CMS ENERGY CORP
Form 424B3
December 09, 2005

THE INFORMATION IN THIS PROSPECTUS SUPPLEMENT AND THE ACCOMPANYING PROSPECTUS IS NOT COMPLETE AND MAY BE CHANGED. THIS PROSPECTUS SUPPLEMENT AND THE ACCOMPANYING PROSPECTUS ARE NOT AN OFFER TO SELL THESE SECURITIES AND THEY ARE NOT SOLICITING AN OFFER TO BUY THESE SECURITIES IN ANY STATE WHERE THE OFFER OR SALE IS NOT PERMITTED.

RULE 424(B)(3)
REGISTRATION STATEMENT NO. 333-125553

SUBJECT TO COMPLETION, DATED DECEMBER 8, 2005

PROSPECTUS SUPPLEMENT TO PROSPECTUS DATED JUNE 16, 2005

(CMS ENERGY LOGO)

$125,000,000
CMS ENERGY CORPORATION
% SENIOR NOTES DUE 2015

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The Notes will bear interest at the rate of ___% per year. Interest on the Notes is payable on ___________ and ________ of each year, beginning on ___________ 2006. The Notes will mature on ____________ 2015. We may redeem some or all of the Notes at any time. The redemption price for the Notes will be 100% of their principal amount, plus any Applicable Premium thereon at the time of redemption plus accrued and unpaid interest to the redemption date. See "Description of the Notes -- Optional Redemption." Under certain circumstances, Holders of the Notes will have the right to require us to repurchase the Notes. See "Description of the Notes -- Purchase of Notes Upon Change in Control." There is no sinking fund for the Notes.

The Notes will be our unsecured obligations and will rank equally with all of our other unsecured senior indebtedness.

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INVESTING IN THE NOTES INVOLVES RISKS. SEE "RISK FACTORS" BEGINNING ON PAGE S-14.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus supplement or the accompanying prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

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| | PER SENIOR NOTE | TOTAL |
|---|---|---|
| Public Offering Price | ____% | $_____ |
| Underwriting Discount | ____% | $_____ |
| Proceeds to CMS Energy (before expenses) | ____% | $_____ |

Interest on the Notes will accrue from December __, 2005 to date of

delivery.

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The underwriters expect to deliver the Notes to purchasers on or about December __, 2005.

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Joint Book-Running Managers

CITIGROUP MERRILL LYNCH & CO.

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Co-Managers

BANC OF AMERICA SECURITIES LLC

KEYBANC CAPITAL MARKETS WEDBUSH MORGAN SECURITIES INC.

December __, 2005

YOU SHOULD RELY ONLY ON THE INFORMATION CONTAINED IN OR INCORPORATED BY REFERENCE IN THIS PROSPECTUS SUPPLEMENT AND THE ACCOMPANYING PROSPECTUS OR TO DOCUMENTS TO WHICH WE HAVE REFERRED YOU. WE HAVE NOT AUTHORIZED ANYONE TO PROVIDE YOU WITH DIFFERENT INFORMATION. WE ARE NOT, AND THE UNDERWRITERS ARE NOT, MAKING AN OFFER OF THESE SECURITIES IN ANY STATE WHERE THE OFFER IS NOT PERMITTED. YOU SHOULD NOT ASSUME THAT THE INFORMATION CONTAINED IN THIS PROSPECTUS SUPPLEMENT AND THE ACCOMPANYING PROSPECTUS IS ACCURATE AS OF ANY DATE OTHER THAN THE DATE ON THE FRONT OF THIS PROSPECTUS SUPPLEMENT.

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## ABOUT THIS PROSPECTUS SUPPLEMENT

This document is in two parts. The first part is this prospectus supplement, which describes the terms of this offering of Notes and also adds to and updates information contained in the accompanying prospectus and the documents incorporated by reference into the accompanying prospectus. The second part is the accompanying prospectus, which contains a description of the securities registered by us. To the extent there is a conflict between the information contained or incorporated by reference in this prospectus supplement, on the one hand, and the information contained in the accompanying prospectus or any document incorporated by reference therein, on the other hand, the information in this prospectus supplement shall control.

This prospectus supplement and the accompanying prospectus are part of a registration statement that we filed with the Securities and Exchange Commission ("SEC") using a "shelf" registration process. Under the registration statement, we may sell securities, including Notes, up to a dollar amount of $1,500,000,000, of which this offering is a part.



## FORWARD-LOOKING STATEMENTS AND INFORMATION

This prospectus supplement contains forward-looking statements as defined in Rule 175 under the Securities Act of 1933, as amended (the "SECURITIES ACT") and Rule 3b-6 under the Securities Exchange Act of 1934, as amended (the "EXCHANGE ACT") and relevant legal decisions. Our intention with the use of such words as "may," "could," "anticipates," "believes," "estimates," "expects," "intends," "plans" and other similar words is to identify forward-looking statements that involve risk and uncertainty. We designed this discussion of potential risks and uncertainties to highlight important factors that may impact our business and financial outlook. We have no obligation to update or revise forward-looking statements regardless of whether new information, future events or any other factors affect the information contained in the statements. These forward-looking statements are subject to various factors that could cause our actual results to differ materially from the results anticipated in these statements. Such factors include our inability to predict and/or control:

- capital and financial market conditions, including the price of our common stock and the effect of such market conditions on our pension plan, interest rates and access to the capital markets, as well as availability of financing to us, Consumers Energy Company, our wholly-owned subsidiary ("CONSUMERS"), or any of our affiliates, and the energy industry;

- market perception of the energy industry, us and Consumers, or any of

our affiliates;

- credit ratings of us, Consumers or any of our affiliates;

- currency fluctuations, transfer restrictions and exchange controls;

- factors affecting utility and diversified energy operations such as unusual weather conditions, catastrophic weather-related damage, unscheduled generation outages, maintenance or repairs, environmental incidents or electric transmission or gas pipeline system constraints;

- international, national, regional and local economic, competitive and regulatory policies, conditions and developments;

- adverse regulatory or legal decisions, including those related to environmental laws and regulations, and potential environmental remediation costs associated with such decisions;

- potentially adverse regulatory treatment and/or regulatory lag concerning a number of significant questions presently before the Michigan Public Service Commission ("MPSC"), including:

  - recovery of future stranded costs incurred due to customers choosing alternative energy suppliers;

  - recovery of Clean Air Act costs and other environmental and safety-related expenditures;

  - timely recovery of power supply and natural gas supply costs when oil prices and other fuel prices are rapidly increasing;

  - timely recognition in rates of additional equity investments in Consumers; and

  - adequate and timely recovery of additional electric and gas rate-based investments;

- the impact of adverse natural gas prices on the Midland Cogeneration Venture Limited Partnership (the "MCV PARTNERSHIP") and the First Midland Limited Partnership ("FMLP") investments, regulatory decisions that limit recovery of capacity and fixed energy payments and our ability to develop a new long-term strategy with respect to the MCV Partnership's natural gas facility (the "MCV FACILITY") to provide for its long-term financial viability;

- federal regulation of electric sales and transmission of electricity, including periodic re-examination by federal regulators of the market-based sales authorizations in wholesale power markets without price restrictions;

- energy markets, including the timing and extent of changes in commodity prices for oil, coal, natural gas, natural gas liquids, electricity and certain related products due to lower or higher demand, shortages, transportation problems or other developments;

- our ability to collect accounts receivable from our gas customers due to high natural gas prices;

- potential adverse impacts of the new Midwest Energy Market upon power supply and transmission costs;

- potential for the Midwest Energy Market to develop into an active energy market in the state of Michigan, which may lead us to account for certain electric energy contracts at CMS Energy Resource Management Company ("CMS ERM") as derivatives;

- the generally accepted accounting principles requirement that we utilize mark-to-market accounting on certain energy commodity contracts and interest rate swaps, which may have, in any given period, a significant positive or negative effect on earnings, which could change dramatically or be eliminated in subsequent periods and could add to earnings volatility;

- the effect on Consumers of the direct and indirect impacts of the continued economic downturn experienced by our automotive and automotive parts manufacturing customers;

- potential disruption, expropriation or interruption of facilities or operations due to accidents, war, terrorism or changing political conditions and the ability to obtain or maintain insurance coverage for such events;

- nuclear power plant performance, decommissioning, policies, procedures, incidents and regulation, including the availability of spent nuclear fuel storage;

- technological developments in energy production, delivery and usage;

- achievement of capital expenditure and operating expense goals;

- changes in financial or regulatory accounting principles or policies;

- changes in tax laws or new Internal Revenue Service ("IRS") interpretations of existing tax laws;

- outcome, cost and other effects of legal and administrative proceedings, settlements, investigations and claims, including particularly claims, damages and fines resulting from round-trip trading and inaccurate commodity price reporting, including investigations by the U.S. Department of Justice ("DOJ") regarding round-trip trading and price reporting;

- limitations on our ability to control the development or operation of projects in which our subsidiaries have a minority interest;

- disruptions in the normal commercial insurance and surety bond markets that may increase costs or reduce traditional insurance coverage, particularly terrorism and sabotage insurance and performance bonds;

- the efficient sale of non-strategic or under-performing domestic or international assets and discontinuation of certain operations;

- other business or investment considerations that may be disclosed from time to time in our or Consumers' SEC filings or in other publicly issued written documents;

- other uncertainties that are difficult to predict, and many of which are beyond our control; and

- the factors identified under "Risk Factors" beginning on page S-14.

These are important factors, but not necessarily all of the important factors, that could cause actual results to differ materially from those expressed in any forward-looking statement made by, or on behalf of, us or our subsidiaries.



WHERE YOU CAN FIND MORE INFORMATION

We file reports, proxy statements and other information with the SEC under File No. 1-9513. Our SEC filings are available over the Internet at the SEC's web site at http://www.sec.gov. You may also read and copy any document we file at the SEC's public reference room at 100 F Street N.E., Room 1580, Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for more information on the public reference rooms and their copy charges. You may also inspect our SEC reports and other information at the New York Stock Exchange, 20 Broad Street, New York, New York 10005. You can find additional information about us, including our Annual Report on Form 10-K/A (Amendment No. 1) for the year ended December 31, 2004 and our Quarterly Reports on Form 10-Q for the quarters ended March 31, 2005, June 30, 2005 and September 30, 2005, on our web site at http://www.cmsenergy.com. The information on this web site is not a part of this prospectus supplement and the accompanying prospectus.

We are "incorporating by reference" information into this prospectus supplement and the accompanying prospectus. This means that we are disclosing important information by referring to another document filed separately with the SEC. The information incorporated by reference is deemed to be part of this prospectus supplement and the accompanying prospectus, except for any information superseded by information in this prospectus supplement and the accompanying prospectus. This prospectus supplement and the accompanying prospectus incorporate by reference the documents set forth below that we have previously filed with the SEC. These documents contain important information about us and our finances.

- Annual Report on Form 10-K/A (Amendment No. 1) for the year ended December 31, 2004 filed on June 28, 2005

- Quarterly Report on Form 10-Q for the quarter ended March 31, 2005 filed on May 5, 2005, Quarterly Report on Form 10-Q for the quarter ended June 30, 2005 filed on August 4, 2005 and Quarterly Report on Form 10-Q for the quarter ended September 30, 2005 filed on November 1, 2005

- Current Reports on Form 8-K or Form 8-K/A filed on January 12, 2005, January 14, 2005, January 20, 2005, January 27, 2005, February 28, 2005 (2 reports), March 30, 2005, April 4, 2005 (2 reports), April 5, 2005, April 13, 2005, May 17, 2005, July 8, 2005, August 11, 2005, August 17, 2005, August 29, 2005 and December 5, 2005

The documents filed by us with the SEC pursuant to Section 13(a), 13(c), 14 or 15(d) of the Exchange Act after the date of this prospectus supplement, until the offering of the Notes pursuant to this prospectus supplement is terminated, are also incorporated by reference into this prospectus supplement and the accompanying prospectus. Any statement contained in such document will be deemed to be modified or superseded for purposes of this prospectus supplement and the accompanying prospectus to the extent that a statement contained in this prospectus supplement and the accompanying prospectus or any other subsequently

filed document modifies or supersedes such statement.

We will provide, upon your oral or written request, a copy of any or all of the information that has been incorporated by reference in this prospectus supplement and the accompanying prospectus but not delivered with this prospectus supplement and the accompanying prospectus. You may request a copy of these filings at no cost by writing or telephoning us at the following address:

CMS Energy Corporation
One Energy Plaza
Jackson, Michigan 49201
Tel: (517) 788-0550
Attention: Office of the Secretary

S-5

## SUMMARY

This summary may not contain all the information that may be important to you. You should read this prospectus supplement and the documents incorporated by reference into this prospectus supplement in their entirety before making an investment decision. The terms "CMS," "CMS ENERGY," "OUR," "US" and "WE" as used in this document refer to CMS Energy Corporation and its subsidiaries as a combined entity, except where it is made clear that such term means only CMS Energy Corporation.

In this document, "MCF" means thousand cubic feet, "BCF" means billion cubic feet and "MW" means megawatts.

## CMS ENERGY CORPORATION

CMS Energy, formed in Michigan in 1987, is an energy holding company with a business strategy focused primarily in Michigan. Its two principal wholly-owned subsidiaries are Consumers and CMS Enterprises Company ("ENTERPRISES"). Consumers is a public utility that provides natural gas and/or electricity to almost 6.5 million of Michigan's 10 million residents and serves customers in all 68 counties in Michigan's Lower Peninsula. Enterprises, through various subsidiaries, affiliates and equity investments, is engaged in domestic and international diversified energy businesses.

Our assets and services include: electric and natural gas utility operations; independent power production; natural gas transmission, storage and processing; and international energy distribution. Our principal businesses are:

- Consumers' electric utility, which owns and operates 30 electric generating plants with an aggregate of 6,437 MW of capacity and serves 1.77 million customers in Michigan's Lower Peninsula;

- Consumers' gas utility, which owns and operates over 27,398 miles of transmission and distribution lines throughout the Lower Peninsula of Michigan, providing natural gas to 1.69 million customers;

- CMS Generation Co. ("CMS GENERATION"), a wholly-owned subsidiary of Enterprises that has ownership interests in operating power plants totaling 8,219 gross MW (3,455 net MW) throughout the United States and abroad. The plants are located in the U.S., Argentina, Chile, Ghana, India, Jamaica, Morocco, Saudi Arabia and the United Arab Emirates; and

- CMS Gas Transmission Company ("CMS GAS TRANSMISSION"), a wholly-owned subsidiary of Enterprises that owns an interest in and operates 265 miles of natural gas gathering and transmission pipelines in the state of Michigan and 4,331 miles of natural gas pipelines in South America.

In 2004, we had consolidated operating revenue of approximately $5.47 billion.

Our principal executive offices are located at One Energy Plaza, Jackson, Michigan 49201 and our telephone number is (517) 788-0550.



## RECENT DEVELOPMENTS

THIRD QUARTER CONSOLIDATED RESULTS OF OPERATIONS OF CMS ENERGY

| THREE MONTHS ENDED SEPTEMBER 30, | 2005 | 2004 | CHANGE |
|---|---|---|---|
| | (UNAUDITED, DOLLARS IN MILLIONS EXCEPT PER SHARE AMOUNTS) | | |
| Net Income (Loss) | $ (263) | $ 59 | $ (322) |
| Preferred Dividends | 2 | 3 | 1 |
| Net Income (Loss) Available to Common Stockholders | $ (265) | $ 56 | $ (321) |
| Basic Earnings (Loss) Per Share | $(1.21) | $0.35 | $(1.56) |
| Diluted Earnings (Loss) Per Share | (1.21) | 0.34 | (1.55) |
| Electric Utility | $ 62 | $ 49 | $ 13 |
| Gas Utility | (16) | (11) | (5) |
| Enterprises | (260) | 59 | (319) |
| Corporate Interest and Other | (51) | (49) | (2) |
| Discontinued Operations | -- | 8 | (8) |
| CMS Energy Net Income (Loss) Available to Common Stockholders | $ (265) | $ 56 | $ (321) |

For the three months ended September 30, 2005, our net loss available to common stockholders was $265 million, compared to $56 million of net income available to common stockholders for the three months ended September 30, 2004. The decrease is primarily due to an impairment charge to property, plant and equipment at the MCV Partnership to reflect the excess of the carrying value of these assets over their estimated fair values. The decrease also reflects the absence in 2005 of gains associated with the sale of our interest in the Goldfields pipeline located in Australia ("GOLDFIELDS") and a reduction in net income from our gas utility, as higher operating and maintenance costs exceeded the benefits derived from increased deliveries and the increase in revenue resulting from the gas rates surcharge authorized by the MPSC in October 2004. Partially offsetting these losses are higher earnings at our electric utility primarily due to weather-driven higher than normal residential electric utility sales and the collection of an electric surcharge related to the recovery of costs incurred in the transition to customer choice. The reduction was also partially offset by increases in the fair value of certain long-term gas

contracts and financial hedges at the MCV Partnership and interest rate swaps at Al Taweelah A2, a power and desalination plant located in the United Arab Emirates ("TAWEELAH").

Specific changes to net income (loss) available to common stockholders for the three months ended September 30, 2005 versus the same period in 2004 are:

| | IN MILLIONS |
|---|---|
| - decrease in earnings from our ownership interest in the MCV Partnership primarily due to a $385 million impairment charge to property, plant and equipment to reflect the excess of the carrying value over the estimated fair values of these assets, offset partially by an increase of $67 million from operations, primarily due to an increase in fair value of certain long-term gas contracts and financial hedges...................... | $(318) |
| - the absence in 2005 of the gain on the sale of our interest in Goldfields................................. | (29) |
| - the absence in 2005 of net gains associated with discontinued operations................................ | (8) |
| - decrease in net income from our gas utility primarily due to increases in benefit costs and safety, reliability and customer service expenses offset partially by increased deliveries and increased revenue associated with the gas rate surcharge authorized by the MPSC in October of 2004............................... | (5) |
| - increase in corporate interest and other expenses primarily due to premiums paid on the early retirement of a portion of our 9.75 percent senior notes offset by reduced interest expense.............................. | (2) |
| - increase in income at our electric utility primarily due to weather-driven higher than normal residential electric utility sales and the collection of electric surcharges related to the recovery of MPSC approved costs, offset partially by increased operating expenses and power supply costs................................. | 13 |
| - increase in the fair value of interest rate swaps associated with our investment in Taweelah as we recorded gains in 2005 versus losses in 2004............ | 13 |
| - income tax benefit recorded at Enterprises resulting from the American Jobs Creation Act of 2004............. | 10 |
| - increase in income from CMS ERM primarily due to mark-to-market adjustments............................. | 5 |
| Total Change.............................................. | $(321) |

| NINE MONTHS ENDED SEPTEMBER 30, | 2005 | 2004 | CHANGE |
|---|---|---|---|
| | (UNAUDITED, DOLLARS IN MILLIONS EXCEPT PER SHARE AMOUNTS) | | |
| Net Income (Loss) | $ (81) | $ 72 | $ (153) |
| Preferred Dividends | 7 | 9 | 2 |
| Net Income (Loss) Available to Common Stockholders | $ (88) | $ 63 | $ (151) |
| Basic Earnings (Loss) Per Share | $(0.42) | $0.39 | $(0.81) |
| Diluted Earnings (Loss) Per Share | (0.42) | 0.38 | (0.80) |
| Electric Utility | $ 141 | $ 124 | $ 17 |
| Gas Utility | 39 | 46 | (7) |
| Enterprises | (126) | 36 | (162) |
| Corporate Interest and Other | (142) | (147) | 5 |
| Discontinued Operations | - | 6 | (6) |
| Accounting Changes | - | (2) | 2 |
| CMS Energy Net Income (Loss) Available to Common Stockholders | $ (88) | $ 63 | $ (151) |

For the nine months ended September 30, 2005, our net loss available to common stockholders was $88 million, compared to $63 million of net income available to common stockholders for the nine months ended September 30, 2004. The decrease is primarily due to an asset impairment charge to property, plant and equipment at the MCV Partnership to reflect the excess of the carrying value of these assets over their estimated fair values. The decrease also reflects the absence in 2005 of the gain on the sale of our interest in Goldfields and a decrease in net income at our gas utility due to higher operating costs and depreciation expense. Partially offsetting these decreases is an increase in the fair value of certain long-term gas contracts and financial hedges at the MCV Partnership and the positive impact at our electric utility due to an increase in the collection of an electric surcharge related to the recovery of costs incurred in the transition to customer choice, increased regulatory return on capital expenditures, and weather-driven higher than normal residential electric utility sales. The reduction was also partially offset by the absence in 2005 of a 2004 investment impairment at Loy Yang, an Australian power plant ("LOY YANG") and tax benefits recorded in 2005 resulting from the American Jobs Creation Act of 2004.

Specific changes to net income (loss) available to common stockholders for the nine months ended September 30, 2005 versus the same period in 2004 are:

| | IN MILLIONS |
|---|---|
| - decrease in earnings from our ownership interest in the MCV Partnership primarily due to a $385 million impairment charge to property, plant and equipment to reflect the excess of the carrying value over the estimated fair values of these assets, offset partially | |

| | | |
|---|---|---|
| | by an increase of $120 million from operations, primarily due to an increase in fair value of certain long-term gas contracts and financial hedges............ | $(265) |
| - | the absence in 2005 of the gain on the sale of our interest in Goldfields................................ | (29) |
| - | the absence in 2005 of the settlement agreement that Dearborn Industrial Generation ("DIG") and CMS Marketing, Services and Trading Company ("CMS MST") entered into with the purchasers of electric power and steam from DIG........................................ | (8) |
| - | decrease in net income from our gas utility primarily due to increases in benefit costs and safety, reliability and customer service expenses offset partially by increased deliveries and increased revenue associated with the gas rate surcharge authorized by the MPSC in October 2004.................................. | (7) |
| - | the absence in 2005 of net gains associated with discontinued operations................................ | (6) |
| - | the absence in 2005 of an impairment charge related to the sale of our Loy Yang investment that was recorded in 2004................................................ | 81 |
| | income tax benefit recorded at Enterprises resulting from the American Jobs Creation Act of 2004............ | 33 |
| - | increase in other Enterprises income primarily due to an increase in earnings from our overseas investments, increased interest income, and the favorable resolution of a contingent liability at our Leonard Field storage facility............................................ | 21 |
| - | increase in income from our electric utility primarily due to weather-driven higher than normal electric utility sales, the return on capital expenditures, and the collection of electric surcharges related to the recovery of MPSC approved costs, offset by increased operating expenses and power supply purchase costs, and customers choosing alternative suppliers................ | 17 |
| - | increase in income from CMS ERM primarily due to mark-to-market adjustments............................. | 5 |
| - | reduction in corporate interest and other expenses partially offset by premiums paid on the early retirement of a portion of our 9.75 percent senior notes............................................... | 5 |
| - | the absence in 2005 of a loss recorded in 2004 for the cumulative effect of a change in accounting principle... | 2 |
| | | ----- |
| Total Change | ......................................................... | $(151) |
| | | ===== |

GAS RECOVERY PLAN FOR YEAR 2005-2006

In September 2005, Consumers filed a motion with the MPSC seeking to reopen its gas cost recovery plan ("GCR") for the year 2005-2006. After a settlement agreement was reached in the GCR plan case with various parties in June 2005, there were substantial, unanticipated increases in the market price for natural gas. These increases were so large that the maximum adjustments possible under the GCR ceiling price adjustment mechanisms included in the settlement agreement were not adequate. In October 2005, the MPSC issued an order reopening evidentiary proceedings. On November 30, 2005, the MPSC authorized Consumers to increase the maximum allowable GCR factor up to $10.10 per mcf. Consumers will only charge an amount necessary to recover its natural gas supply costs. Consumers began charging customers a GCR factor on December 1, 2005 at a rate of $8.92 per mcf.

CONSUMERS DECIDES TO SELL THE PALISADES NUCLEAR POWER PLANT

On December 5, 2005, Consumers announced that it planned to sell the Palisades nuclear power plant and will establish a competitive bid process expected to lead to a sale in 2007. The terms of sale will include a long-term power purchase agreement with the new owner to retain the benefits of the low-cost nuclear generation for Consumers' electric customers.



THE OFFERING

| | |
|---|---|
| Issuer........................ | CMS Energy Corporation. |
| Securities Offered............ | $125 million aggregate principal amount of ___% Senior Notes due 2015 (the "NOTES") to be issued under the indenture dated as of September 15, 1992 between us and JPMorgan Chase Bank, N.A. (successor to NBD Bank, National Association), as trustee (the "TRUSTEE"), and as amended and supplemented from time to time (the "SENIOR DEBT INDENTURE"). |
| Issue Price................... | Each Note will be issued at a price of $1,000 per Note, plus accrued interest, if any, from December ____, 2005. |
| Maturity...................... | _____________ 2015. |
| Interest Rate................. | The Notes will bear interest at the rate of __% per year, payable semiannually in arrears on __ and ____, commencing on ____ 2006, and at maturity. |
| Use of Proceeds............... | We estimate that the proceeds of the offering of the Notes, after deducting underwriters' discounts and commissions and offering expenses, will aggregate approximately $_______ million. We intend to use all of the proceeds |

| | |
|---|---|
| | of this offering to extinguish obligations of approximately $109 million under one of our gas supply contracts (for which we expect to pay approximately $118 million), to pay expenses incurred in paying down the obligations under such contract and for general corporate purposes. If the closing of the extinguishment of the gas supply contract does not occur for any reason, we intend to use the proceeds of this offering for general corporate purposes, which may include retiring debt or making capital infusions into Consumers. See "Use of Proceeds." |
| Optional Redemption.......... | The Notes will be redeemable at our option, in whole or in part, at any time or from time to time, upon not less than 30 nor more than 60 days notice before the redemption date by mail to the Trustee, the paying agent and each Holder of the Notes, for a price equal to 100% of the principal amount of the Notes to be redeemed plus any accrued and unpaid interest, and Applicable Premium owed, if any, to the redemption date. See "Description of the Notes -- Optional Redemption." |
| Change in Control............ | If a Change in Control (as defined under "Description of the Notes -- Purchase of Notes Upon Change in Control") occurs, Holders will have the right, at their option, to require us to purchase any or all of their Notes for cash. The cash price we are required to pay is equal to 101% of the principal amount of the Notes to be purchased plus accrued and unpaid interest, if any, to the Change in Control purchase date. See "Description of the Notes -- Purchase of Notes Upon Change in Control." |
| Ranking...................... | The Notes will be unsecured and unsubordinated senior debt securities of ours ranking equally with our other unsecured and unsubordinated indebtedness. As of September 30, 2005, we had outstanding approximately $2.4 billion aggregate principal amount of indebtedness, including approximately $178 million of subordinated indebtedness relating to our convertible preferred securities, but excluding approximately $4.7 billion of indebtedness of our subsidiaries. In May 2005, CMS Energy entered into the Sixth Amended and Restated Credit Agreement in the amount of approximately $300 million. This facility is secured and the Notes are junior to such indebtedness as to the assets pledged. As of September 30, 2005, there were approximately $98 million of letters of credit outstanding under the Sixth Amended and Restated Credit Agreement. Except for the amount outstanding under the Sixth Amended and Restated Credit Agreement, none |

| | |
|---|---|
| | of our indebtedness is senior to the Notes as to our assets. The Notes are structurally subordinated to approximately $4.7 billion of our subsidiaries' debt. |
| Certain Covenants............ | The senior debt indenture will contain covenants that will, among other things, limit our ability to pay dividends or distributions, incur additional indebtedness, incur additional liens, sell, transfer or dispose of certain assets, enter into certain transactions with affiliates or enter into certain mergers or consolidations. |
| Form of Notes................ | One or more global securities held in the name of The Depository Trust Company ("DTC") in a minimum denomination of $1,000 and any integral multiple thereof. |
| Trustee and Paying Agent...... | JPMorgan Chase Bank, N.A. |
| Trading...................... | The Notes will not be listed on any securities exchange or included in any automated quotation system. No assurance can be given as to the liquidity of or trading market for the Notes. |
| Risk Factors................. | You should carefully consider each of the factors described in the section of this prospectus supplement entitled "Risk Factors" starting on page S-14 before purchasing the Notes. |



## SELECTED CONSOLIDATED FINANCIAL DATA

The following selected financial data have been derived from our audited consolidated financial statements, which have been audited by Ernst & Young LLP, independent registered public accounting firm, for the five fiscal years ended December 31, 2004, except for amounts included from the financial statements of the MCV Partnership and Jorf Lasfar Energy Company S.C.A. ("JORF LASFAR"). The MCV Partnership represents a 49% owned variable interest entity which was consolidated in our financial statements in 2004 and accounted for under the equity method of accounting through December 31, 2003, and which was audited by another independent registered public accounting firm (the other auditors for 2001 and 2000 have ceased operations), for the five fiscal years ended December 31, 2004. Jorf Lasfar represents an investment accounted for under the equity method of accounting, which was audited by another independent accountant for the five fiscal years ended December 31, 2004. The following selected consolidated financial data for the nine months ended September 30, 2005 and 2004 have been derived from our unaudited consolidated financial statements. Please refer to our consolidated financial statements for the fiscal year ended

December 31, 2004 and for the quarter ended September 30, 2005, which are each incorporated by reference herein. The financial information set forth below should be read in conjunction with our consolidated financial statements, related notes and other financial information that are incorporated by reference herein. Operating results for the nine months ended September 30, 2005 are not necessarily indicative of results that may be expected for the entire year ending December 31, 2005. See "Where You Can Find More Information."

| | NINE MONTHS ENDED SEPTEMBER 30, | | YEAR ENDED | | |
|---|---|---|---|---|---|
| | 2005 | 2004 | 2004 (A) | 2003 | 20 |
| | (DOLLARS IN MILLIONS EXCEPT PER S | | | | |
| INCOME STATEMENT DATA: | | | | | |
| Operating revenue ............................ | $ 4,421 | $ 3,910 | $ 5,472 | $ 5,513 | $ 8, |
| Earnings from equity method investees .......... | 92 | 78 | 115 | 164 | |
| Operating expenses ........................... | 4,771 | 3,537 | 4,994 | 5,082 | 8, |
| Operating income (loss) ....................... | (258) | 451 | 593 | 595 | |
| Income (loss) from continuing operations ........ | (81) | 68 | 127 | (42) | ( |
| Net income (loss) available to common stockholders ............................... | $ (88) | $ 63 | $ 110 | $ (44) | $ ( |
| Earnings (loss) per average common share: | | | | | |
| Income (loss) from continuing operations: | | | | | |
| Basic ....................................... | $ (0.42) | $ 0.36 | $ 0.68 | $ (0.30) | $ (2 |
| Income (loss) from continuing operations: | | | | | |
| Diluted ..................................... | (0.42) | 0.36 | 0.67 | (0.30) | (2 |
| CMS Energy Net Income (Loss) attributable to common stock: Basic ........................ | (0.42) | 0.39 | 0.65 | (0.30) | (4 |
| CMS Energy Net Income (Loss) attributable to common stock: Diluted ...................... | (0.42) | 0.38 | 0.64 | (0.30) | (4 |
| Dividends declared per average common share: | | | | | |
| CMS Energy ................................. | -- | -- | -- | -- | 1 |
| BALANCE SHEET DATA (AT PERIOD END DATE): | | | | | |
| Cash and cash equivalents at cost, which approximates market ........................ | $ 793 | $ 560 | $ 669 | $ 532 | $ |
| Restricted cash .............................. | 196 | 83 | 56 | 201 | |
| Net plant and property ........................ | 7,719 | 8,684 | 8,636 | 6,890 | 6, |
| Total assets ................................. | 16,115 | 15,367 | 15,872 | 13,838 | 14, |
| Long-term debt, excluding current maturities ................................. | 6,521 | 6,228 | 6,444 | 6,020 | 5, |
| Long-term debt--related parties, excluding current maturities ......................... | 178 | 684 | 504 | 684 | |
| Non-current portion of capital and finance lease obligations .......................... | 299 | 318 | 315 | 58 | |
| Notes payable ................................ | -- | -- | -- | -- | |
| Other liabilities ............................ | 6,105 | 5,320 | 5,499 | 5,113 | 6, |
| Minority interests ........................... | 396 | 750 | 733 | 73 | |
| Company-obligated mandatorily redeemable trust preferred securities of subsidiaries (b) ..... | -- | -- | -- | -- | |
| Company obligated trust preferred securities of Consumers' subsidiaries (b) .............. | -- | -- | -- | -- | |
| Preferred stock .............................. | 261 | 261 | 261 | 261 | |
| Preferred stock of subsidiary ................. | 44 | 44 | 44 | 44 | |
| Common stockholders' equity .................... | $ 2,311 | $ 1,762 | $ 2,072 | $ 1,585 | $ 1, |

OTHER DATA:

| Cash Flow: | | | | | |
|---|---|---|---|---|---|
| Provided by (Used in) operating activities ...... | $ 604 | $ 200 | $ 398 | $ (250) | $ |
| Provided by (Used in) investing activities ...... | (399) | (388) | (392) | 203 | |
| Provided by (Used in) financing activities ...... | (82) | (219) | (43) | 229 | (1, |
| Ratio of earnings to fixed charges (c) .......... | --(d) | 1.01 | 1.12 | --(e) | |

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(a) Under revised FASB Interpretation No. 46 "Consolidation of Variable Interest Entities," we are the primary beneficiary of the MCV Partnership and the FMLP. As a result, we have consolidated the assets, liabilities and activities of these entities into our financial statements for the nine months ended September 30, 2005 and 2004 and for the fiscal year ended December 31, 2004.



(b) CMS Energy and Consumers each formed various statutory wholly-owned business trusts for the sole purpose of issuing preferred securities and lending the gross proceeds to the parent companies. The sole assets of the trusts are debentures of the parent company with terms similar to those of the preferred securities. As a result of the adoption of FASB Interpretation No. 46 on December 31, 2003, we deconsolidated the trusts that hold the mandatorily redeemable trust preferred securities. Therefore, $490 million, previously reported by us as Company-obligated mandatorily redeemable trust preferred securities of subsidiaries, plus $16 million owed to the trusts and previously eliminated in consolidation, was included in the balance sheet as Long-term debt -- related parties. Additionally, $173 million, previously reported by us as Company-obligated trust preferred securities of Consumers' subsidiaries, plus $5 million owed to the trusts and previously eliminated in consolidation, was included in the balance sheet as Long-term debt -- related parties. Since December 31, 2003, $377 million of Long-term debt -- related parties has been retired and $129 million of Long-term debt -- related parties has been reclassified in the balance sheet as Current portion of Long-term debt -- related parties.

(c) For the purpose of computing the ratio, earnings represents the sum of income from continuing operations before income taxes and income from equity method investees, net interest charges and the estimated interest portion of lease rentals and distributed income of equity method investees.

(d) For the nine months ended September 30, 2005, fixed charges exceeded earnings by $601 million. Earnings as defined include $1.184 billion of asset impairment charges.

(e) For the year ended December 31, 2003, fixed charges exceeded earnings by $34 million. Earnings as defined include $95 million of asset impairment charges.

(f) For the year ended December 31, 2002, fixed charges exceeded earnings by $488 million. Earnings as defined include $602 million of asset impairment charges.

(g) For the year ended December 31, 2001, fixed charges exceeded earnings by $395 million. Earnings as defined include $323 million of asset impairment charges.

(h) For the year ended December 31, 2000, fixed charges exceeded earnings by

$220 million. Earnings as defined include $329 million of asset impairment charges.



## RISK FACTORS

Before purchasing any of our securities offered by this prospectus supplement and the accompanying prospectus, you should carefully consider the following risk factors, as well as the other information contained or incorporated by reference in this prospectus supplement and the accompanying prospectus.

### RISKS RELATED TO CMS ENERGY

WE DEPEND ON DIVIDENDS FROM OUR SUBSIDIARIES TO MEET OUR DEBT SERVICE OBLIGATIONS. IF WE DO NOT RECEIVE ADEQUATE DIVIDENDS OR DISTRIBUTIONS FROM OUR SUBSIDIARIES, WE MAY NOT BE ABLE TO MAKE PRINCIPAL OR INTEREST PAYMENTS ON THE NOTES.

Due to our holding company structure, we depend on dividends from our subsidiaries to meet our debt obligations, including the payment of any principal or interest on the Notes. None of these entities are or will be obligated to pay any amounts due on the Notes. Therefore, the Notes are effectively subordinated to the payment of interest, principal, declared dividends and preferred distributions on the debt, preferred securities and other liabilities of Consumers and Enterprises and each of their subsidiaries.

Restrictions contained in Consumers' preferred stock provisions and other legal restrictions limit Consumers' ability to pay dividends or acquire its own stock from us. As of September 30, 2005, the most restrictive provisions in its financing documents allowed Consumers to pay an aggregate of $300 million in dividends to us during any year.

For additional information concerning restrictions on Consumers' ability to pay dividends to us, see "Description of the Notes -- Primary Source of Funds of CMS Energy; Restrictions on Sources of Dividends."

THE NOTES ARE STRUCTURALLY SUBORDINATED TO THE DEBT AND PREFERRED STOCK OF OUR SUBSIDIARIES.

Of the approximately $7.1 billion of our consolidated indebtedness as of September 30, 2005, approximately $4.7 billion was indebtedness of our subsidiaries. Payments on that indebtedness and preferred stock are prior in right of payment to dividends paid to us by our subsidiaries. See "Description of the Notes -- Structural Subordination."

WE HAVE SUBSTANTIAL INDEBTEDNESS THAT COULD LIMIT OUR FINANCIAL FLEXIBILITY AND HENCE OUR ABILITY TO MEET OUR DEBT SERVICE OBLIGATIONS UNDER THE NOTES.

As of September 30, 2005, we had outstanding approximately $2.4 billion aggregate principal amount of indebtedness, including approximately $178 million of subordinated indebtedness relating to our convertible preferred securities but excluding approximately $4.7 billion of indebtedness of our subsidiaries. In May 2005, we entered into the Sixth Amended and Restated Credit Agreement in the amount of approximately $300 million. As of September 30, 2005, there were approximately $98 million of letters of credit outstanding under the Sixth Amended and Restated Credit Agreement. We and our subsidiaries may incur additional indebtedness in the future.

The level of our present and future indebtedness could have several important effects on our future operations, including, among others:

- a significant portion of our cash flow from operations will be dedicated to the payment of principal and interest on our indebtedness and will not be available for other purposes;

- covenants contained in our existing debt arrangements require us to meet certain financial tests, which may affect our flexibility in planning for, and reacting to, changes in our business;

- our ability to obtain additional financing for working capital, capital expenditures, acquisitions and general corporate and other purposes may be limited;

- we may be at a competitive disadvantage to our competitors that are less leveraged; and

- our vulnerability to adverse economic and industry conditions may increase.

Our ability to meet our debt service obligations and to reduce our total indebtedness will be dependent upon our future performance, which will be subject to general economic conditions, industry cycles and financial, business and other factors affecting our operations, many of which are beyond our control. We cannot assure you that our business will continue to



generate sufficient cash flow from operations to service our indebtedness. If we are unable to generate sufficient cash flows from operations, we may be required to sell additional assets or obtain additional financings. We cannot assure you that additional financing will be available on commercially acceptable terms or at all.

There can be no assurance that the requirements of our existing debt arrangements or other indebtedness will be met in the future. Failure to comply with such covenants may result in a default with respect to the related debt and could lead to acceleration of such debt or any instruments evidencing indebtedness that contain cross-acceleration or cross-default provisions.

In such a case, there can be no assurance that we would be able to refinance or otherwise repay such indebtedness.

WE HAVE FINANCING NEEDS AND WE MAY BE UNABLE TO SUCCESSFULLY ACCESS BANK FINANCING OR THE CAPITAL MARKETS.

We expect to incur significant costs for capital expenditures, including future environmental regulation compliance, especially compliance with clean air laws. See "We could incur significant capital expenditures to comply with environmental standards and face difficulty in recovering these costs on a current basis" below. As of September 30, 2005, we had incurred $589 million in capital expenditures to comply with these regulations and future capital expenditures may total approximately $226 million between 2005 and 2011. We continue to be challenged by the substantial increase in natural gas prices. Although our natural gas purchases are recoverable from our utility customers, as gas prices increase, the amount we pay for natural gas stored as inventory will require additional liquidity due to the timing of the cost recoveries from

our customers. We anticipate that we will need a substantial amount of cash in the summer of 2006 to purchase storage for natural gas for winter 2006-2007. See "The combined effects of substantially higher natural gas prices, restrictions on Consumers' ability to issue first mortgage bonds and possible power purchase supply cost recovery delays may have a negative effect on Consumers' short-term liquidity" below. In addition, certain mark-to-market effects resulting from high gas prices may negatively affect a coverage ratio in our bank financing facility. We could also be required to make additional cash contributions to our employee pension and benefit plans and become subject to liquidity demands pursuant to commercial commitments under guarantees, indemnities and letters of credit. Management is actively pursuing plans to sell assets. There can be no assurances that this business plan will be successful and failure to achieve its goals could have a material adverse effect on our liquidity and operations.

On August 2, 2005, the IRS issued Revenue Ruling 2005-53 and regulations to provide guidance with respect to the use of the "simplified service cost" method of tax accounting. We use this tax accounting method, generally allowed by the IRS under section 263A of the Internal Revenue Code, with respect to the allocation of certain corporate overheads to the tax basis of self-constructed utility assets. Under the IRS guidance, significant issues with respect to the application of this method remain unresolved. Accordingly, it is difficult to predict the impact of this ruling on future earnings, cash flows or our present net operating loss carryforwards, but it is possible that CMS Energy could pay about $100 million to the IRS to resolve this issue.

We continue to explore financing opportunities to supplement our financial plan. These potential opportunities include: refinancing our bank credit facilities; entering into leasing arrangements and/or vendor financing; refinancing and/or issuing new capital markets debt, preferred stock and/or common equity; and negotiating private placement debt. We cannot guarantee the capital market's acceptance of our securities or predict the impact of factors beyond our control, such as actions of rating agencies. If we are unable to access bank financing or the capital markets to incur or refinance indebtedness, there could be a material adverse effect upon our liquidity and operations.

Standard & Poor's Ratings Group, a division of The McGraw Hill Companies, Inc. ("S&P"), has assigned the Notes a rating of B+, Moody's Investors Service, Inc. ("MOODY'S") has assigned the Notes a rating of B1 and Fitch, Inc. ("FITCH") has assigned the Notes a rating of BB-. We cannot assure you that these credit ratings will remain in effect for any given period of time or that one or more of these ratings will not be lowered or withdrawn entirely by a rating agency. We note that these credit ratings are not recommendations to buy, sell or hold our securities. Each rating should be evaluated independently of any other rating. Any future reduction or withdrawal of one or more of our credit ratings could have a material adverse impact on our ability to access capital on acceptable terms.

Certain of our securities and those of our affiliates, including Consumers, are rated by various credit rating agencies. On November 1, 2005, we announced our third quarter results, which included an impairment of our ownership interest in the MCV Partnership. See "Periodic reviews of the values of our assets could result in additional accounting charges such as the recent asset impairment charges we took relating to our interest in the MCV Partnership" below. As a result, S&P placed CMS' and Consumers' debt credit ratings on CreditWatch with negative implications. S&P has indicated that it expects resolution of the CreditWatch before December 31, 2005. Moody's revised its outlook for Consumers to negative from stable. Moody's ratings and outlook for CMS remained unchanged. Fitch reaffirmed CMS' ratings. On November 7, 2005, Fitch raised CMS' ratings on its senior secured debt to BB+ from BB and on its senior unsecured debt to BB- from B+. Following these rating upgrades, Fitch revised its outlook on CMS to stable from positive. The recent ratings activities by the various

credit rating agencies or potential future credit downgrades could have a material adverse impact on our ability to access capital on acceptable terms and maintain commodity lines of credit and could make our cost of borrowing higher. If we are unable to maintain commodity lines of credit, we may have to post collateral or make prepayments to certain of our suppliers pursuant to existing contracts with them. Further, any adverse developments to Consumers, which provides dividends to us, that result in a lowering of Consumers' credit ratings could have an adverse effect on our credit ratings. We cannot assure you that any of our current ratings or those of our affiliates, including Consumers, will remain in effect for any given period of time or that a rating will not be lowered or withdrawn entirely by a rating agency.

PERIODIC REVIEWS OF THE VALUES OF OUR ASSETS COULD RESULT IN ADDITIONAL ACCOUNTING CHARGES SUCH AS THE RECENT ASSET IMPAIRMENT CHARGES WE TOOK RELATING TO OUR INTEREST IN THE MCV PARTNERSHIP.

We are required by U.S. generally accepted accounting principles to periodically review the carrying value of our assets, including those that may be sold. Market conditions, the operational characteristics of our assets and other factors could result in our recording additional impairment charges for our assets, which could have an adverse effect on our stockholders' equity and our access to additional financing. In addition, we may be required to record impairment charges and foreign currency translation losses at the time we sell assets depending on the sale prices we are able to secure and other factors.

In the third quarter of 2005, we recorded asset impairment charges of $1.184 billion on our consolidated statements of income relating to our interest in the MCV Partnership. These charges reduced our third quarter net income by $385 million.

The MCV Partnership's costs of producing electricity are tied to the price of natural gas, but its revenues do not vary with changes in the price of natural gas. While the average forward price of natural gas has increased steadily from 2002 through the second quarter of 2005, it remained at a level that suggested the MCV Partnership's operating cash flow would be sufficient to provide for the recovery of its assets. However, unforeseen natural and economic events in the third quarter of 2005 caused a substantial upward spike in New York Mercantile Exchange forward natural gas prices for the years 2005 through 2010. Additionally, other independent natural gas long-term forward price forecasting organizations indicated their intention to raise their forecasts for the price of natural gas generally over the entire long-term forecast horizon beyond 2010. Our analysis and assessment of this new information suggests that forward natural gas prices for the period from 2006 through 2010 will average approximately $9 per mcf. This compares to the second quarter 2005 New York Mercantile Exchange-quoted average prices for the same forward period of approximately $7.50 per mcf. Further, this new information indicates that natural gas prices will average approximately $6.50 per mcf over the long term beyond 2010. As a result, the MCV Partnership reevaluated the economics of operating MCV Facility and determined that an impairment analysis, considering revised forward natural gas price assumptions, was required. In its impairment analysis, the MCV Partnership determined the fair value of its fixed assets by discounting a set of probability-weighted streams of future operating cash flows at a 4.3 percent risk free interest rate. The carrying value of the MCV Partnership's fixed assets exceeded the estimated fair value by $1.159 billion. In the third quarter of 2005, the MCV Partnership recorded an impairment charge of $1.159 billion to recognize the reduction in fair value of the MCV Facility's

fixed assets. As a result, our net income was reduced by $369 million after considering tax effects and minority interest. The MCV Partnership's fixed assets, which are included on our consolidated balance sheets and reported under the Enterprises business segment, after reflecting the impairment charge, are valued at $219 million at September 30, 2005.

If natural gas prices remain at present levels or increase, the operations of the MCV Facility would be adversely affected and could result in a further impairment or the MCV Partnership failing to meet its financial obligations under its sale and leaseback transactions and other contracts.

Our 49 percent interest in the MCV Partnership is held through Consumers' wholly-owned subsidiary, CMS Midland, Inc. ("CMS MIDLAND"). The severe adverse change in the anticipated economics of the MCV Partnership operations also led to our decision to impair certain assets carried on the balance sheet of CMS Midland. These assets represented interest capitalized during the construction of the MCV Facility, which were being amortized over the life of the MCV Facility. In the third quarter of 2005, we recorded an impairment charge of $25 million ($16 million, net of tax) to resolve the carrying amount of these assets to zero.

THE COMBINED EFFECTS OF SUBSTANTIALLY HIGHER NATURAL GAS PRICES, RESTRICTIONS ON CONSUMERS' ABILITY TO ISSUE FIRST MORTGAGE BONDS AND POSSIBLE POWER PURCHASE SUPPLY COST RECOVERY DELAYS MAY HAVE A NEGATIVE EFFECT ON CONSUMERS' SHORT-TERM LIQUIDITY.

Prior to Hurricane Katrina in August 2005, New York Mercantile Exchange forward natural gas prices through 2010 were approximately $2 per mcf higher than they were at year-end 2004. The effects of this summer's hurricanes, combined with tight natural gas supplies, have caused natural gas prices to increase even further. Although our natural gas purchases are recoverable from our utility customers, as gas prices increase, the amount we pay for natural gas stored as inventory will



require additional liquidity due to the timing of the cost recoveries from our customers. In addition, due to the high natural gas prices, our ability to collect accounts receivable from our gas customers may be negatively impacted. As of October 2005, our gas storage facilities were full and approximately 83 percent of our gas purchase requirements for the 2005-2006 heating season were under fixed price contracts. However, if natural gas prices increase or stay at current levels, we will require significant additional liquidity in the summer of 2006 to fill our gas storage facilities in preparation for the 2006-2007 heating season.

Due to the adverse impact of the MCV Partnership asset impairment charge recorded in September 2005, Consumers' ability to issue first mortgage bonds as primary obligations or as collateral for financing is expected to be limited to $298 million for 12 months, ending September 30, 2006. First mortgage bonds have been a primary source of financing for Consumers. Beyond 12 months, Consumers' ability to issue first mortgage bonds in excess of $298 million is based on achieving a two-times first mortgage bonds interest coverage ratio.

Consumers is entitled to recover its reasonably and prudently incurred power supply costs pursuant to a power supply cost recovery ("PSCR") process. In September 2005, Consumers submitted its 2006 PSCR plan filing to the MPSC. In the absence of MPSC action, Consumers intended to self-implement the filed PSCR factor commencing January 2006, as it is entitled to do pursuant to statute. On

November 10, 2005, the MPSC established an expedited hearing procedure to consider whether to issue a temporary order limiting the PSCR factor. The MPSC staff has filed a proposal in the expedited hearing that, if adopted by the MPSC, would reduce the PSCR factor billed to customers in January 2006 and therefore defer recovery of a portion of the anticipated costs to later in 2006 or 2007. We are unable to predict the outcome of this matter.

As of December 5, 2005, Consumers' borrowings under their revolving credit facility, which expires May 18, 2010, have increased by $175 million since September 30, 2005. This increase in short-term borrowing is typical this time of year given the need to purchase storage natural gas for the winter heating season. CMS currently intends to make a loan to Consumers of $250 million before December 31, 2005 to pay down these short-term borrowings and bolster Consumers' short-term liquidity. However, the combined effects of higher natural gas prices, restrictions on Consumers' ability to issue first mortgage bonds, possible PSCR recovery delays and any ratings downgrades at Consumers may have a negative effect on Consumers' short-term liquidity.

WE MAY BE ADVERSELY AFFECTED BY REGULATORY INVESTIGATIONS AND A LAWSUIT REGARDING "ROUND TRIP" TRADING BY ONE OF OUR SUBSIDIARIES AS WELL AS CIVIL LAWSUITS REGARDING PRICING INFORMATION THAT TWO OF OUR AFFILIATES PROVIDED TO MARKET PUBLICATIONS.

As a result of round trip trading transactions at CMS MST, we are under investigation by the DOJ. We have received subpoenas from U.S. Attorneys' Offices regarding investigations of those trades. CMS Energy and Consumers have also been named in numerous securities class action lawsuits by individuals who allege that they purchased CMS Energy securities during a purported class period. These complaints generally seek unspecified damages based on allegations that the defendants violated United States securities laws and regulations by making allegedly false and misleading statements about our business and financial condition. The cases have been consolidated into a single lawsuit. The consolidated lawsuit generally seeks unspecified damages based on allegations that the defendants violated United States securities laws and regulations by making allegedly false and misleading statements about CMS Energy's business and financial condition, particularly with respect to revenues and expenses recorded in connection with round trip trading by CMS MST. In January 2005, a motion was granted dismissing Consumers and three of the individual defendants, but the court denied the motions to dismiss for CMS Energy and the 13 remaining individual defendants. Plaintiffs filed a motion for class certification on April 15, 2005 and an amended motion for class certification on June 20, 2005. On November 29, 2005, the court denied a further motion to dismiss filed by CMS Energy and dismissed a motion by the plaintiffs for partial summary judgment.

In March 2004, the SEC approved a cease-and-desist order settling an administrative action against us relating to round trip trading. The order did not assess a fine and we neither admitted nor denied the order's findings.

We have notified appropriate regulatory and governmental agencies that some employees at CMS MST and CMS Field Services, Inc. (now Cantera Gas Company) ("CMS FIELD SERVICES") appeared to have provided inaccurate information regarding natural gas trades to various energy industry publications which compile and report index prices. CMS Energy is cooperating with an ongoing investigation by the DOJ regarding this matter. On November 25, 2003, the Commodity Futures Trading Commission ("CFTC") issued a settlement order regarding this matter. CMS MST and CMS Field Services, Inc. agreed to pay a fine to the CFTC totaling $16 million. CMS Energy neither admitted nor denied the findings of the CFTC in the settlement order. The CFTC filed a civil injunctive action against two former CMS Field Services employees in Oklahoma federal district court on February 1, 2005. The action alleges the two engaged in reporting false natural gas trade information, and the action seeks to enjoin such acts, compel compliance with the Commodities Exchange Act and impose

monetary penalties.



We have also been named as a defendant in a number of gas industry civil lawsuits regarding inaccurate gas trade reporting that include claims alleging manipulation of New York Mercantile Exchange natural gas futures and options prices, price-fixing conspiracies and artificial inflation of natural gas retail prices in California, Kansas and Tennessee.

We cannot predict the outcome of the DOJ investigations and the lawsuits. It is possible that the outcome in one or more of the investigations or the lawsuits could adversely affect our financial condition, liquidity or results of operations.

WE MAY BE NEGATIVELY IMPACTED BY THE RESULTS OF AN EMPLOYEE BENEFIT PLAN LAWSUIT.

We are a defendant, along with Consumers, CMS MST and certain named and unnamed officers and directors, in two lawsuits brought as purported class actions on behalf of participants and beneficiaries of our 401(k) plan. The two cases, filed in July 2002 in the United States District Court for the Eastern District of Michigan, were consolidated by the trial judge and an amended and consolidated complaint has been filed. Plaintiffs allege breaches of fiduciary duties under the Employee Retirement Income Security Act of 1974 ("ERISA") and seek restitution on behalf of the plan with respect to a decline in value of the shares of our common stock held in the plan. The plaintiffs also seek other equitable relief and legal fees. In March 2004, the judge granted in part, but denied in part, CMS Energy's motion to dismiss the complaint. The judge has conditionally granted plaintiffs' motion for class certification. A trial date has not been set, but is expected to be no earlier than mid-2006.

We cannot predict the outcome of the ERISA litigation and it is possible that an adverse outcome in this lawsuit could adversely affect our financial condition, liquidity or results of operations.

WE CANNOT PREDICT THE OUTCOME OF CLAIMS REGARDING OUR PARTICIPATION IN THE DEVELOPMENT OF BAY HARBOR OR OTHER LITIGATION IN WHICH SUBSTANTIAL MONETARY CLAIMS ARE INVOLVED.

Certain subsidiaries of CMS Energy participated in the development of Bay Harbor, a residential/commercial real estate project developed on the site of a discontinued cement plant and quarry operation near Petoskey, Michigan ("BAY HARBOR"). As part of the development of Bay Harbor which went forward under an agreement with the Michigan Department of Environmental Quality ("MDEQ"), a third party constructed a golf course over several abandoned cement kiln dust ("CKD") piles, leftover from the former cement plant operation on the Bay Harbor site. Pursuant to the agreement with the MDEQ, CMS Energy constructed a water collection system to recover seep water from one of the CKD piles. In 2002, CMS Energy sold its interest in Bay Harbor, but retained its obligations under previous environmental indemnifications entered into at the inception of the project.

In September 2004, the MDEQ issued a notice of noncompliance ("NON"), after finding high pH-seep water in Lake Michigan adjacent to the property. The MDEQ also found higher than acceptable levels of heavy metals, including mercury, in the seep water.

In February 2005, the U.S. Environmental Protection Agency ("EPA") executed

an Administrative Order on Consent ("AOC") to address problems at Bay Harbor, upon the consent of CMS Land Company, a subsidiary of Enterprises ("CMS LAND"), and CMS Capital, LLC, a subsidiary of CMS Energy. Under the AOC, CMS Energy is generally obligated, among other things, to: (i) engage in measures to restrict access to seep areas, install methods to interrupt the flow of seep water to Lake Michigan, and take other measures as may be required by the EPA under an approved "removal action work plan"; (ii) investigate and study the extent of hazardous substances at the site, evaluate alternatives to address a long-term remedy, and issue a report of the investigation and study; and (iii) within 120 days after EPA approval of the investigation report, enter into an enforceable agreement with the MDEQ to address a long-term remedy under certain criteria set forth in the AOC. The EPA approved a final removal action work plan in September 2005.

The EPA-approved removal action work plan provides for fencing of affected beach-front areas and the installation of an underground leachate collection system, among other elements. The EPA's approvals also specify that a backup "containment and isolation system," involving dams or barriers in the lake, could be required in certain areas, if the collection system is ineffective.

Several parties have issued demand letters to CMS Energy claiming breach of the indemnification provisions, making requests for payment of their expenses related to the NON and/or claiming damages to property or personal injury with regard to the matter. Several landowners have threatened litigation in the event their demands are not met and owners of one parcel have filed a lawsuit in Emmet County Circuit Court against CMS Energy and several of its subsidiaries, as well as Bay Harbor Company LLC and David Johnson, one of the developers at Bay Harbor. CMS Energy responded to the indemnification claims by stating that it had not breached its indemnity obligations, it will comply with the indemnities, it has restarted the seep water collection facility and it has responded to the NON. CMS Energy has entered into negotiations with several landowners at Bay Harbor for access as necessary to implement remediation measures, and will defend vigorously any property damage and personal injury claims or lawsuits.



On November 18, 2005, the MDEQ issued a notice of violation and escalated enforcement action under Part 31 of Michigan's Natural Resources and Environmental Protection Act, relating to a release of CKD leachate that accidentally occurred during the construction of a leachate collection system being installed by CMS Land in order to meet the terms of the AOC. The MDEQ's enforcement activity could include a civil penalty. CMS Land will vigorously defend the claimed notice of violation. In addition, there are indications that CKD may be located on the beach at the west end of the collection system installation. As a result, construction in the affected area has been halted pending further investigation.

CMS Energy recorded a liability for its obligations associated with this matter in the amount of $45 million in the fourth quarter of 2004. Under the AOC, CMS Land is presently conducting a remedial investigation of the site, which includes the gathering and analysis of data to be utilized in arriving at a permanent fix. CMS Energy is in the process of evaluating the effect of recent construction events and site-related data on its cost projections and reserves for this matter. An adverse outcome of this matter could, depending on the amount of any indemnification obligation or liability under the environmental laws, result in an increase in the recorded liability, have a potentially significant adverse effect on CMS Energy's financial condition and liquidity and negatively impact CMS Energy's financial results. CMS Energy cannot predict the ultimate cost or outcome of this matter.

In addition to the litigation and proceedings discussed above, CMS Energy or various of our subsidiaries are parties in other pending litigation in which substantial monetary damages are sought. These proceedings, certain of which are described in CMS Energy's Annual Report on Form 10-K/A (Amendment No. 1) for the year ended December 31, 2004 -- Notes to Consolidated Financial Statements -- Note 3, include arbitration and litigation relating to DIG. An adverse outcome in one or more of these cases could, depending on the timing and size of any award and the availability of insurance or reimbursement from third parties, have an adverse effect on our financial condition, liquidity or results of operations.

REGULATORY CHANGES AND OTHER DEVELOPMENTS HAVE RESULTED AND WILL CONTINUE TO RESULT IN INCREASED COMPETITION IN OUR DOMESTIC ENERGY BUSINESS. GENERALLY, INCREASED COMPETITION THREATENS OUR MARKET SHARE IN CERTAIN SEGMENTS OF OUR BUSINESS AND CAN REDUCE OUR PROFITABILITY.

Consumers has in the last several years experienced, and expects to continue to experience, a significant increase in competition for generation services with the introduction of retail open access in the State of Michigan. Pursuant to the Customer Choice Act, as of January 1, 2002, all electric customers have the choice of buying electric generation service from an alternative electric supplier. As of October 2005, we had lost 754 MW of our electric generation business to these alternative electric suppliers. This is, however, down from 877 MW in October 2004, a decrease of 14 percent. We expect this trend down to continue through the end of 2005. We cannot predict the total amount of electric supply load that we may lose to competitor suppliers in the future.

ELECTRIC INDUSTRY REGULATION COULD ADVERSELY AFFECT OUR BUSINESS, INCLUDING OUR ABILITY TO RECOVER OUR COSTS FROM OUR CUSTOMERS.

Federal and state regulation of electric utilities has changed dramatically in the last two decades and could continue to change over the next several years. These changes could adversely affect our business, financial condition and profitability.

In June 2000, the Michigan Legislature enacted the Customer Choice Act that became effective June 5, 2000. Pursuant to the Customer Choice Act, residential rates were reduced by five percent and then capped through at least December 31, 2005. Ultimately, the rate cap could extend until December 31, 2013 depending upon whether or not Consumers exceeds the market power supply test established by the legislation (a requirement that Consumers believes itself to be in compliance with at this time). Under circumstances specified in the Customer Choice Act, certain costs can be deferred for future recovery after the expiration of the rate cap period. The rate cap could, however, result in Consumers being unable to collect customer rates sufficient to recover fully its cost of conducting business. Some of these costs may be beyond Consumers' ability to control. In particular, if Consumers needs to purchase power supply from wholesale suppliers during the period when retail rates are frozen or capped, the rate restrictions imposed by the Customer Choice Act may make it impossible for Consumers to recover fully the cost of purchased power and associated transmission costs through the rates it charges its customers. As a result, it is not certain that Consumers can maintain its profit margins in its electric utility business during the period of the rate freeze or rate cap.

Consumers filed an electric rate case with the MPSC in December 2004 for approximately $320 million in rate increases. The primary reasons for the request are load migration to alternative electric suppliers, increased system maintenance and improvement costs, Clean Air Act-related expenditures and employee pension costs. In April 2005, Consumers filed updated debt and equity information in this case.

In June 2005, the MPSC staff filed its position in this case, recommending a base rate increase of $98 million. The MPSC staff also recommended an 11.25 percent return on equity to establish rates and recognized all of our projected equity



investment (infusions and retained earnings) in 2006. In August 2005, Consumers revised its request for an annual increase in revenues to approximately $197 million, and the MPSC staff revised its recommendation to $100 million. In October 2005, the administrative law judge issued a proposal for decision recommending a base rate increase of $112 million and an 11.25 percent authorized return on equity. On November 15, 2005, the MPSC staff recommended in its Replies to Exceptions that no adjustment be made to the case as a result of the MCV impairment. See "As a result of the impairment of our interest in the MCV Partnership, the amount of equity investment used for rate making purposes included in Consumers' electric and gas rate cases could be reduced by the MPSC, thereby reducing revenues to Consumers which could ultimately affect dividends to CMS" below. The MPSC staff also stated that an evaluation of the total impact of the MCV project on the cost of capital and capital could be determined in the next Consumers rate making proceeding. We expect a final order from the MPSC in late 2005. If approved as requested, the rate increase would go into effect in January 2006 and would apply to all retail electric customers. We cannot predict the amount or timing of the rate increase, if any, which the MPSC will approve.

There are multiple proceedings pending before the Federal Energy Regulatory Commission ("FERC") involving transmission rates, regional transmission organizations and electric bulk power markets and transmission. FERC is also reviewing the standards under which electric utilities are allowed to participate in wholesale power markets without price restrictions. We cannot predict the impact of these electric industry-restructuring proceedings on our financial position, liquidity or results of operations.

OUR ABILITY TO RECOVER CERTAIN REGULATORY ASSETS UNDER SECTION 10(D)(4) OF THE CUSTOMER CHOICE ACT MAY AFFECT OUR FINANCIAL RESULTS.

Section 10(d)(4) of the Customer Choice Act allows Consumers to recover certain regulatory assets through deferred recovery of annual capital expenditures in excess of depreciation levels and certain other expenses incurred prior to and throughout the rate freeze and rate cap periods, including the cost of money. See "Electric industry regulation could adversely affect our business, including our ability to recover our costs from our customers." In October 2004, Consumers filed an application with the MPSC seeking recovery of $628 million in costs from 2000 through 2005 under Section 10(d)(4) consisting of:

- capital expenditures in excess of depreciation;
- Clean Air Act costs;
- other expenses related to changes in law or governmental action incurred during the rate freeze and rate cap periods; and
- the associated cost of money through the period of collection.

Of the $628 million, $152 million relates to the cost of money.

As allowed by the Customer Choice Act, Consumers accrues and defers for

recovery a portion of its Section 10(d)(4) regulatory assets. In March 2005, the MPSC staff filed testimony recommending that the MPSC approve recovery of approximately $323 million in Section 10(d)(4) costs, which includes the cost of money through the period of collection. In June 2005, the administrative law judge issued a proposal for decision recommending that the MPSC approve recovery of the same Section 10(d)(4) costs recommended by the MPSC staff. However, Consumers may have the opportunity to recover certain costs included in its application alternatively in other cases pending before the MPSC. We cannot predict the amount, if any, the MPSC will approve as recoverable, and failure to recover these regulatory assets could adversely affect our financial condition. At September 30, 2005, total recorded Section 10(d)(4) regulatory assets were $201 million.

WE COULD INCUR SIGNIFICANT CAPITAL EXPENDITURES TO COMPLY WITH ENVIRONMENTAL STANDARDS AND FACE DIFFICULTY IN RECOVERING THESE COSTS ON A CURRENT BASIS.

We and our subsidiaries are subject to costly and increasingly stringent environmental regulations. We expect that the cost of future environmental compliance, especially compliance with clean air and water laws, will be significant.

In 1998, the EPA issued regulations requiring the State of Michigan to further limit nitrogen oxide emissions at our coal-fired electric plants. The EPA and the State of Michigan regulations require us to make significant capital expenditures estimated to be $815 million. As of September 30, 2005, Consumers has incurred $589 million in capital expenditures to comply with the EPA regulations and anticipates that the remaining $226 million of capital expenditures will be incurred between 2005 and 2011. These expenditures include installing selective catalytic reduction control technology at four of Consumers' coal-fired electric plants. In addition to modifying the coal-fired electric plants, Consumers expects to utilize nitrogen oxide emissions allowances for the years 2006 through 2008, of which 90 percent have been obtained. The cost of the allowances is estimated to average $5 million per year for 2006 through 2008. The estimated costs are based on the average cost of the purchased, allocated and exchanged allowances. The need for allowances will decrease after 2006 with the installation of selective catalytic reduction control technology.



Based on the Customer Choice Act, beginning January 2004 an annual return of and on these types of capital expenditures, to the extent they are above depreciation levels, subject to an MPSC prudency hearing, shall be accrued and deferred for recovery. After notice and hearing, the MPSC shall determine the amount of reasonable and prudent costs, if any, to be recovered and the recovery period.

The EPA recently adopted the Clean Air Interstate Rule that requires additional coal-fired electric plant emission controls for nitrogen oxides and sulfur dioxide. The rule includes a two-phase program to reduce emissions of sulfur dioxide by 71 percent and nitrogen oxides by 63 percent by 2015.

In May 2005, the EPA issued the Clean Air Mercury Rule, which requires initial reductions of mercury emissions from coal-fired electric power plants by 2010 and further reductions by 2018. While the industry has not reached a consensus on the technical methods for curtailing mercury emissions, Consumers' capital and operating costs for mercury emissions reductions are expected to be significantly less than what is required for nitrogen oxide compliance.

In August 2005, the MDEQ filed a motion to intervene in a court challenge to certain aspects of the EPA's Clean Air Mercury Rule, asserting that the rule is inadequate. The MDEQ has not indicated the direction that it will pursue to meet or exceed the EPA requirements through a state rulemaking. We are actively participating in dialogue with the MDEQ regarding potential paths for controlling mercury emissions and meeting the EPA requirements. In October 2005, the EPA announced it would reconsider certain aspects of the Clean Air Mercury Rule. We cannot predict the outcome of this proceeding.

These and other required environmental expenditures, if not recovered from customers in Consumers' rates, may require us to seek significant additional financing to fund such expenditures and could strain our cash resources.

AS A RESULT OF THE IMPAIRMENT OF OUR INTEREST IN THE MCV PARTNERSHIP, THE AMOUNT OF EQUITY INVESTMENT USED FOR RATE MAKING PURPOSES INCLUDED IN CONSUMERS' ELECTRIC AND GAS RATE CASES COULD BE REDUCED BY THE MPSC, THEREBY REDUCING REVENUES TO CONSUMERS WHICH COULD ULTIMATELY AFFECT DIVIDENDS TO CMS.

The impairment of the MCV Partnership resulted in a charge of $1.159 billion to recognize the reduction of the fair value of the MCV Facility, thereby reducing the equity of Consumers. See "Periodic reviews of the values of our assets could result in additional accounting charges such as the recent asset impairment charges we took relating to our interest in the MCV Partnership" above. Consumers' equity base is used to establish its rates. As a result, it is possible that Consumers may have to reduce the amount of equity investment included in its electric and gas rate cases. This would reduce revenues to Consumers and would negatively impact its ability to pay us dividends. On November 15, 2005, the MPSC staff recommended in its Replies to Exceptions in Consumers' current electric rate case that no adjustment be made to the case as a result of the MCV impairment. The MPSC staff also stated that an evaluation of the total impact of the MCV project on the cost of capital and capital could be determined in the next Consumers rate making proceeding. We cannot predict the amount, if any, of such reduction.

WE RETAIN CONTINGENT LIABILITIES IN CONNECTION WITH OUR ASSET SALES.

The agreements we enter into for the sale of assets customarily include provisions whereby we are required to:

- retain specified preexisting liabilities such as for taxes and pensions;

- indemnify the buyers against specified risks, including the inaccuracy of representations and warranties we make; and

- require payments to the buyers depending on the outcome of post-closing adjustments, audits or other reviews.

Many of these contingent liabilities can remain open for extended periods of time after the sales are closed. Depending on the extent to which the buyers may ultimately seek to enforce their rights under these contractual provisions, and the resolution of any disputes we may have concerning them, these liabilities could have a material adverse effect on our financial condition, liquidity and results of operations.

We have received a request for indemnification from the purchaser of CMS Oil and Gas Company, a former subsidiary of CMS. The indemnification claim relates to the sale by CMS of its oil, gas and methanol projects in Equatorial Guinea and the claim of the government of Equatorial Guinea that $142 million in taxes is owed it in connection with that sale. Based on information currently available, CMS and its tax advisors have concluded that the government's tax

claim is without merit and the purchaser of CMS Oil and Gas Company has submitted a response to the government rejecting the claim. An adverse outcome of this claim could have a material adverse effect on our financial condition, liquidity and results of operations.



OUR REVENUES AND RESULTS OF OPERATIONS ARE SUBJECT TO RISKS THAT ARE BEYOND OUR CONTROL, INCLUDING BUT NOT LIMITED TO FUTURE TERRORIST ATTACKS OR RELATED ACTS OF WAR.

The cost of repairing damage to our facilities due to storms, natural disasters, wars, terrorist acts and other catastrophic events, in excess of reserves established for such repairs, may adversely impact our results of operations, financial condition and cash flows. The occurrence or risk of occurrence of future terrorist activity and the high cost or potential unavailability of insurance to cover such terrorist activity may impact our results of operations and financial condition in unpredictable ways. These actions could also result in disruptions of power and fuel markets. In addition, our natural gas distribution system and pipelines could be directly or indirectly harmed by future terrorist activity.

WE HAVE MADE SUBSTANTIAL INTERNATIONAL INVESTMENTS THAT ARE SUBJECT TO POSSIBLE NATIONALIZATION, EXPROPRIATION OR INABILITY TO CONVERT CURRENCY.

Our investments in selected international markets in electric generating facilities, natural gas pipelines and electric distribution systems face a number of risks inherent in acquiring, developing and owning these types of international facilities. Although we maintain insurance for various risk exposures, including political risk from possible nationalization, expropriation or inability to convert currency, we are exposed to some risks that include local political and economic factors over which we have no control, such as changes in foreign governmental and regulatory policies (including changes in industrial regulation and control and changes in taxation), changing political conditions and international monetary fluctuations. In some cases an investment may have to be abandoned or disposed of at a loss. These factors could significantly adversely affect the financial results of the affected subsidiary and our financial position and results of operations.

International investments of the type we have made are subject to the risk that they may be expropriated or that the required agreements, licenses, permits and other approvals may be changed or terminated in violation of their terms. These kinds of changes could result in a partial or total loss of our investment.

The local foreign currency may be devalued, the conversion of the currency may be restricted or prohibited or other actions, such as increases in taxes, royalties or import duties, may be taken which adversely affect the value and the recovery of our investment.

OUR OWNERSHIP OF A NUCLEAR GENERATING FACILITY CREATES RISK RELATING TO NUCLEAR ENERGY.

Consumers owns the Palisades nuclear power plant and we are, therefore, subject to the risks of nuclear generation, including the risks associated with the operation of plant facilities and the storage and disposal of spent fuel and other radioactive waste. The Nuclear Regulatory Commission ("NRC") has broad authority under federal law to impose licensing and safety-related requirements for the operation of nuclear generation facilities. In the event of

non-compliance, the NRC has the authority to impose fines or shut down a unit, or both, depending upon its assessment of the severity of the situation, until compliance is achieved. In addition, although we have no reason to anticipate a serious nuclear incident at Consumers' plant, if an incident did occur, it could harm our results of operations and financial condition. A major incident at a nuclear facility anywhere in the world could cause the NRC to limit or prohibit the operation or licensing of any domestic nuclear unit.

CONSUMERS CURRENTLY UNDERRECOVERS IN ITS RATES ITS PAYMENTS TO THE MCV PARTNERSHIP FOR CAPACITY AND ENERGY, AND IS ALSO EXPOSED TO FUTURE CHANGES IN THE MCV PARTNERSHIP'S FINANCIAL CONDITION THROUGH ITS EQUITY AND LESSOR INVESTMENTS.

Consumers' power purchase agreement with the MCV Partnership ("PPA") expires in 2025. We estimate that Consumers will incur estimated cash underrecoveries of payments under the PPA aggregating $150 million through 2007. For availability payments billed by the MCV Partnership after September 15, 2007, and not recovered from customers, Consumers would expect to claim a "regulatory out" under the PPA which Consumers believes it has the right to do after satisfying its obligation to "support and defend" full recovery of PPA charges from customers. The MCV Partnership has indicated that it may take issue with our exercise of the regulatory out clause after September 2007. The effect of exercise of the regulatory out clause would be to reduce cash flow to the MCV Partnership, which could in turn have an adverse effect on Consumers' equity and lessor interests in the MCV Facility.

Further, under the PPA, energy payments to the MCV Partnership are based on the cost of coal burned at Consumers' coal plants and costs associated with fuel inventory, operations and maintenance, and administrative and general expenses associated with Consumers' coal plants. However, the MCV Partnership's costs of producing electricity are tied, in large part, to the cost of natural gas. Natural gas prices have increased substantially in recent years and throughout 2005. In the third quarter of 2005, the MCV Partnership reevaluated the economics of operating the MCV Facility and determined that an impairment was required. For additional details on the impairment of the MCV Facility, see "Periodic reviews of the values of our assets could result in additional accounting charges such as the recent asset impairment charges we took relating to our



interest in the MCV Partnership" above. We are currently in discussions with our partners and certain owner participants to develop a new long-term strategy with respect to the MCV Facility. If we are not ultimately successful in developing a new long-term strategy we may have to take a further impairment charge of our equity or lessor interest in the MCV Facility. We cannot predict the success of our ability to develop such a strategy and our failure to do so may have an adverse effect on our financial condition, liquidity and results of operation.

In January 2005, the MPSC issued an order approving the Resource Conservation Plan (the "RCP"), with modifications. The RCP allows us to recover the same amount of capacity and fixed energy charges from customers as approved in prior MPSC orders. However, we are able to dispatch the MCV Facility on the basis of natural gas market prices, which reduces the MCV Facility's annual production of electricity and, as a result, reduces the MCV Facility's consumption of natural gas by an estimated 30 to 40 bcf annually. This decrease in the quantity of high-priced natural gas consumed by the MCV Facility will benefit our ownership interest in the MCV Partnership.

The substantial MCV Facility fuel cost savings are first used to offset fully the cost of replacement power. Second, $5 million annually, funded jointly by Consumers and the MCV Partnership, are contributed to our Renewable Resources Program. Remaining savings are split between the MCV Partnership and Consumers. Consumers' direct savings are shared 50 percent with its customers in 2005 and 70 percent in 2006 and beyond. Consumers' direct savings from the RCP, after allocating a portion to customers, are used to offset our capacity and fixed energy underrecoveries expense. Since the MPSC has excluded these underrecoveries from the rate making process, we anticipate that our savings from the RCP will not affect our return on equity used in our base rate filings.

In January 2005, Consumers and the MCV Partnership's general partners accepted the terms of the order and implemented the RCP. The underlying agreement for the RCP between Consumers and the MCV Partnership extends through the term of the MCV PPA. However, either party may terminate that agreement under certain conditions. In February 2005, a group of intervenors in the RCP case filed for rehearing of the MPSC order. The Attorney General also filed an appeal with the Michigan Court of Appeals. We cannot predict the outcome of these matters.

We cannot estimate, at this time, the impact of these issues on Consumers' future earnings or cash flow from its interest in the MCV Partnership. Our ability to develop a new long-term strategy with respect to the MCV Facility, the future price of natural gas and the MPSC decision in 2007 or later related to Consumers' recovery of capacity payments are the three most significant variables in the analysis of the MCV Partnership's future financial performance. It is not presently possible for us to predict the success of our ability to develop a new long-term strategy with respect to the MCV Facility, the future price of natural gas, or the actions of the MPSC in 2007 or later. For these reasons, at this time we cannot predict the impact of these issues on Consumers' future earnings or cash flows or on the value of its equity interest in the MCV Partnership and our lessor interest in the FMLP.

CONSUMERS' ENERGY RISK MANAGEMENT STRATEGIES MAY NOT BE EFFECTIVE IN MANAGING FUEL AND ELECTRICITY PRICING RISKS, WHICH COULD RESULT IN UNANTICIPATED LIABILITIES TO CONSUMERS OR INCREASED VOLATILITY OF ITS EARNINGS.

Consumers is exposed to changes in market prices for natural gas, coal, electricity and emission credits. Prices for natural gas, coal, electricity and emission credits may fluctuate substantially over relatively short periods of time and expose Consumers to commodity price risk. A substantial portion of Consumers' operating expenses for its plants consists of the costs of obtaining these commodities. Consumers manages these risks using established policies and procedures, and it may use various contracts to manage these risks, including swaps, options, futures and forward contracts. We cannot assure you that these strategies will be successful in managing Consumers' pricing risk, or that they will not result in net liabilities to Consumers as a result of future volatility in these markets.

Natural gas prices in particular have historically been volatile. To manage market risks associated with the volatility of natural gas prices, the MCV Partnership maintains a gas hedging program. The MCV Partnership enters into natural gas futures contracts, option contracts and over-the-counter swap transactions in order to hedge against unfavorable changes in the market price of natural gas in future months when gas is expected to be needed. These financial instruments are being used principally to secure anticipated natural gas requirements necessary for projected electric and steam sales, and to lock in sales prices of natural gas previously obtained in order to optimize the MCV Partnership's existing gas supply, storage and transportation arrangements. Consumers also routinely enters into contracts to offset its positions, such as hedging exposure to the risks of demand, market effects of weather and changes in commodity prices associated with its gas distribution business. Such

positions are taken in conjunction with the gas cost recovery mechanism, which allows Consumers to recover prudently incurred costs associated with such positions. However, neither Consumers nor the MCV Partnership always hedges the entire exposure of its operations from commodity price volatility. Furthermore, the ability to hedge exposure to commodity price volatility depends on liquid commodity markets. As a result, to the extent the commodity markets are illiquid, Consumers may not be able to execute its risk management strategies, which could result in greater open positions than we would prefer at a



given time. To the extent that open positions exist, fluctuating commodity prices can improve or diminish our financial results and financial position.

In addition, Consumers currently has a power supply cost recovery mechanism to recover the increased cost of fuel used to generate electricity from its industrial and large commercial customers, but not from its residential or small commercial customers. Therefore, to the extent that Consumers has not hedged its fuel costs and to the extent fuel for its electric generating facilities must be purchased on the open market in order for Consumers to serve its residential and small commercial customers, Consumers is exposed to changes in fuel prices.

RISKS RELATED TO THE NOTES

WE MAY BE UNABLE TO RAISE THE FUNDS NECESSARY TO PURCHASE NOTES UPON A CHANGE IN CONTROL.

In the event of a Change in Control of CMS Energy, each Holder of Notes may require us to purchase all or a portion of its Notes at a purchase price equal to 101% of the principal amount thereof, plus accrued interest. Our ability to purchase the Notes will be limited by the terms of our other debt agreements and our ability to finance the purchase. It is expected that we will issue additional debt with similar change of control provisions in the future. If this occurs, the financial requirements for any purchases could be increased significantly. In addition, the terms of any debt securities issued to purchase debt under these change of control provisions may be unfavorable to us. We cannot assure Holders of Notes that we will be able to finance these purchase obligations or obtain consents to do so from Holders of Notes under other debt agreements restricting these purchases.

WE CANNOT ASSURE YOU THAT AN ACTIVE TRADING MARKET WILL DEVELOP FOR THE NOTES.

The Notes are a new issue of securities for which there currently is no active trading market. As we do not intend to apply to list the Notes for trading on any national securities exchange or to include the Notes in any automated quotation system, we cannot assure you that an active trading market for the Notes will develop or as to the liquidity or sustainability of any such market, the ability of the Holders to sell their Notes or the price at which Holders of the Notes will be able to sell their Notes. Future trading prices of the Notes will also depend on many other factors, including, among other things, prevailing interest rates, the market for similar securities, our performance and other factors. We do not intend to apply for listing of the Notes on any securities exchange or any automated quotation system.

## USE OF PROCEEDS

We estimate that the proceeds of the offering of the Notes, after deducting underwriters' discounts and commissions and offering expenses, will aggregate approximately $ million. We intend to use all of the proceeds of this offering to extinguish obligations of approximately $109 million under one of our gas supply contracts (for which we expect to pay approximately $118 million), to pay expenses incurred in paying down the obligations under such contract and for general corporate purposes. If the closing of the extinguishment of the gas supply contract does not occur for any reason, we intend to use the proceeds of this offering for general corporate purposes, which may include retiring debt or making capital infusions into Consumers.

## RATIO OF EARNINGS TO FIXED CHARGES

The ratio of earnings to fixed charges for the nine months ended September 30, 2005 and each of the years ended December 31, 2000 through 2004 is as follows:

| | NINE MONTHS ENDED SEPTEMBER 30, 2005 | YEAR ENDED DECEMBER 31, | | | | |
|---|---|---|---|---|---|---|
| | | 2004 | 2003 | 2002 | 2001 | 200 |
| Ratio of earnings to fixed charges.... | --(1) | 1.12 | --(2) | --(3) | --(4) | --(5 |

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(1) For the nine months ended September 30, 2005, fixed charges exceeded earnings by $601 million. Earnings as defined include $1.184 billion of asset impairment charges.

(2) For the year ended December 31, 2003, fixed charges exceeded earnings by $34 million. Earnings as defined include $95 million of asset impairment charges.

(3) For the year ended December 31, 2002, fixed charges exceeded earnings by $488 million. Earnings as defined include $602 million of asset impairment charges.

(4) For the year ended December 31, 2001, fixed charges exceeded earnings by $395 million. Earnings as defined include $323 million of asset impairment charges.

(5) For the year ended December 31, 2000, fixed charges exceeded earnings by $220 million. Earnings as defined include $329 million of asset impairment charges.

For the purpose of computing the ratio, earnings represent income before income taxes, net interest charges and the estimated interest portion of lease rentals and distributed income of equity method investees.



## CAPITALIZATION

The following table sets forth our capitalization as of September 30, 2005 on an actual basis and as adjusted to reflect the sale of Notes in this offering and the application of the net proceeds as described under "Use of Proceeds" assuming that such net proceeds are applied to extinguish obligations under one of our gas supply contracts as described therein. This table should be read in conjunction with our consolidated financial statements and related notes and other financial information also incorporated by reference in this prospectus supplement. See "Where You Can Find More Information."

| | AT SEPTEMBER 30, 2005 | |
|---|---|---|
| | ACTUAL | AS ADJUSTED FOR THIS OFFERING |
| | (UNAUDITED, DOLLARS IN MILLIONS) | |
| Current portion of long-term debt, capital and finance leases, and long-term debt-related parties | $ 441 | $ 441 |
| Non-current portion of capital and finance lease obligations | $ 299 | $ 299 |
| Long-term debt: | | |
| % Senior Notes due 2015 (a) | -- | 125 |
| Other long-term debt (excluding current portion) | 6,521 | 6,521 |
| Long-term debt -- related parties | 178 | 178 |
| Preferred stock | 261 | 261 |
| Preferred stock of subsidiary | 44 | 44 |
| Common stockholders' equity (b) | 2,311 | 2,304 |
| Total capitalization | $9,614 | $9,732 |

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(a) Proceeds from this offering are expected to be used to pay down $114 million, as of September 30, 2005, of current and non-current gas contract supply obligations under one gas supply contract as described in "Use of Proceeds." However, during the period between September 30, 2005 and November 30, 2005, we provided gas pursuant to that gas supply contract. As a result, the current and non-current gas contract supply obligations as of November 30, 2005 were $109 million. Any remaining proceeds of the offering will be used for expenses incurred in paying down that gas supply contract. If we do not use the proceeds to extinguish that gas supply contract as discussed in "Use of Proceeds," we will use the proceeds for general corporate purposes, which may include retiring debt or making capital infusions into Consumers.

(b) Reflects the estimated net loss of approximately $6.5 million on the buyout of one of our gas supply contracts.



DESCRIPTION OF THE NOTES

GENERAL

The Notes will be issued as a series of senior debentures under the senior

debt indenture as supplemented by a supplemental indenture thereto dated as of December , 2005 (the "SUPPLEMENTAL INDENTURE"), and will be initially limited in aggregate principal amount to $125 million. The senior debt indenture permits us to "re-open" this offering of the Notes without the consent of the Holders of the Notes. Accordingly, the principal amount of the Notes may be increased in the future on the same terms and conditions and with the same CUSIP numbers as the Notes being offered by this prospectus supplement, provided that such additional notes must be part of the same issue as the Notes offered hereby for United States federal income tax purposes. The Notes offered by this prospectus supplement and any such additional notes will constitute a single series of debt securities. This means that, in circumstances where the senior debt indenture provides for the holders of notes to vote or take any action, the Holders of Notes offered by this prospectus supplement and the holders of any such additional notes will vote or take that action as a single class. The Notes will be unsecured and unsubordinated senior debt securities of CMS Energy.

As of September 30, 2005, we had outstanding approximately $2.4 billion aggregate principal amount of indebtedness, including approximately $178 million of subordinated indebtedness relating to our convertible trust preferred securities but excluding approximately $4.7 billion of indebtedness of our subsidiaries. In May 2005, CMS Energy entered into the Sixth Amended and Restated Credit Agreement in the amount of approximately $300 million. This facility is secured and the Notes are junior to such indebtedness as to the assets pledged. As of September 30, 2005 there were approximately $98 million of letters of credit outstanding under the Sixth Amended and Restated Credit Agreement. Except for the amount outstanding under the Sixth Amended and Restated Credit Agreement, none of our indebtedness is senior to the Notes as to our assets. The Notes are structurally subordinated to approximately $4.7 billion of our subsidiaries' debt.

We may issue debt securities from time to time in one or more series under the senior debt indenture. There is no limitation on the amount of debt securities we may issue under the senior debt indenture.

The statements herein concerning the Notes and the senior debt indenture are a summary and do not purport to be complete and are subject to, and qualified in their entirety by, all of the provisions of the senior debt indenture, which is incorporated herein by this reference. They make use of defined terms and are qualified in their entirety by express reference to the senior debt indenture, including the Supplemental Indenture, a copy of which will be available upon request to the Trustee.

STRUCTURAL SUBORDINATION

CMS Energy is a holding company that conducts substantially all of its operations through its subsidiaries. Its only significant assets are the capital stock of its subsidiaries, and its subsidiaries generate substantially all of its operating income and cash flow. As a result, dividends or advances from its subsidiaries are the principal source of funds necessary to meet its debt service obligations. Contractual provisions or laws, as well as its subsidiaries' financial condition and operating requirements, may limit CMS Energy's ability to obtain cash from its subsidiaries that it may require to pay its debt service obligations, including payments on the Notes. In addition, the Notes will be effectively subordinated to all of the liabilities of CMS Energy's subsidiaries with regard to the assets and earnings of CMS Energy's subsidiaries. The subsidiaries are separate and distinct legal entities and have no obligation, contingent or otherwise, to pay any amounts due pursuant to the Notes or to make any funds available therefor, whether by dividends, loans or other payments. CMS Energy's rights and the rights of its creditors, including Holders of Notes, to participate in the distribution of assets of any subsidiary upon the latter's liquidation or reorganization will be subject to prior claims of the subsidiaries' creditors, including trade creditors.

Of the approximately $7.1 billion of our consolidated indebtedness as of September 30, 2005, approximately $4.7 billion was indebtedness of our subsidiaries. Payments on that indebtedness are prior in right of payment to dividends paid to us by our subsidiaries.

PRIMARY SOURCE OF FUNDS OF CMS ENERGY; RESTRICTIONS ON SOURCES OF DIVIDENDS

The ability of CMS Energy to pay (i) dividends on its capital stock and (ii) its indebtedness, including the Notes, depends and will depend substantially upon timely receipt of sufficient dividends or other distributions from its subsidiaries, in particular Consumers and Enterprises. Each of Consumers' and Enterprises' ability to pay dividends on its common stock depends upon its revenues, earnings and other factors. Consumers' revenues and earnings will depend substantially upon rates authorized by the MPSC.

Consumers' Restated Articles of Incorporation ("ARTICLES") provide two restrictions on its payment of dividends on its common stock. First, prior to the payment of any common stock dividend, Consumers must reserve retained earnings after giving effect to such dividend payment of at least (i) $7.50 per share on all then outstanding shares of its preferred stock, (ii) in



respect to its Class A Preferred Stock, 7.5% of the aggregate amount established by its Board of Directors to be payable on the shares of each series thereof in the event of involuntary liquidation of Consumers and (iii) $7.50 per share on all then outstanding shares of all other stock over which its preferred stock and Class A Preferred Stock do not have preference as to the payment of dividends and as to assets. Second, dividend payments during the 12 month period ending with the month the proposed payment is to be paid are limited to: (i) 50% of net income available for t