed claims of appeal with the Court of Appeals regarding

MPSC orders issued in May and July 1991 that specified the recovery of abandoned investment.

Electric Demand-side Management: As a result of settlement discussions regarding demand-side management and an MPSC order in July 1991, Consumers agreed to spend $65 million over two years on demand-side management programs. Based on the MPSC's determination of Consumers' effectiveness in implementing these programs, Consumers' future rate of return on common equity may be adjusted either upward by up to 1 percent or downward by up to 2 percent. This adjustment, if implemented, would be applied to Consumers' retail electric tariff rates and be in effect for one year following reconciliation hearings with the MPSC that are expected to be initiated in the first quarter of 1994. The estimated revenue effects of the potential adjustment range from an $11 million increase to a $22 million decrease. Consumers believes it will receive an increase on its return on common equity based on having achieved all of the agreed upon objectives.

On October 1, 1993, Consumers completed the customer participation portion of these programs and as part of its current electric rate case has requested MPSC authorization to continue certain programs in 1994. Consumers has also requested recovery of demand-side management expenditures which exceeded the $65 million level. Consumers is deferring program costs and amortizing the costs over the period these costs are being recovered from its customers in accordance with an accounting order issued by the MPSC in September 1992. The unamortized balance of deferred costs at December 31, 1993 and 1992 was $71 million and $25 million, respectively.

PSCR ISSUES

Consumers began a planned refueling and maintenance outage at Palisades in June 1993. Following several required, unanticipated repairs that extended the outage, the plant returned to service in early November. Recovery of replacement power costs incurred by Consumers during the outage will be reviewed by the MPSC during the 1993 PSCR reconciliation of actual costs and revenues to determine the prudency of actions taken during the outage. Any finding of delay due to imprudence could result in disallowances of a portion of replacement power costs. Net replacement power costs were approximately $180,000 per day above the cost of fuel incurred when the plant is operating.

The Energy Act imposes an obligation on the utility industry, including Consumers, to decommission DOE uranium enrichment facilities. Consumers currently estimates its payments for decommissioning those facilities to be $2.4 million per year for 15 years beginning in 1992, escalating based on an inflation factor. Consumers believes these costs are recoverable from its customers under traditional regulatory policies. As of December 31, 1993, Consumers' remaining estimated liability was approximately $34 million. Consumers has a regulatory asset of $34 million for the expected recovery of this amount in electric rates.

GCR ISSUES

In connection with its 1991 GCR reconciliation case, Consumers refunded $36 million, including interest, to its firm sales and transportation rate customers in April 1992. Consumers accrued the full amount for this refund in 1991.

The MPSC issued an order during 1993 that approved an interim settlement agreement for the 12 months ended March 31, 1993. As a result of the settlement, Consumers refunded in August 1993, to its GCR and transportation customers, approximately $22 million, including interest. Consumers previously accrued amounts sufficient for this refund.

The MPSC, in a February 1993 order, provided that the price payable to certain intrastate gas producers by Consumers be reduced prospectively. As a result, Consumers was not allowed to recover approximately $13 million of costs incurred prior to February 8, 1993. In 1991, Consumers accrued a loss sufficient for this issue. Future disallowances are not anticipated, unless the remaining appeals filed by the intrastate producers are successful.

In 1992, the FERC approved a settlement involving Consumers, Trunkline and certain other parties, which resolved numerous claims and proceedings concerning Trunkline liquified natural gas costs. The settlement represents significant gas cost savings for Consumers and its customers in future years. As part of the settlement, Consumers will not incur any transition costs from Trunkline as a result of FERC Order 636. In November 1992, Consumers had recorded a liability and regulatory asset for the principal amount of payments to Trunkline over a five-year period and a regulatory asset. On May 11, 1993, the MPSC approved a separate settlement agreement that provides Consumers with full recovery of these costs over a five-year period. At December 31, 1993, Consumers' remaining liability and regulatory asset was $116 million.

OTHER

Certain of Consumers' direct gas suppliers have contract prices tied to the price Consumers pays Trunkline for its gas. On September 1, 1993, Consumers commenced gas purchases from

Trunkline under a continuation of prior sales agreements. The current contract covers gas deliveries through October 1994 and is at a reduced price compared to prior gas sales. Some of Consumers' direct gas suppliers have claimed that the reduced Trunkline gas cost is not a proper reference price under their contracts with Consumers and that their contracts are terminable after a 12-month period. Consumers is disputing these claims. Additionally, three of these direct gas suppliers of Consumers have made filings with the FERC in Trunkline's Order 636 restructuring case seeking to preclude Trunkline's ability to make the sales to Consumers which commenced on September 1, 1993. Consumers and Trunkline vigorously opposed these filings and in December 1993, the FERC issued an order which, among other things, allowed Trunkline to continue sales of gas to Consumers under tariffs on file with the FERC.

Estimated losses for certain contingencies discussed in this note have been accrued. Resolution of these contingencies is not expected to have a material impact on the financial statements.

5 Income Taxes

Consumers and its subsidiaries file a consolidated federal income tax return with CMS Energy. Income taxes are generally allocated to each company based on each company's separate taxable income. Consumers' accrued federal income tax benefits from CMS Energy were $49 million and $3 million as of December 31, 1993 and 1992, respectively. In 1992, Consumers implemented SFAS 109, *Accounting for Income Taxes*. Deferred tax assets and liabilities are classified as current or noncurrent based on the classification of the related asset or liability for all temporary differences. Consumers began practicing full deferred tax accounting for temporary differences arising after January 1, 1993, as authorized by a generic MPSC order. The generic order reduces the amount of regulatory assets and liabilities that otherwise could have arisen in future periods by allowing Consumers to reflect the income statement effect in the period temporary differences arise.

Consumers uses ITC to reduce current income taxes payable and defers and amortizes ITC over the life of the related property. The AMT requires taxpayers to perform a second separate federal tax calculation based on a flat rate applied to a broader tax base. AMT is the amount by which this "broader-based" tax exceeds regular tax. Any AMT paid generally becomes a tax credit that can be carried forward indefinitely to reduce regular tax liabilities in future periods when regular taxes paid exceed the tax calculated for AMT.

On August 10, 1993, the Omnibus Budget Reconciliation Act of 1993 increased the statutory federal tax rate from 34 percent to 35 percent effective January 1, 1993. The cumulative effect of this tax rate change has been reflected in Consumers' financial statements.

The significant components of income tax expense (benefit) consisted of:

IN MILLIONS			
YEARS ENDED DECEMBER 31	**1993**	1992	1991[a]
Current federal income taxes	**$ 41**	$ 52	$ 58
Deferred income taxes	**61**	(172)	(166)
Deferred income taxes - tax rate change	**(2)**	—	—
Deferred ITC, net	**(9)**	(7)	33
	$ 91	$(127)	$ (75)
Operating	**$116**	$ 51	$ 48
Other	**(25)**	(178)	(123)
	$ 91	$(127)	$ (75)

(a) The 1991 provision for income taxes was before an extraordinary item that had related deferred income taxes of approximately $7 million.

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

IN MILLIONS		
DECEMBER 31	**1993**	1992
Property	**$ (518)**	$ (458)
Unconsolidated investments	**(184)**	(129)
Postretirement benefits (Note 10)	**(178)**	(165)
Abandoned Midland project (Note 4)	**(57)**	(60)
Employee benefit obligations (includes postretirement benefits of $178 and $165) (Note 10)	**200**	186
MCV power purchases - settlement (Note 3)	**165**	177
AMT carryforward	**64**	51
ITC carryforward (expires 2005)	**48**	49
Other	**(8)**	(4)
	$ (468)	$ (353)
Gross deferred tax liabilities	**$(1,319)**	$(1,228)
Gross deferred tax assets	**851**	875
	$ (468)	$ (353)

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

			IN MILLIONS
YEARS ENDED DECEMBER 31	**1993**	1992	1991
Net income (loss) before extraordinary item	**$ 198**	$(244)	$(235)
Income tax expense (benefit)	**91**	(127)	(75)
	289	(371)	(310)
Statutory federal income tax rate	**x 35%**	x 34%	x 34%
Expected income tax expense (benefit)	**101**	(126)	(105)
Increase (decrease) in taxes from:			
Capitalized overheads previously flowed through	**5**	5	38
Differences in book and tax depreciation not previously deferred	**6**	9	8
ITC amortization and utilization	**(10)**	(10)	(7)
Affiliated companies' dividends	**(6)**	(5)	(5)
Other, net	**(5)**	—	(1)
	$ 91	$(127)	$ (75)

6 Short-Term Financings

Consumers has authorization from the FERC to issue or guarantee up to $900 million of short-term debt through December 31, 1994. Consumers has a $470 million facility that is used to finance seasonal working capital requirements and unsecured, committed lines of credit aggregating $165 million. As of December 31, 1993, $235 million and $24 million were outstanding at weighted average interest rates of 4.0 percent and 3.9 percent, respectively. Further, Consumers has an established $500 million trade receivables purchase and sale program. As of December 31, 1993 and 1992, receivables sold under the agreement totaled $285 million and $225 million, respectively. On February 15, 1994, Consumers increased the level of receivables sold to $335 million.

7 Capitalization

CAPITAL STOCK

As of December 31, 1992, Consumers effected a quasi-reorganization, an elective accounting procedure in which Consumers' accumulated deficit of $574 million was eliminated against other paid-in capital. The fair values of Consumers' assets and liabilities at the date of the quasi-reorganization were determined by management to approximate their carrying values and no material adjustments to the historical bases were made (see Note 10). This action was approved by Consumers' Board of Directors and did not require shareholder approval. As a result of the quasi-reorganization and subsequent accumulated earnings, Consumers paid $133 million in common stock dividends in 1993 and also declared from 1993 earnings a $16 million common stock dividend in January 1994. Consumers has authorization from the MPSC and is proceeding to issue $200 million of preferred stock in 1994.

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, Articles and the need for regulatory approvals in compliance with appropriate state and federal law. In September 1993, Consumers issued, with MPSC approval, $300 million of 6 3/8 percent first mortgage bonds, due 2003 and $300 million of 7 3/8 percent first mortgage bonds, due 2023. Consumers used the net proceeds from the bond issuance to refund approximately $515 million of higher interest first mortgage bonds and the balance to reduce short-term borrowings. Unamortized debt costs, premiums and discounts and call premiums on the refunded debt totaling approximately $18 million were deferred under SFAS 71, and are being amortized over the lives of the new debt.

In February 1994, Consumers issued a call for redemption totaling approximately $10 million. Consumers also fully redeemed two issues of first mortgage bonds totaling approximately $91 million. These redemptions completed Consumers' commitment to the MPSC, under the 1993 authorization to issue first mortgage bonds, to refinance certain long-term debt.

LONG-TERM BANK DEBT

Under its long-term credit agreement at December 31, 1993, Consumers was required to make 10 remaining quarterly principal payments of approximately $47 million. As of December 31, 1993, the outstanding balance under this credit agreement totaled $469 million with a weighted average interest rate of 4.0 percent. In January 1993, Consumers entered into an interest rate swap agreement, exchanging variable-rate interest for fixed-rate interest on the latest maturing $250 million of the then remaining $500 million obligation under its long-term credit agreement.

OTHER

Consumers has a total of $131 million of PCRBs outstanding with a weighted average interest rate of 4.2 percent as of December 31, 1993. Consumers classifies $101 million of PCRBs as long-term because it can refinance these amounts through irrevocable letters of credit expiring after one year.

In June 1993, Consumers entered into loan agreements in connection with the issuance of approximately $28 million of adjustable rate demand limited obligation refunding revenue bonds, due 2010, which are secured by an irrevocable letter of credit expiring in 1996. These bonds bear an initial interest rate of 2.65 percent. Consumers also entered into loan agreements in connection with the issuance of $30 million of 5.8 percent limited obligation refunding revenue bonds, due 2010, secured by a financial guaranty insurance policy and certain first mortgage bonds of Consumers. Proceeds of these issues were used to redeem on August 1, 1993 in advance of their maturities, approximately $58 million of outstanding PCRBs.

8 Financial Instruments

Cash, short-term investments and current liabilities approximate their fair value due to the short-term nature of those instruments. The estimated fair value of long-term investments is based on quoted market prices where available. When specific market prices do not exist for an instrument, the fair value is based on quoted market prices of similar investments or other valuation techniques. All long-term investments in financial instruments, except as shown below, approximate fair value. Although the current fair value of the long-term debt, which is based on calculations made by debt pricing specialists, may be greater than the current carrying amount, settlement of the reported debt is generally not expected until maturity. The estimated fair values of Consumers' financial instruments are as follows:

YEARS ENDED DECEMBER 31	1993		1992 (IN MILLIONS)	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Investment in stock of affiliates	**$ 291**	**$ 323**	$ 291	$ 303
Long-term debt	**1,839**	**1,984**	2,079	2,123

The fair value of Consumers' off-balance sheet financial instruments is based on the amount estimated to terminate or settle the obligation:

YEARS ENDED DECEMBER 31	1993	1992 (IN MILLIONS)
	Fair Value	Fair Value
Interest rate swaps (Note 7)	**$ 5**	$ —
Guarantees	**7**	7

On January 1, 1994, Consumers adopted SFAS 115, *Accounting for Certain Investments in Debt and Equity Securities*, requiring accounting for investments in debt securities to be held to maturity at amortized cost; otherwise debt and marketable equity securities would be recorded at fair value, with any unrealized gains or losses included in earnings if the security is held for trading purposes or as a separate component of shareholders' equity if the security is available for sale. The implementation resulted in an increase in assets of $30 million in January 1994 with a corresponding increase in stockholders' equity of $20 million, net of tax.

In May 1993, the FASB issued SFAS 114, *Accounting by Creditors for Impairment of a Loan*, effective in 1995, requiring certain loans that are determined to be impaired be measured based on the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's observable market price or the fair value of any collateral for a secured loan. Consumers does not believe this standard will have a material impact on its financial position or results of operations.

9 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 may be granted to key employees based on their contributions to the successful management of CMS Energy and its subsidiaries. The plan reserves for award not more than 2 percent of CMS Energy's common stock outstanding on January 1 each year, less the number of shares of restricted common stock awarded and of common stock subject to options granted under the plan during the immediately preceding four calendar years. Any forfeitures are subject to award under the plan. As of December 31, 1993, awards of up to 447,686 shares of common stock may be issued.

Restricted shares of common stock are outstanding shares with full voting and dividend rights. Performance criteria were added in 1990 based on CMS Energy's total return to shareholders. Shares of restricted common stock cannot be distributed until they are vested and the performance objectives are met. Further, the restricted stock is subject to forfeiture if employment terminates before vesting. If key employees exceed performance objectives, the plan will allow additional awards. Restricted shares vest fully if control of CMS Energy changes, as defined by the plan.

Consumers' Executive Stock Option and Stock Appreciation Rights Plan, an earlier plan approved by shareholders, remains in effect until all authorized options are granted or September 25, 1995. As of December 31, 1993, options for 43,000 shares remained to be granted.

Under both plans, for stock options and stock appreciation rights, the exercise price on each grant date equaled the closing market price on the grant date. Options are exercisable upon grant and expire up to 10 years and one month from date of grant. The status of the restricted stock granted under the Performance Incentive Stock Plan and options granted under both plans follows. The number of shares presented also includes shares for employees of CMS Energy and non-utility affiliates.

	Restricted Stock	Options	
	Number of Shares	Number of Shares	Price per Share
Outstanding at January 1, 1991	212,500	1,162,216	$ 7.13-$34.25
Granted	97,000	194,000	$ 21.13-$21.13
Exercised or Issued	(34,437)	(65,125)	$ 7.13-$16.00
Outstanding at December 31, 1991	275,063	1,291,091	$ 7.13-$34.25
Granted	101,000	215,000	$ 17.13-$18.00
Exercised or Issued	(37,422)	(21,000)	$ 13.00-$1[illegible].30
Canceled	(15,375)	(50,000)	$ 20.50-$33.88
Outstanding at December 31, 1992	323,266	1,435,091	$ 7.13-$34.25
Granted	**132,000**	**249,000**	**$25.13-$26.25**
Exercised or Issued	**(54,938)**	**(152,125)**	**$ 7.13-$21.13**
Canceled	**(84,141)**	**(33,000)**	**$20.50-$33.88**
Outstanding at December 31, 1993	**316,187**	**1,498,966**	**$ 7.13-$34.25**

10 Retirement Benefits

POSTRETIREMENT BENEFIT PLANS OTHER THAN PENSIONS

Consumers adopted SFAS 106 effective as of the beginning of 1992. The standard required Consumers to change its accounting for the cost of health care and life insurance benefits that are provided to retirees from a pay-as-you-go (cash) method to a full accrual method. Accordingly, Consumers recorded a liability of $466 million for the accumulated transition obligation and a corresponding regulatory asset for anticipated recovery in utility rates.

Both the MPSC and FERC have generally adopted SFAS 106 costs for ratemaking purposes provided costs recovered through rates are placed in external funds until they are needed to pay benefits. The MPSC's generic order allows utilities three years to seek recovery of costs and provides for recovery from customers of any deferred costs incurred prior to the beginning of rate recovery of such costs. Consumers anticipates recovering its regulatory asset within 20 years. As discussed in Note 4, Consumers has requested recovery of the portion of these costs allocated to the electric business. In late 1994, Consumers plans to request recovery of the gas utility portion of these costs. Consumers plans to fund the benefits using external Voluntary Employee Beneficiary Associations. Funding of the health care benefits would begin when Consumers' rate recovery based on SFAS 106 begins. A portion of the life insurance benefits have previously been funded.

As of December 31, 1993, the actuary assumed that retiree health care costs increased 10.5 percent in 1994 then decreased gradually to 5.5 percent in 2000 and thereafter. The health care cost trend rate assumption significantly affects the amounts reported. For example, a 1 percentage point increase in each year would increase the accumulated postretirement benefit obligation as of December 31, 1993 by $75 million and the aggregate of the service and interest cost components of net periodic postretirement benefit costs for 1993 by $9 million.

For the years ended December 31, 1993 and 1992, the weighted average discount rate was 7.25 percent and 8 percent, respectively, and the expected long-term rate of return on plan assets was 8.5 percent. Net periodic postretirement benefit cost for health care benefits and life insurance benefits was $51 million in 1993 and $49 million in 1992. The 1993 and 1992 cost was comprised of $13 million and $10 million for service plus $38 million and $39 million for interest, respectively.

The funded status of the postretirement benefit plans is reconciled with the liability recorded at December 31 as follows:

	1993	1992
		IN MILLIONS
Actuarial present value of estimated benefits		
Retirees	$ 281	$ 264
Eligible for retirement	54	50
Active (upon retirement)	187	175
Accumulated postretirement benefit obligation	522	489
Plan assets (premium deposit fund) at fair value	4	4
Projected postretirement benefit obligation in excess of plan assets	(518)	(485)
Unrecognized net loss from experience different than assumed	8	—
Recorded liability and regulatory asset	$(510)	$(485)

Consumers' postretirement health care plan is unfunded; the accumulated postretirement benefit obligation for that plan is $510 million and $478 million at December 31, 1993 and 1992, respectively.

SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN

Certain management employees qualify under the SERP. Benefits are based on the employee's service and earnings as defined in the SERP. In 1988, a trust from which SERP benefits are paid was established and funded. Because the SERP is not a qualified plan under the Internal Revenue Code, earnings of the trust are taxable and trust assets are included in Consumers' consolidated assets. As of December 31, 1993 and 1992, trust assets at cost (which approximates market) were $16 million and $14 million, respectively, and were classified as other non-current assets.

DEFINED BENEFIT PENSION PLAN

A trusteed, non-contributory, defined benefit Pension Plan covers substantially all employees. The benefits are based on an employee's years of accredited service and earnings, as defined in the plan, during an employee's five highest years of earnings. Because the plan is fully funded, no contributions were made for plan years 1991 through 1993. Amounts presented for the Pension Plan include amounts for CMS Energy and non-utility affiliates, which are not distinguishable from nor are they significant when compared with the plan's total amounts.

YEARS ENDED DECEMBER 31	1993	1992	1991
Discount rate	7.25%	8.5%	8.5%
Rate of compensation increase	4.5%	5.5%	5.5%
Expected long-term rate of return on assets	8.75%	8.75%	8.75%

Net Pension Plan and SERP costs consisted of:

YEARS ENDED DECEMBER 31	1993	1992	1991
			IN MILLIONS
Service cost	$ 19	$ 19	$ 18
Interest cost	49	47	48
Actual return on plan assets	(92)	(36)	(88)
Net amortization and deferral	34	(20)	28
Net periodic pension cost	$ 10	$ 10	$ 6

The funded status of the Pension Plan and SERP reconciled to the pension liability recorded at December 31 was:

	Pension Plan 1993	Pension Plan 1992	SERP 1993	SERP 1992
				IN MILLIONS
Actuarial present value of estimated benefits				
Vested	$ 471	$349	$ 12	$ 10
Non-vested	56	49	—	—
Accumulated benefit obligation	527	398	12	10
Provision for future pay increases	138	177	5	5
Projected benefit obligation	665	575	17	15
Plan assets (primarily stocks and bonds, including $87 in 1993 and $64 in 1992 in common stock of CMS Energy) at fair value	692	631	—	—
Projected benefit obligation less than (in excess of) plan assets	27	56	(17)	(15)
Unrecognized net (gain) loss from experience different than assumed	(56)	(76)	5	2
Unrecognized prior service cost	45	49	—	1
Unrecognized net transition (asset) obligation	(44)	(49)	1	1
Recorded liability	$ (28)	$(20)	$(11)	$(11)

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

In 1991, certain eligible employees accepted early retirement incentives. The incentives consisted of lump-sum cash payments and increased pension payments. The pretax cost of the incentives was $25 million. Also in 1991, portions of the projected benefit obligation were settled which resulted in a pretax gain of $25 million that offset the early retirement costs.

11 Leases

Consumers leases various assets, including vehicles, aircraft, construction equipment, computer equipment, nuclear fuel and buildings. Consumers' nuclear fuel capital leasing arrangement was extended an additional year and is now scheduled to expire in November 1995. The maximum amount of nuclear fuel that can be leased increased from $55 million to $70 million. Consumers further increased this amount in early 1994 to $80 million. The lease provides for an additional one-year extension upon mutual agreement by the parties. Upon termination of the lease, the lessor would be entitled to a cash payment equal to its remaining investment, which was $57 million as of December 31, 1993. Consumers is responsible for payment of taxes, maintenance, operating costs, and insurance.

Minimum rental commitments under Consumers' non-cancelable leases at December 31, 1993, were:

IN MILLIONS	Capital Leases	Operating Leases
1994	$ 40	$ 7
1995	57	6
1996	16	2
1997	15	2
1998	13	2
1999 and thereafter	26	21
Total minimum lease payments	167	$ 40
Less imputed interest	27	
Present value of net minimum lease payments	140	
Less current portion	34	
Non-current portion [a]	$ 106	

(a) In January 1994, Consumers amended its nuclear fuel lease to include fuel previously owned at Big Rock Point. This is estimated to increase the non-current portion of capital leases by approximately $6 million.

Consumers recovers these charges from customers and accordingly charges payments for its capital and operating leases to operating expense. Operating lease charges, including charges to clearing and other accounts as of December 31, 1993, 1992 and 1991, were $8 million, $12 million and $12 million, respectively.

Capital lease expenses for the years ended December 31, 1993, 1992 and 1991 were $32 million, $44 million and $48 million, respectively. Included in these amounts for the years ended 1993, 1992 and 1991, are nuclear fuel lease expenses of $13 million, $17 million, and $24 million, respectively.

12 Commitments and Contingencies

LUDINGTON PUMPED STORAGE PLANT LITIGATION

In 1986, the Attorney General filed a lawsuit on behalf of the State of Michigan in the Circuit Court of Ingham County, seeking damages from Consumers and Detroit Edison for alleged injuries to fishery resources because of the operation of the Ludington Pumped Storage Plant. The state sought $148 million (including $16 million of interest) for past injuries and $89,000 per day for future injuries, with the latter amount to be adjusted upon installation of "adequate" fish barriers and other changed conditions.

In 1987, the Attorney General filed a second lawsuit alleging that Consumers and Detroit Edison have breached a bottomlands lease agreement with the state and asked that the lease be declared void. This complaint was consolidated with the suit described in the preceding paragraph. In 1990, both of the lawsuits were dismissed on the basis of federal preemption. In 1993, the Court of Appeals overturned the dismissal, as to damages, effectively allowing the state to continue its damages lawsuit against Consumers and Detroit Edison, but generally affirmed the lower court's ruling as to the breach of lease claim. The Court of Appeals' ruling also limited any potential damages to those occurring no earlier than 1983. Consumers, Detroit Edison and the Attorney General have filed an application for leave to appeal with the Michigan Supreme Court. Consumers and Detroit Edison are seeking to have the trial court's dismissal of the damages claim affirmed.

Each year since 1989, Consumers and Detroit Edison have complied with FERC orders by installing a seasonal barrier net from April to October at the Ludington plant site. The FERC is now considering whether the barrier net (along with other actions by Consumers, including contributions to state fish-stocking programs) would be a satisfactory permanent solution.

ENVIRONMENTAL MATTERS

Consumers is a so-called "Potentially Responsible Party" at several sites being administered under Superfund. Along with Consumers, there are numerous credit-worthy, potentially responsible parties with substantial assets cooperating with respect to the individual sites. Based on information currently known by management, Consumers believes that it is unlikely that its liability at any of the known Superfund sites, individually or in total, will have a material adverse effect on its financial position or results of operations.

The State of Michigan in 1990 passed amendments to the Environmental Response Act that established a state program similar to the federal Superfund law, though broader in scope. Under this law, Consumers expects that it will ultimately incur costs at a number of sites, including some of the 23 sites that formerly housed manufactured gas plant facilities, even those in which it has a partial or no current ownership interest. It is expected that in most cases, parties other than Consumers with current or former ownership interests may also be considered liable under the law and may be required to share in the costs of any site investigations and remedial actions. There is limited knowledge of manufactured gas plant contamination at these sites at this time. However, Consumers is continuing to monitor this issue.

In addition, at the request of the DNR, Consumers prepared plans for remedial investigation/feasibility studies for three of these sites. Work plans for remedial investigation/feasibility studies for four other sites have also been prepared. The purpose of a remedial investigation/feasibility study is to define the nature and extent of contamination at a site and to determine which of several possible remedial action alternatives, including no action, may be required under the Environmental Response Act. The DNR has approved two of the three plans for remedial investigation/feasibility studies submitted and is currently reviewing the one remaining. The cost to conduct one of the approved studies will be approximately $250,000 based on bids received. Although the actual cost of conducting the remaining two remedial investigation/feasibility studies will not be known until bids are received from contractors, Consumers currently estimates the total cost of conducting the three studies submitted to the DNR to be less than $1 million.

The timing and extent of any further site investigation and remedial actions will depend, among other things, on requests received from the DNR and on future site usage by Consumers or other owners. Under the current schedule, Consumers anticipates the first remedial investigation/feasibility study would be completed in mid-1994. Consumers believes the results of the remedial investigation/feasibility studies will allow management to estimate a range of remedial cost estimates for the sites under study. Based on Consumers' knowledge of other utility remedial actions, remediation costs for Consumers for these sites may be substantial. In 1993, the MPSC addressed the question of recovery of investigation and remedial costs for another Michigan gas utility as part of that utility's gas rate case. In that proceeding, the MPSC determined that prudent investigation and remedial costs could be deferred and amortized over 10-year periods and prudent unamortized costs can be included for recovery in the utility's rate cases. The MPSC stated the length of the period may be reviewed from time to time, but any revisions would be prospective. Consumers believes costs incurred for both investigation and any required remedial actions would be recoverable from its customers under established regulatory policies and accordingly are not likely to materially affect its financial position or results of operations.

Included in the 1990 amendments to the federal Clean Air Act are provisions that limit emissions of sulfur dioxide and nitrogen oxides and require enhanced emissions monitoring. All of Consumers' coal-fueled electric generating units burn low-sulfur coal and are presently operating at or near the sulfur dioxide emission limits which will be effective in 2000. Beginning in 1995, certain coal-fueled generating units will receive emissions allowances (all of Consumers' coal units will receive allowances beginning in 2000). Based on projected emissions from these units, Consumers expects to have excess allowances which may be sold or saved for future use.

The Clean Air Act's provisions require Consumers to make capital expenditures estimated to total $74 million through 1999 for completed, in-process and possible modifications at coal-fired units based on existing and proposed regulations. Management believes that Consumers' annual operating costs will not be materially affected.

The EPA has asked a number of utilities in the Great Lakes area to voluntarily retire certain equipment containing specific levels of polychlorinated biphenyls. Consumers believes that it is largely in compliance with the EPA's petition. Consumers is continuing to study the request and has been granted an extension for responding until March 30, 1994.

CAPITAL EXPENDITURES

Consumers estimates capital expenditures, including demand-side management and new lease commitments of $553 million for 1994, $461 million for 1995 and $471 million for 1996.

PUBLIC UTILITY HOLDING COMPANY ACT EXEMPTION

CMS Energy is exempt from registration under PUHCA. However, the Attorney General and the MMCG have asked the SEC to revoke CMS Energy's exemption from registration under PUHCA. In 1992, the MPSC filed a statement with the SEC recommending that CMS Energy's current exemption be revoked and a new exemption be issued conditioned upon certain reporting and operating requirements. If CMS Energy were to lose its current exemption, it would become more heavily regulated by the SEC; Consumers could ultimately be forced to divest either its electric or gas utility business; and CMS Energy would be restricted from conducting businesses that are not functionally related to the conduct of its utility business as determined by the SEC. CMS Energy is opposing this request and believes it will maintain its current exemption from registration under PUHCA.

OTHER

Consumers experienced an increase in complaints during 1993 relating to so-called stray voltage. Claimants contend that stray voltage results when small electrical currents present in grounded electric systems are diverted from their intended path. Investigation by Consumers of prior stray voltage complaints disclosed that many factors, including improper wiring and malfunctioning of on-farm equipment, can lead to the stray voltage phenomenon. Consumers maintains a policy of investigating all customer calls regarding stray voltage and working with customers to address their concerns including, when necessary, modifying the configuration of the customer's hook-up to Consumers. A complaint seeking certification as a class action suit was filed against Consumers in a local county circuit court in 1993. The complaint alleges the existence of a purported class that has incurred damages of up to $1 billion, primarily to certain livestock owned by the purported class, as a result of stray voltage from electricity being supplied by Consumers. Consumers believes the allegations to be without merit and intends to vigorously oppose the certification of the class and this suit.

In addition to the matters disclosed in these notes, 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 involving personal injury and property damage, contractual matters, environmental issues, federal and state taxes, rates, licensing and other matters.

The ultimate effect of the proceedings discussed in this note is not expected to have a material impact on Consumers' financial position or results of operations.

13 Jointly Owned Utility Facilities

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

IN MILLIONS		
DECEMBER 31	**1993**	1992
Net investment		
Ludington - 51%	**$114**	$112
Campbell Unit 3 - 93.3%	**349**	360
Transmission lines - various	**32**	33
Accumulated depreciation		
Ludington	**$ 74**	$ 71
Campbell Unit 3	**210**	199
Transmission lines	**11**	10

14 Supplemental Cash Flow Information

For purposes of the Statement of Cash Flows, all highly liquid investments with an original maturity of three months or less are considered cash equivalents. Other cash flow activities and non-cash investing and financing activities for the years ended December 31 were:

IN MILLIONS

	1993	1992	1991
Cash transactions			
Interest paid (net of amounts capitalized)	**$177**	$176	$308
Income taxes paid (net of refunds)	**90**	6	30
Non-cash transactions			
Nuclear fuel placed under capital lease	**$ 28**	$ 30	$ 6
Other assets placed under capital leases	**30**	39	21
Capital leases refinanced	**42**	—	—
Assumption of debt	—	15	—
Return of Midland related assets (Note 16)	—	—	(92)
Increased value of investment in Enterprises' preferred stock (Note 16)	—	—	100

Changes in other assets and liabilities as shown on the Consolidated Statements of Cash Flows at December 31 are described below:

IN MILLIONS

	1993	1992	1991
Sale of receivables, net	**$ 60**	$ 25	$ —
Accounts receivable	**19**	30	66
Accrued revenue	**(48)**	91	7
Inventories	**(32)**	24	(8)
Accounts payable	**(25)**	21	(83)
Accrued refunds	**(48)**	(143)	102
Tax Reform Act refund reserve	—	—	(77)
Other current assets and liabilities, net	**(59)**	38	(56)
Non-current deferred amounts, net	**8**	(36)	170
	$ (125)	$ 50	$ 121

15 Reportable Segments

The Consolidated Statements of Income show operating revenue and pretax operating income by segments. These amounts include earnings (losses) from investments accounted for by the equity method of $6 million, $(10) million and $(2) million for 1993, 1992 and 1991, respectively. Other segment information follows:

IN MILLIONS

YEARS ENDED DECEMBER 31	1993	1992	1991
Depreciation, depletion and amortization			
Electric	**$ 241**	$ 230	$ 172
Gas	**73**	76	70
Other	**2**	1	—
	$ 316	$ 307	$ 242
Identifiable assets			
Electric (a)	**$4,027**	$3,812	$3,399
Gas	**1,443**	1,387	1,186
Other (b)	**1,081**	1,397	1,401
	$6,551	$6,596	$5,986
Capital expenditures (c)			
Electric (d)	**$ 365**	$ 353	$ 213
Gas	**127**	86	61
Other	**69**	67	32
	$ 561	$ 506	$ 306

(a) Includes abandoned Midland investment of $162 million, $175 million and $287 million for 1993, 1992 and 1991, respectively.

(b) Reclassified 1992 and 1991 to include independent power production, which is no longer significant enough for Consumers to report separately. Also, other was reduced by the sale of $300 million of MCV Bonds (see Note 3).

(c) Includes capital leases for nuclear fuel and other assets (see Note 14).

(d) Includes DSM costs of $52 million for 1993 and $26 million for 1992.

16 Related-Party Transactions

Consumers has an investment of $250 million in 10 shares of the preferred stock of Enterprises, an affiliate company of Consumers. Prior to a 1991 amendment to Enterprises' Articles, it was to have redeemed on July 1, 1991 and in each of the next four years, two shares of its preferred stock held by Consumers at a redemption price equal to $25 million per share. Because of the amendment, the dividend rate increased and the first mandatory redemption date became August 1, 1997. The asset value and other paid-in capital of Consumers were increased $100 million as a result of the amendment. In addition, Consumers has an investment in approximately 3 million shares of CMS Energy common stock totaling $42 million at December 31, 1993. As a result of these two investments, Consumers received dividends on affiliates' common and preferred stock totaling $16 million in 1993 and 1992 and $13 million in 1991.

In March 1990, Consumers' subsidiary, MGL and Consumers' parent, CMS Energy, entered into an agreement where MGL exchanged its investment in several subsidiaries that held Midland-related assets for CMS Debentures issued by CMS Energy. Consumers recorded the earnings on the CMS Debentures as income from contractual arrangements. In December 1991, the subsidiaries were returned to Consumers and the CMS Debentures were cancelled to comply with various regulatory and court orders. On July 27, 1991, Consumers stopped recording income on the CMS Debentures when it became probable the return would be required. The return resulted in a net after-tax loss of approximately $92 million because the book value of the subsidiaries was less than the CMS Debentures' book value.

Consumers purchases a portion of its gas from an affiliate, NOMECO. The amounts of purchases for the years ended 1993, 1992 and 1991 were $3 million, $3 million and $20 million, respectively. In 1993, 1992 and 1991, Consumers purchased $52 million, $36 million and $26 million, respectively, of electric generating capacity and energy from affiliates of Enterprises. Consumers and its subsidiaries sold, stored and transported natural gas and provided other services to the MCV Partnership totaling approximately $14 million for 1993, 1992 and 1991, respectively. For additional discussion of related-party transactions with the MCV Partnership and the FMLP, see Notes 3 and 17. Other related-party transactions are immaterial.

17 Summarized Financial Information of Significant Related Energy Supplier

Under the PPA with the MCV Partnership discussed in Note 3, Consumers' 1993 obligation to purchase electricity from the MCV Partnership was approximately 14 percent of Consumers' owned and contracted capacity. Summarized financial information of the MCV Partnership is shown at right.

STATEMENTS OF INCOME

IN MILLIONS

YEARS ENDED DECEMBER 31	1993	1992	1991
Operating revenue [(a)]	**$ 548**	$ 488	$ 425
Operating expenses	**362**	315	278
Operating income	**186**	173	147
Other expense, net	**(189)**	(190)	(186)
Net loss	**$ (3)**	$ (17)	$ (39)

BALANCE SHEETS

IN MILLIONS

DECEMBER 31	1993	1992
Assets		
Current assets [(a)]	**$ 181**	$ 165
Property, plant and equipment, net	**2,073**	2,124
Other assets	**146**	147
	$ 2,400	$ 2,436
Liabilities and Partners' Equity		
Current liabilities	**$ 198**	$ 189
Long-term debt and other non-current liabilities [(b)]	**2,147**	2,189
Partners' equity [(c)]	**55**	58
	$ 2,400	$ 2,436

(a) Revenue from Consumers totaled $505 million, $444 million and $384 million for 1993, 1992 and 1991, respectively. As of December 31, 1993, 1992 and 1991, $44 million, $38 million and $33 million, respectively, were receivable from Consumers.

(b) FMLP is a 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 (see Note 3). At December 31, 1993 and 1992, lease obligations of $1.7 billion were owed to the owner trust of which FMLP is the sole beneficiary. CMS Holdings' share of the interest and principal portion for the 1993 lease payments was $61 million and $16 million, respectively, and for the 1992 lease payments was $65 million and $12 million, respectively. The lease payments service $1.2 billion and $1.3 billion in non-recourse debt outstanding as of December 31, 1993 and 1992, respectively, of the owner-trust whose beneficiary is FMLP. FMLP's debt is secured by the MCV Partnership's lease obligations, assets, and operating revenues. For 1993 and 1992, the owner-trust whose beneficiary is FMLP made debt payments of $172 million and $166 million, respectively, which included $10 million and $8 million principal and $25 million and $26 million interest, respectively, on the MCV Bonds held by MEC Development Corporation during part of 1991 and by Consumers through December 1993.

(c) CMS Midland's recorded investment in the MCV Partnership includes capitalized interest, which is being amortized to expense over the life of its investment in the MCV Partnership.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

TO CONSUMERS POWER COMPANY:

We have audited the accompanying consolidated balance sheets and consolidated statements of long-term debt and preferred stock of CONSUMERS POWER COMPANY (a Michigan corporation and wholly owned subsidiary of CMS Energy Corporation) and subsidiaries as of December 31, 1993 and 1992, 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, 1993. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Consumers Power Company and subsidiaries as of December 31, 1993 and 1992, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1993 in conformity with generally accepted accounting principles.

As discussed in Note 5 to the consolidated financial statements, effective January 1, 1992, the Company changed its method of accounting for income taxes. As discussed in Note 10 to the consolidated financial statements, effective January 1, 1992, the Company changed its method of accounting for postretirement benefits other than pensions. Additionally, as discussed in Note 7 to the consolidated financial statements, the Company effected a quasi-reorganization on December 31, 1992.

Arthur Andersen & Co.

ARTHUR ANDERSEN & Co.
Detroit, Michigan
January 28, 1994

Selected Financial Information

		1993	1992	1991	1990	1989
Operating revenue (in millions) [a]	($)	**3,243**	2,978	2,908	2,968	2,960
Net income (loss) (in millions) [b]	($)	**198**	(244)	(249)	(382)	352
Net income (loss) after dividends on preferred stock (in millions)	($)	**187**	(255)	(260)	(393)	334
Cash from operations (in millions)	($)	**404**	483	376	476	839
Capital expenditures, (excluding assets placed under capital leases) (in millions) [a]	($)	**451**	411	279	339	408
Total assets (in millions)	($)	**6,551**	6,596	5,986	7,700	8,212
Long-term debt, excluding current maturities (in millions)	($)	**1,839**	2,079	1,846	2,944	3,036
Non-current portion of capital leases (in millions)	($)	**106**	88	57	56	79
Total preferred stock (in millions)	($)	**163**	163	163	168	187
Preferred stock with mandatory redemption (in millions)	($)	**—**	—	—	—	10
Number of preferred shareholders at year-end		**7,037**	7,376	7,616	7,991	8,712
Book value per common share at year-end	($)	**15.28**	14.64	17.67	20.46	25.16
Return on average common equity	(%)	**14.8**	(18.8)	(16.2)	(20.5)	17.2
Return on assets	(%)	**4.7**	(0.2)	(0.6)	(2.3)	7.1
Number of employees at year-end (full time equivalents)		**9,567**	9,531	8,933	9,209	9,577
Electric statistics						
Sales (millions of kWh) [c]		**32,764**	31,601	31,813	31,743	31,375
Customers (in thousands)		**1,526**	1,506	1,492	1,475	1,453
Average sales rate (¢/kWh)	(¢)	**6.28**	5.82	5.73	5.89	5.55
Gas statistics						
Sales and transportation deliveries (bcf) [d]		**389**	364	339	333	303
Customers (in thousands)		**1,423**	1,402	1,382	1,362	1,338
Average sales rate ($/mcf)	($)	**4.46**	4.55	4.58	4.64	4.75

(a) Certain prior period amounts were restated for comparative purposes

(b) Amount in 1991 included an extraordinary loss of $14 million, after tax

(c) Includes intersystem electric sales

(d) Excludes off-system transportation services

Quarterly Financial Information

IN MILLIONS

	1993 (Unaudited)				1992 (Unaudited)			
Quarters Ended	**March 31**	**June 30**	**Sept. 30**	**Dec. 31**	March 31	June 30	Sept. 30	Dec. 31
Operating revenue [a]	**$987**	**$681**	**$702**	**$873**	$941	$644	$576	$817
Pretax operating income [a]	**$156**	**$74**	**$101**	**$104**	$116	$53	$34	$46
Net income (loss)	**$78**	**$26**	**$45**	**$49**	$63	$23	$8	$(338)
Preferred stock dividends	**$3**	**$3**	**$3**	**$2**	$3	$3	$3	$2
Net income (loss) after preferred stock dividends	**$75**	**$23**	**$42**	**$47**	$60	$20	$5	$(340)

(a) Amounts in 1992 and March 31, 1993 were restated for comparative purposes

Glossary

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

ABATE
Association of Businesses Advocating Tariff Equity

ALJ
Administrative Law Judge

AMT
Alternative minimum tax

Articles
Articles of Incorporation

Attorney General
The Michigan Attorney General

bcf
Billion cubic feet

Clean Air Act
Federal Clean Air Act as amended on November 15, 1990

CMS Debentures
CMS Energy debentures in the principal amount of $1.4 billion issued on March 12, 1990 in exchange for the outstanding capital stock of CMS Midland, MEC Development Corp. and MGL

CMS Energy
CMS Energy Corporation

CMS Holdings
CMS Midland Holdings Company, a subsidiary of MGL

CMS Midland
CMS Midland Inc., a subsidiary of MGL

Consumers
Consumers Power Company

Court of Appeals
Michigan Court of Appeals

Detroit Edison
The Detroit Edison Company

DNR
Michigan Department of Natural Resources

DOE
U. S. Department of Energy

DSM
Demand-side management

Energy Act
Energy Policy Act of 1992

Enterprises
CMS Enterprises Company, a subsidiary of CMS Energy

EPA
Environmental Protection Agency

FASB
Financial Accounting Standards Board

FERC
Federal Energy Regulatory Commission

FMLP
First Midland Limited Partnership

GCR
Gas cost recovery

ITC
Investment tax credit

kWh
Kilowatt-hour

mcf
Thousand cubic feet

MCV
Midland Cogeneration Venture

MCV Bonds
Collectively, senior secured lease obligation bonds and subordinated secured lease obligation bonds issued in connection with the leveraged lease financing of the MCV Facility, and tax-exempt PCRBs

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

MCV Partnership
Midland Cogeneration Venture Limited Partnership

MGL
Midland Group, Ltd., a subsidiary of Consumers

Michigan Gas Storage
Michigan Gas Storage Company, a subsidiary of Consumers

MMCG
Michigan Municipal Cooperative Group

MPSC
Michigan Public Service Commission

MW
Megawatts

NOMECO
NOMECO Oil & Gas Co., a subsidiary of Enterprises

NRC
Nuclear Regulatory Commission

O&M
Other operation and maintenance expense

Order 636
Orders affecting interstate gas pipelines, including Order 636A and 636B issued by the FERC in 1992, known also as the Restructuring Rule

Palisades
Palisades nuclear plant, owned by Consumers

PCRB
Pollution control revenue bond

Pension Plan
The trusteed, non-contributory, defined benefit pension plan of Consumers

Plateau
Plateau Resources Ltd., a former subsidiary of Consumers

PPA
The Power Purchase Agreement between Consumers and the MCV Partnership with a 35-year term commencing in March 1990

PSCR
Power supply cost recovery

PUHCA
Public Utility Holding Company Act of 1935

PURPA
Public Utility Regulatory Act of 1978

Revised Settlement Proposal
The request for approval of a settlement proposal to resolve MCV cost recovery issues, PURPA issues and court remand as filed with the MPSC on July 7, 1992 and amended on September 8, 1992

SEC
Securities and Exchange Commission

SERP
Supplemental Executive Retirement Plan

Settlement Order
MPSC Order issued March 31, 1993 in MPSC Case Nos. U-10127, U-8871 and others, and the rehearing order issued May 26, 1993

SFAS
Statement of Financial Accounting Standards

Superfund
Comprehensive Environmental Response, Compensation and Liability Act

Trunkline
Trunkline Gas Company

Voluntary Employee Beneficiary Association
A legal entity, established under guidelines of the Internal Revenue Code, through which the company can provide certain benefits for its employees or retirees

BOARD OF DIRECTORS

William T. McCormick Jr.	49, Chairman of the Board of Consumers and Chairman of the Board and Chief Executive Officer of CMS Energy
S. Kinnie Smith Jr.	63, Vice Chairman of the Board of Consumers and Vice Chairman of the Board and General Counsel of CMS Energy
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Victor J. Fryling	46, Vice Chairman of the Board of Consumers and President of CMS Energy
Earl D. Holton	60, President and Chief Operating Officer, Meijer Inc., Grand Rapids, Mich.
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John B. Yasinsky	54, President and Chief Operating Officer, GenCorp, Fairlawn, Ohio Elected to board in February 1994.

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