CMS ENERGY CORP
Form 424B5
June 26, 2001

Rule 424(b)5
Registration Statement No. 333-51932

PROSPECTUS SUPPLEMENT
JUNE 22, 2001
(TO PROSPECTUS DATED DECEMBER 15, 2000)

$269,000,000

[CMS ENERGY LOGO]

8.9% SENIOR NOTES DUE 2008

We will pay interest on the notes each January 15 and July 15. The first interest payment will be made on January 15, 2002.

We may redeem any 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 and any accrued and unpaid interest. There is no sinking fund for the notes. See "DESCRIPTION OF THE NOTES -- Optional Redemption".

The notes will rank equally with the other unsecured and unsubordinated indebtedness of CMS Energy Corporation from time to time outstanding.

The notes are not listed on any securities exchange, and we do not intend to list the notes on any security exchange.

INVESTING IN THE NOTES INVOLVES RISKS. SEE "RISK FACTORS" BEGINNING ON PAGE S-10 OF THIS PROSPECTUS SUPPLEMENT.

	PRICE TO PUBLIC(1)	UNDERWRITING DISCOUNTS AND COMMISSIONS(2)	SE
Per Note	98.843%	1.375%	
Total	$265,887,670	$3,698,750	

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(1) Plus accrued interest from July 2, 2001, if settlement occurs after that date.

(2) The underwriters have agreed to reimburse us for certain expenses in connection with this offering.

(3) Banc of America Securities LLC as the call holder and as the holder of the 8% Notes (as defined below), will receive $262,349,381 of the net proceeds of the notes offered hereby. We will receive, before expenses $586,858.

We issued $250,000,000 Senior Notes 8% Reset Put Securities, Due 2011 on June 17, 1999 (the "8% Notes"). Banc of America Securities LLC (as the assignee of Bank of America, N.A.) has exercised a call option to purchase the 8% Notes from their holders, subject to certain conditions, on July 2, 2001. If Banc of America Securities LLC purchases the 8% Notes, the terms of the 8% Notes will be amended to be those of the notes described herein. See "DESCRIPTION OF THE NOTES". The notes described herein will be sold to an underwriting syndicate represented by Banc of America Securities LLC. The underwriting syndicate will offer the notes described herein pursuant to this prospectus supplement and the attached prospectus. See "UNDERWRITERS".

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 ARE TRUTHFUL OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

If Banc of America Securities LLC purchases the 8% Notes and the notes offered hereby are sold to an underwriting syndicate represented by Banc of America Securities LLC (as described herein) on July 2, 2001, Banc of America Securities LLC will deliver the notes to you in global form through the book-entry delivery systems of The Depositary Trust Company on July 2, 2001.

SOLE BOOK RUNNING MANAGER

BANC OF AMERICA SECURITIES LLC

CO-MANAGERS

BANC ONE CAPITAL MARKETS, INC.
COMERICA SECURITIES
DEUTSCHE BANK ALEX. BROWN
TD SECURITIES
TOKYO-MITSUBISHI INTERNATIONAL PLC
FLEET SECURITIES, INC.
WILLIAMS CAPITAL GROUP, L.P.

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YOU SHOULD RELY ONLY ON THE INFORMATION CONTAINED IN OR INCORPORATED BY REFERENCE INTO THIS PROSPECTUS SUPPLEMENT AND THE ACCOMPANYING PROSPECTUS. WE HAVE NOT AUTHORIZED ANYONE TO PROVIDE YOU WITH INFORMATION THAT IS DIFFERENT FROM THAT CONTAINED IN THIS DOCUMENT. WE ARE OFFERING TO SELL, AND SEEKING OFFERS TO BUY, THE NOTES ONLY IN JURISDICTIONS WHERE OFFERS AND SALES ARE PERMITTED. THE INFORMATION CONTAINED IN THIS PROSPECTUS SUPPLEMENT AND ACCOMPANYING PROSPECTUS IS ACCURATE ONLY AS OF THE DATES ON THE COVERS OF THESE DOCUMENTS, REGARDLESS OF THE TIME OF DELIVERY OF THIS DOCUMENT OR OF ANY SALE OF THE NOTES.

FORWARD-LOOKING STATEMENTS

The prospectus supplement and the accompanying prospectus contain or incorporate by reference forward-looking statements. The factors identified under "Risk Factors" are important factors, but not necessarily all 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 any forward-looking statement includes a statement of the assumptions or bases underlying such forward-looking statement, we caution that, while such assumptions or bases are believed to be reasonable and are made in good faith, assumed facts or bases almost always vary from actual results, and the differences between assumed facts or bases and actual results can be material, depending upon the circumstances. Where, in any forward-looking statement, we, our subsidiaries, or our management, express an expectation or belief as to future results, this expectation or belief is expressed in good faith and is believed to have a reasonable basis, but there can be no assurance that the statement of expectation or belief will result or be achieved or accomplished. The words "believe," "expect," "estimate," "project," and "anticipate" or similar expressions identify forward-looking statements.

PROSPECTUS SUPPLEMENT SUMMARY

This summary may not contain all the information that may be important to you. You should read this prospectus supplement, the accompanying prospectus and the documents incorporated by reference in this document in their entirety before making an investment decision. The terms "CMS," "CMS Energy," "our" and "we" as used in this prospectus supplement and the accompanying prospectus refer to CMS Energy Corporation and its subsidiaries.

In this document, "Bcf" means billion cubic feet, "GWh" means gigawatt-hour, "KWh" means kilowatt-hour, "MBbls" means thousand barrels, "Mcf' means thousand cubic feet, "MMBoe" means million barrels of oil equivalent, "MMBbls" means million barrels, "MMcf" means million cubic feet, "MW" means megawatts, and "Tbtu" means trillion british thermal units.

CMS ENERGY CORPORATION

CMS Energy is a leading diversified energy company operating in the United States and around the world. Our two principal subsidiaries are Consumers Energy Company ("Consumers") and CMS Enterprises Company ("Enterprises"). Consumers is a public utility that provides natural gas or electricity to almost six million of the approximately 9.9 million residents in Michigan's lower peninsula. Enterprises, through subsidiaries, is engaged in a wide range of diversified energy businesses in the United States and in approximately 20 countries on five continents.

Our assets and services are broad and include: electric and natural gas utility operations; independent power production; natural gas transmission, storage and processing; oil and gas exploration and production; international energy distribution; and marketing, services and trading. In 2000,

- Consumers' electric utility owned and operated 29 electric generating plants with an aggregate of 6,437 MW of capacity and served 1.7 million customers in Michigan's lower peninsula;

- Consumers' gas utility owned and operated over 26,000 miles of transmission and distribution lines throughout the lower peninsula of Michigan, providing natural gas to 1.6 million customers;

- CMS Generation had ownership interests in independent power plants with 8,365 MW gross and 3,533 MW net capacity. The plants are located primarily in the U.S., Argentina, Australia, Chile, Ghana, India, Morocco, Thailand and the United Arab Emirates;

- CMS Gas Transmission owned and operated over 25,000 miles of pipelines with a daily capacity of approximately 11.0 Bcf per day. The pipelines are located in the U.S., Argentina, Australia, Chile and Tunisia. It also owns extensive gathering systems and processing facilities;

- CMS Oil and Gas had proved reserves of 235 MMBoe and exploration and production activities in the U.S., Venezuela, Colombia, the Republic of Congo, Cameroon, Equatorial Guinea and Tunisia;

- CMS Electric and Gas, our international energy distribution subsidiary, owned energy distribution interests in Venezuela, Argentina and Brazil, serving approximately 475,000 customers and recording sales of approximately 3,200 GWh;

- CMS Marketing, Services and Trading marketed 614 Bcf of gas, 37,781 GWh of electricity, 31 MMBbls of crude oil and 9.0 MMBbls of natural gas liquids; and

Our various subsidiaries currently have ownership interests in projects under construction or in advanced stages of development, including approximately 3,600 MW of electric generation, 154 miles of pipeline projects, and conversion of a natural gas pipeline to an 800 mile liquids product pipeline.

In 2000, we had consolidated operating revenue of $8.998 billion, earnings before interest, taxes, depreciation and amortization of $1.693 billion and net income of $36 million, after the $268 million after tax impairment loss on the Loy Yang investment.

We were incorporated in Michigan in 1987 and our world wide web address is http://www.cmsenergy.com. Our web site is not part of this prospectus supplement or the accompanying prospectus. Our telephone number is (313) 436-9200.

BUSINESS STRATEGY

Our objective is to be a leading diversified energy company developing energy facilities and marketing energy and related services in the United States and selected world growth markets. The key elements of our strategy to achieve this objective are as follows:

USE OUR NATURAL GAS PIPELINE BUSINESS FOR GROWTH OPPORTUNITIES ACROSS OUR OTHER BUSINESSES

Our March 1999 acquisition of Panhandle Eastern Pipe Line Company, Panhandle Storage Company, Trunkline LNG Company and their subsidiaries (collectively, the "Panhandle Companies" or "Panhandle") significantly enhanced our domestic natural gas pipeline business. We intend to use Panhandle as a platform for growth in the United States and derive added value through expansion opportunities for multiple CMS businesses. Our growth strategy around Panhandle includes enhancing the opportunities for other CMS businesses involved in electric power generation and distribution, mid-stream activities (gathering and processing), and exploration and production. By providing additional transportation, storage and other asset-based value-added services to customers such as new gas fueled power plants, local distribution companies, industrials and end-users, marketers and others, we expect to expand our natural gas pipeline business. We also plan to convert certain Panhandle facilities to permit the throughput of liquid products.

EFFECTIVELY IMPLEMENT THE MICHIGAN ELECTRIC RESTRUCTURING LEGISLATION

Our Consumers subsidiary is a leading generator and distributor of electricity and distributor of natural gas in the lower peninsula of Michigan. After several years of discussion and uncertainty in the Michigan electric utility industry, in June 2000 the Michigan legislature enacted electric utility restructuring and related securitization legislation called the Customer Choice and Electricity Reliability Act (the "Customer Choice Act"). The Customer Choice Act required an immediate 5% rate reduction for residential customers that reduces our revenues. In October 2000 and January 2001, the Michigan Public Service Commission ("MPSC") issued an order and a final order, respectively, approving securitization of approximately $470 million in qualified costs plus the expenses of securitization. Cost savings from securitization depend upon the level of debt or equity securities ultimately retired, the amortization schedule for the securitized qualified costs and the interest rates of the retired debt securities and the securitization bonds. These savings will only be determined once the securitization bonds are issued and will offset substantially all of the CMS Energy revenue impact of the 5% residential rate reduction, $51 million on an annual basis, that Consumers was required to implement by the Customer Choice Act. Consumers accepted the final financing order. The financing orders have been appealed by the Attorney General of Michigan. We cannot predict the outcome of the appeal or its effect on the schedule for issuance of the securitization bonds. Ultimately, sale of securitization bonds will be required to offset substantially all of the CMS Energy revenue impact of the rate reduction over the term of the bonds. The new legislation also provided for rate freezes and rate caps as more fully discussed below under "Risk Factors -- Risks Relating to CMS Energy -- New electric restructuring legislation could adversely affect our business." In response, Consumers must develop cost-effective solutions to manage the challenges of the Customer Choice Act. For example, Consumers intends to further intensify our efforts to manage costs including the management of fuel costs and purchased power costs in light of the rate freezes and rate caps.

INCREASE CONSUMERS' COMMODITY DELIVERY TO MEET CUSTOMER GROWTH AND EXPAND THE RANGE OF ENERGY-RELATED SERVICES

Without regard to the Customer Choice Act, Consumers expects average annual growth of approximately 2% per year in electric system deliveries over the next five years based on a steadily growing customer base. Also, Consumers currently anticipates gas deliveries, including gas customer choice deliveries (excluding transportation to a natural gas-fueled, combined-cycle cogeneration facility operated by the Midland Cogeneration Venture Limited Partnership and off-system deliveries), to grow at an average annual rate of approximately 1% over the next five years based primarily on a steadily growing customer base.

In addition to the delivery of electricity and natural gas, we offer a variety of energy-related services to Consumers' electric and gas customers. These services focus upon appliance maintenance, home safety, commodity choice and assistance to customers purchasing heating, ventilation and air conditioning equipment. We will continue to look for additional growth opportunities in energy-related services for Consumers' customers.

EXPAND PRESENCE IN SELECT HIGH GROWTH DOMESTIC AND INTERNATIONAL MARKETS THROUGH OUR DIVERSIFIED ENERGY BUSINESSES

We expect to continue to sharpen our geographic focus on key growth areas where we already have significant investments and opportunities. This strategy focuses predominantly on the central corridor of the United States. Internationally, these markets are the Middle East, Latin America and West Africa. In pursuing our global growth, we intend to make energy investments that provide optimal returns and expansion opportunities for multiple existing businesses. For example, we are seeking to capitalize on our West Africa oil and gas reserves by expanding the undersea pipeline and onshore processing facilities in this area. We will use the gas from the processing plant in a new methanol-producing plant in West Africa. Our gas pipelines in Argentina are being extended to carry fuel for power plants in that area. In addition, we are a partner in the first independent power and water project in the United Arab Emirates and we are building our third power plant in India.

OPTIMIZE OUR ASSETS THROUGH THE MARKETING, SERVICES AND TRADING BUSINESS

We intend to use our marketing, services and trading business to enhance the return on our other businesses. This means that we plan to continue centralizing the marketing of energy products produced by our various non-utility businesses. Other strategies include expanding our industrial and commercial energy services business to enhance our commodity marketing business and developing risk management products that address customer needs.

CONTINUE MANAGEMENT OF OUR ASSET PORTFOLIO

We intend to enhance our long-term growth through an active portfolio management program that entails the ongoing sale of assets. We expect to reinvest the proceeds from this program in assets having greater potential for synergies with our existing or planned assets. In particular, we are reviewing our options regarding certain assets performing below prior expectations, including generating assets in Argentina and Australia. As a part of the program, we also continue to seek improvement in the operating efficiency and profitability of all assets retained in our portfolio. We also intend to sell assets with resulting cash proceeds and associated reduction of consolidated project debt in the total amount of approximately $450 million in 2001.

RECENT DEVELOPMENTS

On February 23, 2001, we sold 10 million shares of CMS Energy common stock. Net proceeds from the sale totaled approximately $296 million which we used to repay borrowings under our $1 billion revolving credit facility with The Chase Manhattan Bank, as lead agent (the "Revolving Credit Facility"). In connection with that sale, we announced that we had indefinitely deferred the initial public offering of

up to 50% of the securities of CMS Oil and Gas Company, our wholly-owned oil and gas exploration and production subsidiary.

On March 29, 2001 we sold $350 million of 8.5% Senior Notes due 2011. Net proceeds from the sale totaled approximately $337 million which we used to reduce the outstanding balance of approximately $250 million under our Revolving Credit Facility. The remainder of the net proceeds was used to pay down long-term debt and for general corporate purposes.

THE OFFERING

Issuer........................	CMS Energy Corporation.
Securities Offered...........	$269 million principal amount of 8.9% senior notes due 2008.
Maturity.....................	July 15, 2008
Interest Rate................	The notes will bear interest at the rate of 8.9% per year, payable semiannually in arrears on January 15 and July 15, commencing on January 15, 2002.
Optional Redemption..........	The notes will be redeemable at our option, in whole or in part, at any time or from time to time, on not less than 30 days' notice, at the redemption price of 100% of their principal amount, plus any applicable premium and any accrued and unpaid interest to the date fixed for redemption.
Change in Control............	If a change in control were to occur, each holder of notes would be able to require us to repurchase such notes, in whole or in part, at a price equal to 101% of the principal amount of those notes, plus any accrued and unpaid interest.
Ranking......................	The notes will be unsecured and unsubordinated senior debt securities of ours. As of March 31, 2001, we had outstanding approximately $3.7 billion aggregate principal amount of indebtedness (excluding subsidiaries), none of which was secured. None of such indebtedness would be senior to the notes and the notes will not be senior to such indebtedness. The notes will be senior to certain subordinated indebtedness of ours (excluding subsidiaries). The notes will rank equally in right of payment with all other unsecured and unsubordinated indebtedness of ours (excluding subsidiaries).

Certain Covenants............	The Indenture governing the notes 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.
Use of Proceeds..............	Of the estimated net proceeds, Banc of America Securities LLC, as the call holder and as the holder of the 8% Notes will receive $262,349,381 of the net proceeds of the notes offered hereby. We will receive, before expenses, $586,858, which we will use for general corporate purposes.

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SELECTED HISTORICAL AND PRO FORMA FINANCIAL INFORMATION

The following selected historical and pro forma financial information has been derived from our historical consolidated financial statements. We have prepared pro forma financial information to reflect our acquisition of the common stock of the Panhandle Companies. Please refer to our Annual Report on Form 10-K for the fiscal year ended December 31, 2000 which is incorporated by reference. The financial information set forth below should be read in conjunction with our consolidated financial statements, related notes and other financial information incorporated by reference in the accompanying prospectus. See "Where To Find More Information" in the accompanying prospectus.

	YEAR ENDED DECEMBER 31,			
	1998	1999	PRO FORMA 1999(1)	2000
			(UNAUDITED) (IN MILLIONS, EXCEPT PER SHARE DATA	
INCOME STATEMENT DATA:				
Operating revenue................	$ 5,141	$ 6,103	$6,216	$8,998
Operating expenses...............	4,417	5,219	5,272	8,271
Pretax operating income.........	724	884	944	727
Income taxes.....................	100	64	72	60
Consolidated net income before cumulative effect of change in accounting principle...........	242	277	287	41
Cumulative effect of change in accounting for inventories, net of tax........................	--	--	--	(5)(12
Cumulative effect of change in accounting for property taxes, net of tax(2)..................	43	--	--	--
Consolidated net income..........	$ 285	$ 277	$ 287	$ 36

Net income attributable to common stocks(2)				
CMS Energy......................	$ 272	$ 241(10)	$ 251(10)	$ 36
Class G.........................	13	36(10)(11)	36(10)(11)	--
Average common shares outstanding				
CMS Energy......................	102	110	110	113
Class G.........................	8	9(11)	9(11)	--
Earnings per average common share(2)				
CMS Energy				
Basic.........................	$ 2.65	$ 2.18(10)	$ 2.27(10)	$ 0.32
Diluted.......................	2.62	2.17(10)	2.26(10)	0.32
Class G Basic and Diluted.........	1.56	4.21(10)(11)	4.21(10)(11)	--
Dividends declared per common share				
CMS Energy......................	1.26	1.39	1.39	1.46
Class G.........................	1.27	0.99(11)	0.99(11)	--
OTHER DATA:				
EBITDA(3).........................	$ 1,208	1,563	1,636(13)	1,693(13)
Cash flow				
From operating activities.......	516	917	912	453
From investing activities.......	(1,634)	(3,564)	(3,585)	(867)
From financing activities.......	1,150	2,678	2,678	464
Capital expenditures..............	1,295	1,124	1,128	1,032
Ratio of EBITDA to interest expense.........................	3.60x	2.95x	3.09x	2.87x
Ratio of earnings to fixed charges(4).....................	1.59x	1.38x	1.45x	--(14)

	AS OF DECEMBER 31,			AS OF M
	1998	1999	2000	2000
		(IN MILLIONS)		
BALANCE SHEET DATA:				
Cash and cash equivalents................................	$ 101	$ 132	$ 182	$ 208
Net plant and property...................................	6,040	8,121	7,835	8,181
Total assets...	11,310	15,462	15,851	15,267
Long-term debt, including current maturities.............	5,019	7,539	7,477	7,715
Non-current portion of capital leases....................	105	88	54	88
Notes payable..	328	230	403	188
Other liabilities..	3,011	3,764	4,335	3,522
Minority interest..	--	222	88	222
Company-obligated mandatorily redeemable trust preferred securities of:				
Consumers Power Company Financing I(5).................	100	100	100	100
Consumers Energy Company Financing II(5)...............	120	120	120	120
Consumers Energy Company Financing III(6)..............	--	175	175	175
CMS RHINOS Trust.......................................	--	250	--	250
Company-obligated convertible trust preferred securities of:				
CMS Energy Trust I(7)..................................	173	173	173	173
CMS Energy Trust II(8).................................	--	301	301	301
CMS Energy Trust III(9)................................	--	--	220	--
Preferred stock of subsidiary............................	238	44	44	44

Common stockholders' equity	2,216	2,456	2,361	2,369

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(1) The pro forma selected financial information illustrates the effects of (a) various restructuring, realignment, and elimination of activities between the Panhandle Companies and Duke Energy Corporation prior to the closing of the acquisition of the Panhandle Companies by CMS Energy, (b) the adjustments resulting from the acquisition of the Panhandle Companies and (c) financing transactions which include the public issuance of $800 million of senior notes by Panhandle, $850 million of senior notes by CMS Energy and the private sale of $250 million of trust preferred securities by CMS Energy.

(2) During the first quarter of 1998, our subsidiary, Consumers, implemented a change in the method of accounting for property taxes which had the cumulative effect of increasing other income by $66 million, including $18 million attributable to the portion of our business relating to Class G common stock. Earnings, net of tax, increased by $43 million or $0.40 per share for CMS Energy common stock and $12 million or $0.36 per share for Class G common stock.

(3) EBITDA represents earnings before interest, income taxes, depreciation and amortization. EBITDA is not intended to represent cash flow for the period, nor is it presented as an alternative to operating income as an indicator of operating performance, and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with generally accepted accounting principles ("GAAP") in the United States and is not indicative of operating income or cash flow from operations as determined under GAAP.

(4) For the purpose of computing the ratio, earnings represent net income before income taxes, net interest charges and the estimated interest portion of lease rentals.

(5) The primary asset of Consumers Power Company Financing I is approximately $103 million principal amount of 8.36% subordinated deferrable interest notes due 2015 from Consumers. The primary asset of Consumers Energy Company Financing II is $124 million principal amount of 8.20% subordinated deferrable interest notes due 2027 from Consumers.

(6) The primary asset of Consumers Energy Company Financing III is $180 million principal amount of 9.25% subordinated deferrable interest notes due 2029 from Consumers.

(7) The primary asset of CMS Energy Trust I is approximately $178 million principal amount of 7.75% convertible subordinated debentures due 2027 from us.

(8) The primary asset of CMS Energy Trust II is approximately $310 million principal amount of 8.625% convertible junior subordinated deferrable interest debentures due 2004 from us.

(9) The primary asset of CMS Energy Trust III is approximately $226 million principal amount of 7.25% subordinated deferrable notes due August 2004 from us.

(10) Reflects the reallocation of net income and earnings per share as a result of the premium on exchange of Class G common stock. As a result, CMS Energy's basic and diluted earnings per share were reduced $0.26 and $0.25,

respectively, and Class G's basic and diluted earnings per share were increased $3.31.

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

(12) During 2000, CMS Energy implemented an SEC mandated change in the method for accounting for inventories that has affected the accounting for CMS Oil and Gas' oil and gas inventories, which had the cumulative effect of decreasing pre-tax operating income by $7 million, and earnings, net of tax, by $5 million, or $0.04 per basic and diluted share of CMS Energy Common Stock. The effects of the accounting change on assets, liabilities and equity are not material.

(13) Excludes the write-down of our investment in Nitrotec Corporation, a proprietary gas processing company, of $84 million pre-tax in 1999 and of our investment in Loy Yang A of $329 million pre-tax in 2000.

(14) For the year ended December 31, 2000, fixed charges exceeded earnings by $124 million. Earnings as defined include a $329 million pretax impairment loss on the Loy Yang A investment. The ratio of earnings to fixed charges would have been 1.32x excluding this amount.

As expected, during the two month period ended May 31, 2001 we did not close any asset sales as a part of our asset portfolio management plans described above under "Business Strategy -- Continue management of our asset portfolio". Since asset sales in the two months ended May 31, 2000 resulted in an after tax gain of approximately $30 million and we do not expect any significant asset sales gains in the quarter ending June 30, 2001, we expect that consolidated net income for the quarter ending June 30, 2001 will be below that for the quarter ended June 30, 2000.

RISK FACTORS

In considering whether to purchase our notes, you should carefully consider all the information we have included or incorporated by reference in this prospectus supplement and the accompanying prospectus. In particular, you should carefully consider the risk factors described below. In addition, please read "Forward-Looking Information" on page S-14 of this prospectus supplement, where we describe additional uncertainties associated with our business and the forward-looking statements in this prospectus supplement and the accompanying prospectus.

RISKS RELATED TO THE NOTES

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, AND JOINTLY OWNED ENTERPRISES 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 and preferred distributions on the debt, preferred securities and other liabilities of Consumers and Enterprises and each of their subsidiaries.

Restrictions contained in Consumers' mortgage bond indenture and preferred stock provisions and other legal restrictions limit Consumers' ability to pay dividends or acquire its own stock from us. Based upon its Articles of Incorporation, the most restrictive provision, as of March 31, 2001, Consumers would be able to pay an aggregate of $405 million in dividends to us. In the four years ending December 31, 2000, Consumers paid out 74% of its earnings in cash dividends to us. Enterprises is also limited in the amount of dividends it is able to pay pursuant to the Revolving Credit Facility.

AS OUR ABILITY TO PURCHASE THE NOTES WILL BE LIMITED BY THE TERMS OF OUR OTHER DEBT AGREEMENTS AND OUR ABILITY TO FINANCE THE PURCHASE, WE MAY BE UNABLE TO PURCHASE NOTES UPON A CHANGE OF CONTROL

In the event of a change of control of our company, 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. 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.

RISKS RELATING TO CMS ENERGY

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 March 31, 2001, we had outstanding approximately $3.7 billion aggregate principal amount of indebtedness (excluding subsidiaries), none of which was secured. None of such indebtedness would be senior to the notes and the notes will not be senior to such indebtedness. On a consolidated basis, we and our subsidiaries had approximately $8.1 billion in total indebtedness and mandatorily redeemable trust preferred securities as of March 31, 2001. We may incur additional indebtedness in the future. The level of our 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, 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 flow from operations, we may be required to sell assets, to refinance all or a portion of our indebtedness or to obtain additional financings. We cannot assure you that any such refinancing will be possible or that additional financing will be available on commercially acceptable terms or at all.

Covenants contained in our existing debt arrangements and guarantees limit, among other things, the incurrence of indebtedness by CMS Energy and its subsidiaries and require maintenance of a minimum net worth and fixed-charge coverage ratio and a maximum debt-to-capitalization ratio. 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 FACE INCREASED COMPETITION, WHICH COULD REDUCE OUR MARKET SHARES AND PROFIT MARGINS

Regulatory changes and other developments have resulted and will continue to result in increased competition in our domestic energy businesses. Generally, increased competition threatens our market shares in certain segments of our business and can reduce our profit margins.

Increased competition and direct access in the gas industry. Regulatory changes have been significant in our gas utility business. These changes have resulted in increased competition from other sellers of natural gas for sale of the gas commodity to our customers. As a result of the regulatory changes that separated (unbundled) the transportation and storage of natural gas from the sale of natural gas by interstate pipelines and Michigan gas distributors, Consumers offers unbundled services (transportation and some storage) to its larger end-use customers who choose to acquire gas supplies from alternative sources. On April 1, 1998, Consumers began an experimental gas customer choice pilot program that ended March 31, 2001. Under this program, gas distribution rates were frozen through March 31, 2001. On April 1, 2001 a permanent gas customer choice program commenced and under this program Consumers returned to a gas cost recovery mechanism that allows it to recover from its customers all prudently incurred costs to purchase the natural gas commodity and transport it to Consumers' facilities.

Increased competition and direct access in the electric industry. 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 direct access in the State of Michigan. Under the Customer Choice Act, all electric customers will have the choice of electric generation suppliers by January 1, 2002.

Increased competition in the gas pipeline industry. A significant portion of our domestic revenue and cash flow comes from our interstate pipeline business. The Federal Energy Regulatory Commission ("FERC") policy allows the issuance of certificates authorizing the construction of new interstate pipelines which are competitive with existing pipelines. A number of new pipeline and pipeline expansion projects have been approved or are pending approval by the FERC in order to transport large additional volumes of natural gas to the midwestern United States from Canada. These pipelines are able to compete with Panhandle's pipelines. Increased competition could reduce the volumes of gas transported by Panhandle to their existing markets or cause them to lower rates in order to meet competition. This could lower the financial results of the Panhandle Companies.

NEW ELECTRIC RESTRUCTURING LEGISLATION COULD ADVERSELY AFFECT OUR BUSINESS

Federal and state regulation of electric and natural gas utilities, interstate pipelines and independent electric power producers 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. The Customer Choice Act first reduced residential rates by 5% then froze them as of the June 2000 effective date of this new legislation through December 31, 2003. All other electric rates are frozen through December 31, 2003 without first being reduced. After that date, electric rates are subject to a rate cap. The length of the rate cap varies depending upon whether the customer is a residential, commercial or industrial customer, among other determinations. Ultimately, the rate cap could extend until December 31, 2013 depending upon whether Consumers and two other utilities jointly complete expansion of available transmission capability in the state of Michigan of at least 2,000 MW and do not exceed the market control test established by the legislation (a requirement Consumers is currently in compliance with). Under circumstances specified in the Customer Choice Act, certain costs can be deferred for future recovery after the expiration of the rate cap period. However, the rate cap could result in Consumers being unable to collect customer rates sufficient to recover fully its cost of doing business. Some of these costs may be wholly or partially beyond Consumers' power to control. In particular, to the extent Consumers may need to purchase power from wholesale suppliers at market-based prices during the period when retail rates are frozen or capped, it may be difficult to purchase power at prices that can be recovered in rates. As a result, it is not certain that Consumers' profit margins in its electric utility business will be maintained over the long run.

The Customer Choice Act and existing MPSC restructuring orders provide for recovery of the stranded costs associated with customers purchasing power from other sources. The Customer Choice Act also permits the MPSC annually to review Consumers' stranded cost recovery charges implemented for the preceding 12 months, and adjust the stranded costs recovery charge (a true-up adjustment), by way of supplemental surcharges or credits, to allow the netting of stranded costs. In an order issued in October 2000, the MPSC initiated a proceeding to implement the provisions of the Customer Choice Act regarding the calculation of stranded costs. Consumers is uncertain how the MPSC will ultimately calculate the amount of stranded costs and the true-up adjustments, and the manner in which the annual stranded cost true-up operates.

The Customer Choice Act also allows for securitization of stranded costs, which fit the definition under the Customer Choice Act of "qualified costs" for securitization purposes, in order to offset the earnings impact of the 5% residential rate reduction mandated by the legislation. In accordance with the securitization provisions of the Customer Choice Act, Consumers filed an application, and a supplement thereto, in July 2000, to begin the securitization process for approximately $470 million in qualified costs. The MPSC issued a financing order and a final financing order in October 2000 and January 2001, respectively, authorizing securitization of approximately $470 million in qualified costs plus the expenses of securitization. Cost savings from securitization depend upon the level of debt or equity securities ultimately retired, the amortization schedule for the securitized qualified costs and the interest rates of the retired debt securities and the securitization bonds. These savings will only be determined once the securitization bonds are issued and will offset up to the full amount of the revenue impact of the 5%

residential rate reduction, $51 million on an annual basis, that Consumers was required to implement by the Customer Choice Act. Consumers accepted the MPSC's final financing order. The financing orders have been appealed by the Attorney General of Michigan. We cannot predict the outcome of the appeal or its effect on the schedule for issuance of the securitization bonds. Ultimately, sale of securitization bonds will be required to offset substantially all of the CMS Energy revenue impact of the rate reduction over the term of the bonds.

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

Our international investments in approximately 20 countries in electric generating facilities, oil and gas exploration, production and processing facilities, natural gas pipelines and electric distribution systems face a number of risks inherent in acquiring, developing and owning these types of 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, in turn, our growth plans for Enterprises' international investments and our financial position and results of operations.

Financial risk during development phase. In developing new projects, significant time and expense is required to prepare proposals or competitive bids, obtain the numerous required permits, licenses and approvals, negotiate the necessary agreements with governmental and private parties, and obtain financing. Money spent for these purposes is at risk until all these elements are successfully finalized. It is often impractical to finalize all elements before significant sums have been spent. As a result, there is a risk that these up-front expenditures will be of little value if one of the required approvals or other elements is not finally achieved and the project does not go forward or is not completed.

Expropriation and violation of agreements by third parties. International investments of the type we are making 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.

Foreign currency risk. The local foreign currency may be devalued or 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.

WE COULD INCUR SIGNIFICANT CAPITAL EXPENDITURES TO COMPLY WITH ENVIRONMENTAL STANDARDS

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 laws, will be significant.

The Environmental Protection Agency ("EPA") in 1997 introduced new regulations regarding nitrogen oxide and particulate-related emissions that were the subject of litigation. The United States Supreme Court recently found that the EPA has power to revise the standards but found that the EPA implementation plan was not lawful. In 1998, the EPA Administrator issued final regulations requiring the State of Michigan to further limit nitrogen oxide emissions. The EPA has also issued additional final regulations regarding nitrogen oxide emissions which require certain generators, including some of Consumers electric generating facilities, to achieve the same emission rate as that required by the 1998 plan. These regulations will require us to make significant capital expenditures. The estimated cost to Consumers would be between $450 million and $500 million, calculated in year 2000 dollars. Consumers anticipates that it will incur these capital expenditures between 2000 and either 2003 and 2004. In addition, Consumers expects to incur costs of removal related to this effort, but is unable to predict the amount at this time.

Consumers may need an additional amount of between $290 million and $500 million of capital expenditures to comply with the new small particulate standards sometime after 2004.

These and other required environmental expenditures may have a material adverse effect upon our financial condition and results of operations.

FORWARD-LOOKING INFORMATION

From time to time, we may make statements regarding our assumptions, projections, expectations, intentions or beliefs about future events. These statements are intended as "Forward-Looking Statements" under the Private Securities Litigation Reform Act of 1995. We caution that these statements may and often do vary from actual results and the differences between these statements and actual results can be material. Accordingly, we cannot assure you that actual results will not differ materially from those expressed or implied by the forward-looking statements. Some of the factors that could cause actual achievements and events to differ materially from those expressed or implied in any forward-looking statements are:

- the ability to achieve operating synergies and revenue enhancements;

- capital and financial market conditions, including the current price of our common stock, interest rates and availability of financing;

- market perceptions of the energy industry, our company or any of our subsidiaries;

- our or any of our subsidiaries' securities ratings;

- currency exchange fluctuations and controls;

- factors affecting utility and diversified energy operations such as unusual weather conditions, catastrophic weather-related damage, unscheduled generation outages, maintenance or repairs, unanticipated changes to fossil fuel, nuclear fuel or gas supply costs or availability due to higher demand, shortages, transportation problems or other developments;

- environmental incidents;

- electric transmission or gas pipeline system constraints;

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

- adverse regulatory or legal decisions, including environmental laws and regulations;

- pace of implementation and provisions for deregulation of the natural gas industry, whether by legislative or regulatory action;

- implementation of the Michigan electric industry restructuring legislation, including the sale of securitization bonds;

- federal regulation of electric sales and transmission of electricity that grants independent power producers, electricity marketers and other utilities "direct access" to the interstate electric transmission systems owned by electric utilities, creating opportunities for competitors to market electricity to our wholesale customers;

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

- the timing and success of business development efforts and plans for asset sales;

- potential disruption, expropriation or interruption of facilities or operations due to accidents or political events and the ability to get 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;

- financial or regulatory accounting principles or policies;

- cost and other effects of legal and administrative proceedings, settlements, investigations and claims;

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

- other uncertainties, all of which are difficult to predict and many of which are beyond our control.

These and other factors are discussed more completely in our public filings with the SEC, including our annual report on Form 10-K for the year ended December 31, 2000.

USE OF PROCEEDS

From the net proceeds from this offering, after deducting underwriting discounts and commissions, Banc of America Securities LLC, as the call holder and as the holder of the 8% Notes, will receive $262,349,381 of the net proceeds of the notes offered hereby. We will receive, before expenses, $586,858, which we will use for general corporate purposes.

RATIO OF EARNINGS TO FIXED CHARGES

The ratio of earnings to fixed charges for each of the years ended December

31, 1996 through 2000 and for the three months ended March 31, 2001 is as follows:

	YEAR ENDED DECEMBER 31,					THREE M MARCH
	1996	1997	1998	1999	2000	(UNA
Ratio of earnings to fixed charges.....	1.96x	1.78x	1.59x	1.38x	--(1)	1

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(1) For the year ended December 31, 2000, fixed charges exceeded earnings by $124 million. Earnings as defined include a $329 million pretax impairment loss on the Loy Yang A investment. The ratio of earnings to fixed charges would have been 1.32x excluding this amount.

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

CAPITALIZATION

The following table sets forth our capitalization as of March 31, 2001 (1) on an actual basis and (2) as adjusted to reflect the sale of $129 million of mandatorily redeemable preferred securities of Consumers Energy Company Financing IV on May 31, 2001 and $269 million of notes in this offering and the application of the net proceeds as described under "Use of Proceeds". This table should be read in conjunction with our consolidated financial statements and related notes included in the incorporated documents as described under "Where to Find More Information" in the accompanying prospectus.

	AS OF MARCH 31, 2001	
	ACTUAL	AS ADJUSTED
	(UNAUDITED) (IN MILLIONS)	
Current portion of long-term debt and capital lease obligations(1)..	$ 302	$ 302
Non-current portion of capital leases.....................	$ 58	$ 58
Long-term debt:		
8.9% Senior notes due 2008(1)...........................	--	$ 269
Other long-term debt (excluding current maturities)(1)...	7,150	$ 6,900
Total long-term debt.................................	7,208	7,227
Total stockholders' equity:		
Company-obligated mandatorily redeemable preferred securities of:		
Consumers Power Company Financing I(2)................	100	100

Consumers Energy Company Financing II(3)	120	120
Consumers Energy Company Financing III(4)	175	175
Consumers Energy Company Financing IV(5)	--	125
Company-obligated convertible preferred securities of:		
CMS Energy Trust I(6)	173	173
CMS Energy Trust II(7)	301	301
CMS Energy Trust III(8)	220	220
Preferred stock of subsidiary	44	44
Common stockholders' equity	2,703	2,703
Total stockholders' equity	3,836	3,961
Total capitalization	$11,044	$11,188

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(1) Adjusted to reflect the issuance of $269 million aggregate principal amount of 8.9% senior notes due 2008. The net proceeds from this offering will be used to pay down our obligation under our $250 million 8% Notes and to pay off a call option held by Banc of America Securities LLC in connection with those securities.

(2) The primary asset of Consumers Power Company Financing I is approximately $103 million principal amount of 8.36% subordinated deferrable interest notes due 2015 from Consumers.

(3) The primary asset of Consumers Energy Company Financing II is approximately $124 million principal amount of 8.20% subordinated deferrable interest notes due 2027 from Consumers.

(4) The primary asset of Consumers Energy Company Financing III is $180 million principal amount of 9.25% subordinated deferrable interest notes due 2029 from Consumers.

(5) The primary asset of Consumers Energy Company Financing IV is $129 million principal amount of 9.00% subordinated deferrable interest notes due 2031 from Consumers.

(6) The primary asset of CMS Energy Trust I is approximately $178 million principal amount of 7.75% convertible subordinated debentures due 2027 from CMS Energy.

(7) The primary asset of CMS Energy Trust II is approximately $310 million principal amount of 8.625% junior subordinated deferrable interest debentures due 2004 from CMS Energy.

(8) The primary asset of CMS Energy Trust III is approximately $226 million principal amount of 7.25% subordinated deferrable notes due August 2004 from CMS Energy.

CMS ENERGY

OVERVIEW

CMS Energy is a leading diversified energy company operating in the United States and in selected growth markets around the world. Our two principal subsidiaries are Consumers and CMS Enterprises. Consumers is a public utility that provides natural gas or electricity to almost six million of the 9.9

million residents in Michigan's lower peninsula. Enterprises, through subsidiaries, is engaged in several energy businesses in the United States and in approximately 20 countries on five continents.

In 2000, our consolidated operating revenue was $9.0 billion and our EBITDA was $1.693 billion. The following table shows the EBITDA contribution from each of our business segments:

	EBITDA(1)	
	AMOUNT	% TOTAL
	(DOLLARS IN MILLIONS)	
CONSUMERS		
Consumers electric utility	$ 792	46.8%
Consumers gas utility	211	12.4
Total Consumers	1,003	59.2
ENTERPRISES		
Independent power production(2)	175	10.3
Natural gas transmission, storage and processing	317	18.7
Oil and gas exploration and production	68	4.0
International energy distribution and other non-utility operations	61	3.6
Marketing, services and trading	19	1.2
Total Enterprises	640	37.8
OTHER	50	3.0
Total	$1,693	100.0%

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(1) EBITDA represents earnings before interest, income taxes, depreciation and amortization. EBITDA is not intended to represent cash flow for the period, nor is it presented as an alternative to operating income as an indicator of operating performance, and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with generally accepted accounting principles ("GAAP") in the United States and is not indicative of operating income or cash flow from operations as determined under GAAP.

(2) Excludes the write-down of our investment in Loy Yang A of $329 million pre-tax ($268 million after-tax).

CONSUMERS

Consumers primarily consists of our electric and gas utility operations. Consumers was formed in Michigan in 1968 and is the successor to a corporation organized in Maine in 1910 and which did business in Michigan from 1915 to 1968. Consumers' consolidated operations account for a majority of our total assets and income, as well as a substantial portion of our operating revenue. Consumers' service areas include automotive, metal, chemical, food and wood products and a diversified group of other industries.

ELECTRIC UTILITY OPERATIONS

Based on the number of customers, Consumers' electric utility operations, if independent, would be the twelfth largest electric utility company in the United States. The electric operations of Consumers include the generation, purchase, transmission, distribution and sale of electricity. In 2000, operating revenue from this segment was $2,676 million and total electric sales were 41 billion kWh. At year-end

2000, it served customers in 61 of the 68 counties of Michigan's lower peninsula. Principal cities served include Battle Creek, Flint, Grand Rapids, Jackson, Kalamazoo, Midland, Muskegon and Saginaw. Consumers' electric utility customer base includes a mix of residential, commercial and diversified industrial customers, the largest segment of which is the automotive industry. Consumers' electric operations are not dependent upon a single customer, or even a few customers, and the loss of any one or even a few of such customers is not reasonably likely to have a material adverse effect on its financial condition.

At December 31, 2000, Consumers' owned and operated 29 electric generating plants with an aggregate of 6,437 MW of capacity. Also in 2000, Consumers purchased 2,552 MW of net capacity from other power producers, which amounted to 34.8 percent of Consumers' total system requirements, the largest of which was the Midland Cogeneration Venture Limited Partnership in which Consumers has a 49% interest through CMS Midland. Consumers also owns 4,467 miles of overhead transmission lines operating at 120 kilovolts and above, 61,298 miles of electric distribution overhead lines, and substations having an aggregate transformer capacity of 40,254,830 kilovoltamperes.

Consumers generates electricity principally from coal and nuclear fuel. Consumers has four generating plant sites that use coal as a fuel source and constituted 73.2 percent of its baseload capacity in 2000. In 2000, these plants produced a combined total of 17,926 million kWhs of electricity and required 8.5 million tons of coal. On December 31, 2000, Consumers' coal inventory amounted to approximately 50 days' supply. During 2000, Consumers owned two nuclear power plants of which only one was operating. The Big Rock nuclear power plant was closed permanently in 1997 and is in the process of being decommissioned. During 2000, the Palisades nuclear power plant had net generation of 5,724 million kWhs, constituting 23.4 percent of Consumers' baseload supply. Consumers currently has two contracts for uranium concentrates sufficient to provide up to 43 percent of Consumers fuel supply requirements for 2001. Consumers also has contracts for conversion services and enrichment services with quantity flexibility ranging from 40 percent to 100 percent and 50 percent and 100 percent of its nuclear fuel requirements, respectively. If spot market prices are below the contract price, Consumers will purchase only the minimum amount of nuclear fuel required by the contracts. Conversely, if spot market prices are above the contracts prices, Consumers will purchase the maximum amount of nuclear fuel allowed by the contracts to meet its requirements.

GAS UTILITY OPERATIONS

Based on the number of customers, Consumers' gas utility operations, if independent, would be the fifth largest gas utility company in the United States. Consumers' gas utility operations purchase, transport, store, distribute and sell natural gas. In 2000, total deliveries of natural gas sold by Consumers and by other sellers over Consumers' pipeline and distribution network to ultimate customers, including the MCV Partnership, totaled 410 Bcf. Operating revenue for 2000 was $1,196 million. As of December 31, 2000, Consumers was authorized to provide service in 54 of the 68 counties in Michigan's lower peninsula. Principal cities served include Bay City, Flint, Jackson, Kalamazoo, Lansing, Pontiac and Saginaw, as well as the suburban Detroit area, where nearly 900,000 of the gas customers are located. Consumers' gas operations are not dependent upon a single customer, or even a few customers, and the loss of any one or even a few of such customers is not reasonably likely to have a material adverse effect on its financial condition.

Consumers, together with its wholly owned subsidiary, Michigan Gas Storage, owns 24,383 miles of distribution mains and 1,629 miles of transmission lines throughout Michigan's lower peninsula. Consumers and its subsidiary own and operate eight compressor stations with a total of 162,000 installed horsepower. Consumers and its subsidiary also have 14 gas storage fields located across Michigan with an aggregate storage capacity of 330.8 Bcf.

In 2000, Consumers purchased 37.2 percent of its required gas supply under contracts with a duration of longer than one year. Consumers also has firm transportation agreements with affiliates and other independent pipeline companies for the delivery of over 80 percent of its total gas supply requirements.

These contracts have expiration dates ranging from January 2002 to April 2004. Consumers transports the balance of its required gas supply under interruptible contracts.

ENTERPRISES

NATURAL GAS TRANSMISSION

CMS Gas Transmission, formed in 1988, owns, develops and manages domestic and international natural gas facilities. In 2000, CMS Gas Transmission's operating revenue was $906 million. In 1999, we expanded the importance of this business segment with the acquisition of the Panhandle Companies.

Panhandle is primarily engaged in the interstate transmission and storage of natural gas. Panhandle operates a large natural gas pipeline network, providing customers in the Midwest and Southwest with a comprehensive array of transportation services. Panhandle's major customers include 25 utilities located primarily in the United States Midwest market area. Panhandle's combined throughput was 1,374 Tbtu in 2000. A majority of Panhandle's revenue comes from long-term service agreements with local distribution company customers. Panhandle also provides firm transportation services under contract to gas, marketers, producers, other pipelines, electric power generators and a variety of end-users. In addition, the pipelines offer both firm and interruptible transportation to customers on a short-term or seasonal basis. In 2000, Panhandle's consolidated operating revenue was $483 million.

CMS Gas Transmission has a total of 15,734 miles of pipeline in the United States, including 154 miles of projects under construction, with a daily capacity of approximately 8.5 Bcf. Panhandle's portion of CMS Gas Transmission's natural gas transmission system consists of four large diameter pipelines extending approximately 1,300 miles from producing areas in the Anadarko Basin of Texas, Oklahoma and Kansas through the states of Missouri, Illinois, Indiana, Ohio and into Michigan. Trunkline Gas Company's transmission system extends approximately 1,400 miles from the Gulf Coast areas of Texas and Louisiana through the states of Arkansas, Mississippi, Tennessee, Kentucky, Illinois and Indiana to a point on the Indiana-Michigan border. Internationally, at December 31, 2000, CMS Gas Transmission had ownership interests in 5,482 miles of pipelines in Argentina and Australia.

At December 31, 2000, CMS Gas Transmission had processing capabilities of approximately 1.0 Bcf per day of natural gas, including a hydrocarbon fractionation plant in Michigan with a capacity of 30,000 barrels per day. Through Panhandle, CMS Gas Transmission owns and operates 51 compressor stations. It also has six gas storage fields with an aggregate storage capacity of 70 Bcf. One underground storage field is used for natural gas liquids. CMS Gas Transmission currently has two gas storage fields under development. Through subsidiaries, CMS Gas Transmission operates 4,569 miles of gas gathering systems with total capacity of 1.5 Bcf per day.

CMS Gas Transmission, through Panhandle, owns and operates an LNG receiving terminal. Panhandle also owns a one-third interest in a company that plans to extend and to convert an existing 26-inch pipeline, currently owned by Trunkline Gas Company, from natural gas transmission service to liquid products service by the beginning of 2002.

CMS Gas Transmission has an ownership interest in a methanol plant under construction in Equatorial Guinea, Africa. The plant is scheduled to go into service in mid-2001 and will have a capacity of 2,500 metric tons per day.

INDEPENDENT POWER PRODUCTION

CMS Generation, formed in 1986, invests in, acquires, develops, constructs and operates non-utility power generation plants in the United States and abroad. In 2000, the independent power production business segment's operating revenue, which includes revenues from CMS Generation, CMS Operating, S.A., the MCV Facility and the MCV Partnership, was $500 million.

As of December 31, 2000, CMS Generation had ownership interests in operating power plants totaling 8,365 gross MW (3,533 net MW) throughout the United States and abroad. At December 31, 2000,

additional plants totaling approximately 3,553 gross MW are under construction or advanced development. The following table details CMS Generation's interest in independent power plants in the United States as well as abroad as of year-end 2000 (excluding the MCV facility and plants owned by CMS Operating, S.A., discussed further below):

LOCATION	FUEL TYPE	OWNERSHIP INTEREST (%)	GROS
DOMESTIC			
California	Wind	8.5	
California	Wind	22.7	
California	Wood	37.8	
Connecticut	Scrap tire	50.0	
Maine	Hydro	50.0	
Michigan	Wood	50.0	
Michigan	Wood	50.0	
Michigan	Natural Gas	100.0	
Michigan	Coal	50.0	
Michigan	Natural Gas	100.0	
Michigan	Natural Gas	100.0	
New York	Hydro	1.0	
New York	Hydro	50.0	
North Carolina	Wood	50.0	
Oklahoma	Natural Gas	8.8	
Virginia	Hydro	55.0	
INTERNATIONAL			
Argentina	Hydro	17.2	

Australia	Coal	49.6
Chile	Natural Gas	50.0
Ghana	Light Fuel Oil	90.0
India	Diesel	49.0
India	Natural Gas	33.2
Jamaica	Diesel	41.2
Latin America	Various	Various
Morocco	Coal	50.0
Philippines	Coal	47.5
Philippines	Diesel	47.5
Thailand	Coal	66.0
United Arab Emirates	Natural Gas	40.0
Venezuela	Diesel	70

Through CMS Operating, S.A., we own a 128 MW natural gas power plant, and a 92.6 percent ownership interest in a 540 MW natural gas power plant, each in Argentina. Through CMS Midland we also own a 49 percent interest in the MCV Partnership and through a trust, we have a 35 percent indirect beneficial interest in the MCV Facility. The MCV Partnership was formed in January 1987 to convert a portion of an abandoned Midland County, Michigan nuclear plant owned by Consumers into the MCV Facility. The MCV Facility has gross capacity of approximately 1,370 MW (671 net MW).

OIL AND GAS EXPLORATION AND PRODUCTION

CMS Oil and Gas, formed in 1967, conducts oil and gas exploration and development operations in the United States, and in six other countries. In 2000, CMS Oil and Gas achieved production levels of 7.27 million barrels of oil, condensate and plant products and 17.56 Bcf of gas. At January 1, 2001, CMS Oil and Gas's proven oil and gas reserves total 234.6 million net equivalent barrels reflecting a balanced portfolio of high-quality reserves, including 45.5 percent oil and condensate and 54.5 percent natural gas.

The following table shows net oil and gas production by CMS Oil and Gas for the years 1998 through 2000:

	1998	1999	2000
Oil and condensate (MBbls)(1)	7,307	7,288	6,980
Natural gas (MMcf)(1)	26,495	26,412	17,564
Plant products (MBbls)(1)	413	396	287
Reserves to annual production ratio			
Oil (MMBbls)	11.5	15.2	14.7
Gas (Bcf)	21.3	29.9	43.7

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(1) Revenue interest to CMS Oil and Gas.

The following table shows CMS Oil and Gas' estimated oil and gas reserves for the year 2000:

SOUTH

	U.S.	AMERICA	AFRICA	TOTA
Estimated Proved Developed and Undeveloped Reserves:				
Oil (MMBbls)	6.2	15.9	84.3	106.
Gas (Bcf)	81.5	7.0	679.4	767.
Estimated Proved Developed Reserves(1):				
Oil (MMBbls)	2.4	10.8	80.8	94.
Gas (Bcf)	61.8	7.0	679.4	748.

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(1) The government license in Venezuela is an oil service contract whereby CMS Oil and Gas is paid a fee per barrel for oil discovered, lifted, and delivered to Maraven S.A., a subsidiary of Petroleos de Venezuela S.A. Additionally, CMS Oil and Gas receives a fee for reimbursement of certain capital expenditures. The volumes presented represent actual production with respect to which CMS Oil and Gas is paid a per barrel fee.

In 2000, CMS Oil and Gas sold all of its Northern Michigan oil and gas properties. In that same year, it also sold its working interest in oil reserves located in Ecuador.

INTERNATIONAL ENERGY DISTRIBUTION

CMS Electric and Gas, formed in 1996, is involved in purchasing, investing in and operating gas and electric distribution systems worldwide. In 2000, operating revenue was $265 million.

As of December 31, 2000, CMS Electric and Gas had ownership interests in electric distribution companies in Venezuela, Argentina and Brazil. These electric distribution companies serve approximately 475,000 customers with electricity sales of 3,166 GWh in 2000. These amounts exclude the sale in January 2000 of CMS Electric and Gas' interest in Companhia Forca Luz Cataguazes -- Leopoldina and its subsidiaries in Brazil. In December 2000, we sold approximately one-half of our 48 percent interest in Empressa Distribuidora de Electricidad de Entre Rios, S.A., an electric distribution utility serving the province of Entre Rios, Argentina, and executed an agreement to sell the remaining 24.56 percent in 2001.

MARKETING, SERVICES AND TRADING

CMS Marketing, Services and Trading ("CMS MST"), formed in 1996, provides gas, oil, and electric marketing, risk management and energy management services to industrial, commercial, utility and municipal energy users throughout the United States and abroad. CMS MST has grown dramatically since its inception. We intend to use CMS MST to enhance performance of our assets, such as gas reserves and power plants. CMS MST markets approximately 614 Bcf of natural gas, 37,781 Gwh of electricity, 31 million barrels of crude oil and 9 million barrels of natural gas liquids. From 1997 through 2000, CMS MST also performed energy management services for 350 projects. At December 31, 2000, CMS MST

had more than 10,611 customers, transported gas on more than 40 gas pipelines and was active in 39 states and Canada and Brazil. In 2000, CMS MST's operating revenue was $3.3 billion.

DESCRIPTION OF THE NOTES

GENERAL

The following information concerning the notes supplements, and should be read in conjunction with, the statements under "Description of Securities -- Debt Securities" in the accompanying prospectus. Capitalized terms not defined in this section are used as defined in the accompanying prospectus.

The notes will be issued as a series of Senior Debentures under the senior debt indenture as supplemented by the twelfth supplemental indenture thereto dated as of July 2, 2001 (the "Supplemental Indenture"), and will be limited in aggregate principal amount to $269 million.

The notes will be unsecured and unsubordinated senior debt securities of CMS Energy.

As of March 31, 2001, CMS Energy had outstanding approximately $3.7 billion aggregate principal amount of indebtedness (excluding subsidiaries), none of which was secured. None of such indebtedness would be senior to the notes and the notes will not be senior to such indebtedness, except that the notes will be senior to certain subordinated debentures in aggregate principal amount of $714 million, issued in connection with certain preferred securities of subsidiary trusts. The notes will rank equally in right of payment with all other unsecured and unsubordinated senior indebtedness of CMS Energy (excluding subsidiaries).

CMS Energy is a holding company and its assets consist primarily of investments in its subsidiaries. The notes will be obligations exclusively of CMS Energy. CMS Energy's ability to service its indebtedness, including the notes, is dependent primarily upon the earnings of its subsidiaries and the distribution or other payment of such earnings to CMS Energy in the form of dividends, loans or advances, and repayment of loans and advances from CMS Energy. 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.

A substantial portion of the consolidated liabilities of CMS Energy has been incurred by its subsidiaries. Therefore, 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 subsidiary's creditors, including trade creditors, except to the extent that CMS Energy may itself be a creditor with recognized claims against the subsidiary (in which case the claims of CMS Energy would still be subject to the prior claims of any secured creditor of such subsidiary and of any holder of indebtedness of such subsidiary that is senior to that held by CMS Energy).

The notes will be issued in the form of one or more global notes (each, a "Global Note"), in registered form, without coupons, in denominations of $1,000 or an integral multiple thereof as described under "-- Book-Entry System" below. The Global Notes will be registered in the name of a nominee of The Depository Trust Company ("DTC"). Except as set forth under "-- Certificated Notes" below, owners of beneficial interests in a Global Note will not be entitled to have notes registered in their names, will not receive or be entitled to receive physical delivery of any such note and will not be considered the registered holder thereof under the senior debt indenture.

PAYMENT AND MATURITY

The notes will mature on July 15, 2008, and will bear interest at the rate of 8.9% per year. At maturity, CMS Energy will pay the aggregate principal amount of the notes then outstanding.

Each note will bear interest from the original date of issue, payable semiannually in arrears on January 15, and July 15, commencing on January 15, 2002.

In any case where any interest payment date, redemption date, repurchase date or maturity of any note shall not be a Business Day (as hereinafter defined) at any place of payment, then payment of interest or principal (and premium, if any) need not be made on such date, but may be made on the next succeeding Business Day at such place of payment with the same force and effect as if made on the interest payment date, redemption date, repurchase date or at maturity; and no interest shall accrue on the amount so payable for the period from and after such interest payment date, redemption date, repurchase date or maturity, as the case may be, to such Business Day.

OPTIONAL REDEMPTION

The notes will be redeemable at CMS Energy's option, in whole or in part, at any time or from time to time, at a redemption price equal to 100% of the principal amount of such notes being redeemed plus the Applicable Premium as defined below, if any, thereon at the time of redemption, together with accrued interest, if any, thereon to the redemption date. In no event will the redemption price be less than 100% of the principal amount of the notes plus accrued interest, if any, thereon to the redemption date.

The following definitions are used to determine the Applicable Premium:

"Applicable Premium" means, with respect to a note (or portion thereof) being redeemed at any time, the excess of (A) the present value at such time of the principal amount of such note (or portion thereof) being redeemed plus, discounted on a semi-annual basis, all interest payments due on such note (or portion thereof) after the redemption date, which present value shall be computed using a discount rate equal to the Treasury Rate (as defined below) plus 50 basis points, over (B) the principal amount of such note (or portion thereof) being redeemed at such time. For purposes of this definition, the present values of interest and principal payments will be determined in accordance with generally accepted principles of financial analysis.

"Treasury Rate" means the yield to maturity at the time of computation of United States Treasury securities with a constant maturity (as compiled and published in the most recent Federal Reserve Statistical Release H.15(519) (the "Statistical Release") which has become publicly available at least two Business Days prior to the redemption date or, in case of defeasance, prior to the date of deposit (or, if such Statistical Release is no longer published, any publicly available source of similar market data) most nearly equal to the then remaining average life to stated maturity of the notes; provided, however, that if the average life to stated maturity of the notes is not equal to the constant maturity of a United States Treasury security for which a weekly average yield is given, the Treasury Rate shall be obtained by linear interpolation (calculated to the nearest one-twelfth of a year) from the weekly average yields of United States Treasury securities for which such yields are given.

If less than all of the notes are to be redeemed, the trustee under the senior debt indenture shall select, in such manner as it shall deem appropriate and fair, the particular notes or portions thereof to be redeemed. Notice of redemption shall be given by mail not less than 30 nor more than 60 days prior to the date fixed for redemption to the Holders of notes to be redeemed (which, as long as the notes are held in the book-entry only system, will be DTC (or its nominee) or a successor depositary); provided, however, that the failure to duly give such notice by mail, or any defect therein, shall not affect the validity of any proceedings for the redemption of notes as to which there shall have been no such failure or defect. On and after the date fixed for redemption (unless CMS Energy shall default in the payment of the notes or portions thereof to be redeemed at the applicable redemption price, together with accrued interest, if any, thereon to such date), interest on the notes or the portions thereof so called for redemption shall cease to accrue.

No sinking fund is provided for the notes.

PURCHASE OF NOTES UPON CHANGE IN CONTROL

In the event of any Change in Control (as defined below) each Holder of a note will have the right, at such Holder's option, subject to the terms and conditions of the senior debt indenture, to require

CMS Energy to repurchase all or any part of such Holder's note on a date selected by CMS Energy that is no earlier than 60 days nor later than 90 days (the "Change in Control Purchase Date") after the mailing of written notice by CMS Energy of the occurrence of such Change in Control, at a repurchase price payable in cash equal to 101% of the principal amount of such notes plus accrued interest, if any, thereon to the Change in Control Purchase Date (the "Change in Control Purchase Price").

Within 30 days after the Change in Control Date, CMS Energy is obligated to mail to each Holder of a Note a notice regarding the Change in Control, which notice shall state, among other things:

- that a Change in Control has occurred and that each such Holder has the right to require CMS Energy to repurchase all or any part of such Holder's notes at the Change in Control Purchase Price;

- the Change in Control Purchase Price;

- the Change in Control Purchase Date;

- the name and address of the Paying Agent; and

- the procedures that Holders must follow to cause the notes to be repurchased.

To exercise this right, a Holder must deliver a written notice (the "Change in Control Purchase Notice") to the Paying Agent at its corporate trust office in Detroit, Michigan, or any other office of the Paying Agent maintained for such purposes, not later than 30 days prior to the Change in Control Purchase Date. The Change in Control Purchase Notice shall state:

- the portion of the principal amount of any notes to be repurchased, which must be $1,000 or an integral multiple thereof;

- that such notes are to be repurchased by CMS Energy pursuant to the applicable change-in-control provisions of the senior debt indenture; and

- unless the notes are represented by one or more Global notes, the certificate numbers of the notes to be repurchased.

Any Change in Control Purchase Notice may be withdrawn by the Holder by a written notice of withdrawal delivered to the Paying Agent not later than three Business Days prior to the Change in Control Purchase Date. The notice of withdrawal shall state the principal amount and, if applicable, the certificate numbers of the notes as to which the withdrawal notice relates and the principal amount, if any, which remains subject to a Change in Control Purchase Notice.

If a Note is represented by a Global note, the Depositary (as defined herein) or its nominee will be the holder of such Note and therefore will be the only entity that can require CMS Energy to repurchase notes upon a Change in Control. To obtain repayment with respect to such note upon a Change in Control, the beneficial owner of such Note must provide to the broker or other entity through which it holds the beneficial interest in such Note (1) the Change in Control Purchase Notice signed by such beneficial owner, and such signature must be guaranteed by a member firm of a registered national securities exchange or of the National Association of Securities Dealers, Inc. ("NASD") or a commercial bank or trust company having an office or correspondent in the United States and (2) instructions to such broker or other entity to notify the Depositary of such beneficial owner's desire to cause CMS Energy to repurchase such notes. Such broker or other entity will provide to the Paying Agent (1) a Change in Control Purchase Notice received from such beneficial owner and (2) a certificate satisfactory to the Paying Agent from such broker or other entity that it represents such beneficial owner. Such broker or other entity will be responsible for disbursing any payments it receives upon the repurchase of such notes by CMS Energy.

Payment of the Change in Control Purchase Price for a note in registered, certificated form (a "Certificated Note") for which a Change in Control Purchase Notice has been delivered and not withdrawn is conditioned upon delivery of such Certificated note (together with necessary endorsements)

to the Paying Agent at its office in Detroit, Michigan, or any other office of the Paying Agent maintained for such purpose, at any time (whether prior to, on or after the Change in Control Purchase Date) after the delivery of such Change in Control Purchase Notice. Payment of the Change in Control Purchase Price for such Certificated note will be made promptly following the later of the Change in Control Purchase Date or the time of delivery of such Certificated note.

If the Paying Agent holds, in accordance with the terms of the senior debt indenture, money sufficient to pay the Change in Control Purchase Price of a Note on the Business Day following the Change in Control Purchase Date for such note, then, on and after such date, interest on such note will cease to accrue, whether or not such note is delivered to the Paying Agent, and all other rights of the Holder shall terminate (other than the right to receive the Change in Control Purchase Price upon delivery of the note).

Under the senior debt indenture, a "Change in Control" means an event or series of events by which:

- CMS Energy ceases to beneficially own, directly or indirectly, at least 80% of the total voting power of all classes of Capital Stock then outstanding of Consumers (whether arising from issuance of securities of CMS Energy or Consumers, any direct or indirect transfer of securities by CMS Energy or Consumers, any merger, consolidation, liquidation or dissolution of CMS Energy or Consumers or otherwise); or any "person" or "group" (as such terms are used in Sections 13(d) and 14(d) of the Exchange Act) becomes the "beneficial owner" (as such term is used in Rules 13d-3 and 13d-5 under the Exchange Act, except that a person or group shall be deemed to have "beneficial ownership" of all shares that such person or group has the right to acquire, whether such right is exercisable immediately or only after the passage of time), directly or indirectly, of more than 35% of the Voting Stock of CMS Energy; or

- CMS Energy consolidates with or merges into another corporation or directly or indirectly conveys, transfers or leases all or substantially all of its assets to any person, or any corporation consolidates with or merges into CMS Energy, in either event pursuant to a transaction in which the outstanding Voting Stock of CMS Energy is changed into or exchanged for cash, securities, or other property, other than any such transaction where (A) the outstanding Voting Stock of CMS Energy is changed into or exchanged for Voting Stock of the surviving corporation and (B) the holders of the Voting Stock of CMS Energy immediately prior to such transaction retain, directly or indirectly, substantially proportionate ownership of the Voting Stock of the surviving corporation immediately after such transaction.

The senior debt indenture requires CMS Energy to comply with the provisions of Regulation 14E and any other tender offer rules under the Exchange Act which may then be applicable in connection with any offer by CMS Energy to purchase notes at the option of Holders upon a Change in Control. The Change in Control purchase feature of the notes may in certain circumstances make more difficult or discourage a takeover of CMS Energy and, thus, the removal of incumbent management. The Change in Control purchase feature, however, is not the result of management's knowledge of any specific effort to accumulate shares of its common stock or to obtain control of CMS Energy by means of a merger, tender offer, solicitation or otherwise, or part of a plan by management to adopt a series of anti-takeover provisions. Instead, the Change in Control purchase feature is a term contained in many similar debt offerings and the terms of such feature result from negotiations between CMS Energy and the underwriters. Management has no present intention to propose any anti-takeover measures although it is possible that CMS Energy could decide to do so in the future.

No Note may be repurchased by CMS Energy as a result of a Change of Control if there has occurred and is continuing an Event of Default described under "Events of Default" below or in the accompanying prospectus (other than a default in the payment of the Change in Control Purchase Price with respect to the notes). In addition, CMS Energy's ability to purchase notes may be limited by its financial resources and its inability to raise the required funds because of restrictions on issuance of securities contained in other contractual arrangements.

CERTAIN RESTRICTIVE COVENANTS

The senior debt indenture contains the covenants described below. Certain capitalized terms used below are defined under the heading "Certain Definitions" below.

LIMITATION ON RESTRICTED PAYMENTS

Under the terms of the senior debt indenture, so long as any of the notes are outstanding and until the notes are rated BBB- or above (or an equivalent rating) by Standard & Poor's and one Other Rating Agency, at which time CMS Energy will be permanently released from the provisions of this "Limitation on Restricted Payments," CMS Energy will not, and will not permit any of its Restricted Subsidiaries, directly or indirectly, to:

- declare or pay any dividend or make any distribution on the Capital Stock of CMS Energy to the direct or indirect holders of its Capital Stock (except dividends or distributions payable solely in its Non-Convertible Capital Stock or in options, warrants or other rights to purchase such Non-Convertible Capital Stock and except dividends or distributions payable to CMS Energy or a Subsidiary);

- purchase, redeem or otherwise acquire or retire for value any Capital Stock of CMS Energy; or

- purchase, repurchase, redeem, defease or otherwise acquire or retire for value, prior to scheduled maturity or scheduled repayment thereof, any Subordinated Indebtedness (any such dividend, distribution, purchase, redemption, repurchase, defeasing, other acquisition or retirement being hereinafter referred to as a "Restricted Payment"),

if at the time CMS Energy or such Subsidiary makes such Restricted Payment: (1) an Event of Default, or an event that with the lapse of time or the giving of notice or both would constitute an Event of Default, shall have occurred and be continuing (or would result therefrom); or (2) the aggregate amount of such Restricted Payment and all other Restricted Payments made since May 6, 1997 would exceed the sum of: (a) $100,000,000 plus 100% of Consolidated Net Income from May 6, 1997 to the end of the most recent fiscal quarter ending at least 45 days prior to the date of such Restricted Payment (or, in case such sum shall be a deficit, minus 100% of the deficit) and (b) the aggregate Net Cash Proceeds received by CMS Energy from the issue or sale of or contribution with respect to its Capital Stock after May 6, 1997.

The foregoing provisions will not prohibit:

- dividends or other distributions paid in respect of any class of Capital Stock issued by CMS Energy in connection with the acquisition of any business or assets by CMS Energy or a Restricted Subsidiary where the dividends or other distributions with respect to such Capital Stock are payable solely from the net earnings of such business or assets;

- any purchase or redemption of Capital Stock of CMS Energy made by exchange for, or out of the proceeds of the substantially concurrent sale of, Capital Stock of CMS Energy (other than Redeemable Stock or Exchangeable Stock);

- dividends paid within 60 days after the date of declaration thereof if at such date of declaration such dividends would have complied with this covenant; or

- payments pursuant to the Tax Sharing Agreement.

LIMITATION ON CERTAIN LIENS

Under the terms of the senior debt indenture, so long as any of the notes are outstanding, CMS Energy shall not create, incur, assume or suffer to exist any Lien upon or with respect to any of its property of any character, including without limitation any shares of Capital Stock of Consumers or Enterprises, without making effective provision whereby the notes shall be (so long as any such other creditor shall be so secured) equally and ratably secured. The foregoing restrictions shall not apply to

(a) Liens securing Indebtedness of CMS Energy, provided that on the date such Liens are created, and after giving effect to such Indebtedness, the aggregate principal amount at maturity of all the secured Indebtedness of CMS Energy at such date shall not exceed 5% of Consolidated Net Tangible Assets or (b) certain liens for taxes, pledges to secure workman's compensation, other statutory obligations and Support Obligations, certain materialman's, mechanic's and similar liens and certain purchase money liens.

LIMITATION ON ASSET SALES

Under the terms of the senior debt indenture, so long as any of the notes are outstanding, CMS Energy may not sell, transfer or otherwise dispose of any property or assets of CMS Energy, including Capital Stock of any Consolidated Subsidiary, in one transaction or a series of transactions in an amount which exceeds $50,000,000 (an "Asset Sale") unless CMS Energy shall (1) apply an amount equal to such excess Net Cash Proceeds to permanently repay Indebtedness of a Consolidated Subsidiary or Indebtedness of CMS Energy which is pari passu with the notes or (2) invest an equal amount not so used in clause (1) in property or assets of related business within 24 months after the date of the Asset Sale (the "Application Period") or (3) apply such excess Net Cash Proceeds not so used in (1) or (2) (the "Excess Proceeds") to make an offer, within 30 days after the end of the Application Period, to purchase from the Holders on a pro rata basis an aggregate principal amount of notes on the relevant purchase date equal to the Excess Proceeds on such date, at a purchase price equal to 100% of the principal amount of the notes on the relevant purchase date and unpaid interest, if any, to the purchase date. CMS Energy shall only be required to make an offer to purchase notes from Holders pursuant to subsection (3) if the Excess Proceeds equal or exceed $25,000,000 at any given time.

The procedures to be followed by CMS Energy in making an offer to purchase notes from the Holders with Excess Proceeds, and for the acceptance of such offer by the Holders, shall be the same as those set forth above in "-- Purchase of notes Upon Change of Control" with respect to a Change in Control.

LIMITATION ON CONSOLIDATION, MERGER, SALE OR CONVEYANCE

In addition to the terms of the senior debt indenture relating to consolidations or mergers described in the accompanying prospectus, so long as any of the notes are outstanding and until the notes are rated BBB- or above (or an equivalent rating) by Standard & Poor's and one Other Rating Agency, at which time CMS Energy will be permanently released from the provisions of this "Limitation on Consolidation, Merger, Sale or Conveyance" (but not from the provisions described in the accompanying prospectus which permit a consolidation or merger provided that the surviving corporation assumes the obligations of CMS Energy under the notes and the senior debt indenture and is organized and existing under the laws of the United States of America, any state thereof or the District of Columbia), CMS Energy shall not consolidate with or merge into any other Person or sell, lease or convey the property of CMS Energy in the entirety or substantially as an entirety, unless (1) immediately after giving effect to such transaction the Consolidated Net Worth of the surviving entity is at least equal to the Consolidated Net Worth of CMS Energy immediately prior to the transaction, and (2) after giving effect to such transaction, the surviving entity would be entitled to incur at least one dollar of additional Indebtedness (other than revolving Indebtedness to banks) pursuant to the first paragraph under "-- Limitation on Consolidated Indebtedness" below. Notwithstanding the foregoing provisions, such a transaction may constitute a Change of Control as described in "-- Purchase of notes Upon Change in Control" above and give rise to the right of a Holder to require CMS Energy to repurchase all or part of such Holder's notes.

LIMITATION ON CONSOLIDATED INDEBTEDNESS

Under the terms of the senior debt indenture, so long as any of the notes are outstanding and until the notes are rated BBB- or above (or an equivalent rating) by Standard & Poor's and one Other Rating Agency, at which time CMS Energy will be permanently released from the provisions of this "Limitation on Consolidated Indebtedness," CMS Energy will not, and will not permit any of its Consolidated Subsidiaries to, issue, create, assume, guarantee, incur or otherwise become liable for (collectively, "issue"), directly or indirectly, any Indebtedness unless the Consolidated Coverage Ratio of CMS Energy and its Consolidated Subsidiaries for the four consecutive fiscal quarters immediately preceding the issuance of such Indebtedness (as shown by a pro forma consolidated income statement of CMS Energy and its Consolidated Subsidiaries for the four most recent fiscal quarters ending at least 30 days prior to the issuance of such Indebtedness after giving effect to (1) the issuance of such Indebtedness and (if applicable) the application of the net proceeds thereof to refinance other Indebtedness as if such Indebtedness was issued at the beginning of the period, (2) the issuance and retirement of any other Indebtedness since the first day of the period as if such Indebtedness was issued or retired at the beginning of the period and (3) the acquisition of any company or business acquired by CMS Energy or any Subsidiary since the first day of the period (including giving effect to the pro forma historical earnings of such company or business), including any acquisition which will be consummated contemporaneously with the issuance of such Indebtedness, as if in each case such acquisition occurred at the beginning of the period) exceeds a ratio of 1.7 to 1.0.

The foregoing limitation is subject to exceptions for:

- Indebtedness of CMS Energy to banks not to exceed $1,000,000,000 in aggregate outstanding principal amount at any time;

- Indebtedness outstanding on the date of the Supplemental Indenture and certain refinancings thereof;

- certain refinancings and Indebtedness of CMS Energy to a Subsidiary or by a Subsidiary to CMS Energy;

- Indebtedness of a Consolidated Subsidiary issued to acquire, develop, improve, construct or to provide working capital for a gas, oil or electric generation, exploration, production, distribution, storage or transmission facility and related assets; provided that such Indebtedness is without recourse to any assets of CMS Energy, Consumers, Enterprises, CMS Generation, CMS Oil & Gas, CMS Electric and Gas, CMS Gas Transmission, CMS MST or any other Designated Enterprises Subsidiary;

- Indebtedness of a Person existing at the time at which such Person became a Subsidiary and not incurred in connection with, or in contemplation of, such Person becoming a Subsidiary;

- Indebtedness issued by CMS Energy not to exceed $150,000,000 in aggregate outstanding principal amount at any time; and

- Indebtedness of a Consolidated Subsidiary in respect of rate reduction bonds issued to recover electric restructuring transition costs of Consumers provided that such Indebtedness is without recourse to the assets of Consumers.

CERTAIN DEFINITIONS

Set forth below is a summary of certain defined terms used in the senior debt indenture. Reference is made to the senior debt indenture for a full definition of all terms as well as any other capitalized terms used herein and not otherwise defined.

"Business Day" means a day on which banking institutions in New York, New York or Detroit, Michigan are not authorized or required by law or regulation to close.

"Capital Lease Obligation" of a Person means any obligation that is required to be classified and accounted for as a capital lease on the face of a balance sheet of such Person prepared in accordance with generally accepted accounting principles; the amount of such obligation shall be the capitalized amount thereof, determined in accordance with generally accepted accounting principles; the stated maturity thereof shall be the date of the last payment of rent or any other amount due under such lease prior to the first date upon which such lease may be terminated by the lessee without payment of a penalty; and such obligation shall be deemed secured by a Lien on any property or assets to which such lease relates.

"Capital Stock" means any and all shares, interests, rights to purchase, warrants, options, participations or other equivalents of or interests in (however designated) corporate stock, including any Preferred Stock or letter stock; provided that Hybrid Preferred Securities are not considered Capital Stock for purposes of this definition.

"CMS Electric and Gas" means CMS Electric and Gas Company, a Michigan corporation and wholly-owned subsidiary of Enterprises.

"CMS Gas Transmission" means CMS Gas Transmission Company (formerly known as CMS Gas Transmission and Storage Company), a Michigan corporation and wholly-owned subsidiary of Enterprises.

"CMS Generation" means CMS Generation Co., a Michigan corporation and wholly-owned subsidiary of Enterprises.

"CMS MST" means CMS Marketing, Services and Trading Company, a Michigan corporation and wholly-owned subsidiary of Enterprises.

"CMS Oil & Gas" means, CMS Oil & Gas Co. (formerly known as, "CMS NOMECO Oil & Gas Co."), a Michigan corporation and wholly-owned subsidiary of CMS Energy.

"Consolidated Assets" means, at any date of determination, the aggregate assets of CMS Energy and its Consolidated Subsidiaries determined on a consolidated basis in accordance with generally accepted accounting principles.

"Consolidated Coverage Ratio" with respect to any period means the ratio of (1) the aggregate amount of Operating Cash Flow for such period to (2) the aggregate amount of Consolidated Interest Expense for such period.

"Consolidated Current Liabilities" means, for any period, the aggregate amount of liabilities of CMS Energy and its Consolidated Subsidiaries which may properly be classified as current liabilities (including taxes accrued as estimated), after (1) eliminating all inter-company items between CMS Energy and any Consolidated Subsidiary and (2) deducting all current maturities of long-term Indebtedness, all as determined in accordance with generally accepted accounting principles.

"Consolidated Indebtedness" means, at any date of determination, the aggregate Indebtedness of CMS Energy and its Consolidated Subsidiaries determined on a consolidated basis in accordance with generally accepted accounting principles; provided that Consolidated Indebtedness shall not include any subordinated debt owned by any Hybrid Preferred Securities Subsidiary.

"Consolidated Interest Expense" means, for any period, the total interest expense in respect of Consolidated Indebtedness of CMS Energy and its Consolidated Subsidiaries, including, without duplication:

- interest expense attributable to capital leases,

- amortization of debt discount,

- capitalized interest,

- cash and noncash interest payments,

- commissions, discounts and other fees and charges owed with respect to letters of credit and bankers' acceptance financing,

- net costs under Interest Rate Protection Agreements (including amortization of discount) and

- interest expense in respect of obligations of other Persons deemed to be Indebtedness of CMS Energy or any Consolidated Subsidiaries under the fifth or sixth bullet points of the definition of Indebtedness,

provided, however, that Consolidated Interest Expense shall exclude (a) any costs otherwise included in interest expense recognized on early retirement of debt and (b) any interest expense in respect of any

Indebtedness of any Subsidiary of Consumers, CMS Generation, CMS Oil & Gas, CMS Electric and Gas, CMS Gas Transmission, CMS MST or any other Designated Enterprises Subsidiary, provided that such Indebtedness is without recourse to any assets of CMS Energy, Consumers, Enterprises, CMS Generation, CMS Oil & Gas, CMS Electric and Gas, CMS Gas Transmission, CMS MST or any other Designated Enterprises Subsidiary.

"Consolidated Net Income" means, for any period, the net income of CMS Energy and its Consolidated Subsidiaries determined on a consolidated basis in accordance with generally accepted accounting principles; provided, however, that there shall not be included in such Consolidated Net Income:

- any net income of any Person if such Person is not a Subsidiary, except that (A) CMS Energy's equity in the net income of any such Person for such period shall be included in such Consolidated Net Income up to the aggregate amount of cash actually distributed by such Person during such period to CMS Energy or a Consolidated Subsidiary as a dividend or other distribution and (B) CMS Energy's equity in a net loss of any such Person for such period shall be included in determining such Consolidated Net Income;

- any net income of any Person acquired by CMS Energy or a Subsidiary in a pooling of interests transaction for any period prior to the date of such acquisition;

- any gain or loss realized upon the sale or other disposition of any property, plant or equipment of CMS Energy or its Consolidated Subsidiaries which is not sold or otherwise disposed of in the ordinary course of business and any gain or loss realized upon the sale or other disposition of any Capital Stock of any Person; and

- any net income of any Subsidiary of Consumers, CMS Generation, CMS Oil & Gas, CMS Electric and Gas, CMS Gas Transmission, CMS MST or any other Designated Enterprises Subsidiary whose interest expense is excluded from Consolidated Interest Expense, provided, however, that for purposes of this bullet point, any cash, dividends or distributions of any such Subsidiary to CMS Energy shall be included in calculating Consolidated Net Income.

"Consolidated Net Tangible Assets" means, for any period, the total amount of assets (less accumulated depreciation or amortization, allowances for doubtful receivables, other applicable reserves and other properly deductible items) as set forth on the most recently available quarterly or annual consolidated balance sheet of CMS Energy and its Consolidated Subsidiaries, determined on a consolidated basis in accordance with generally accepted accounting principles, and after giving effect to purchase accounting and after deducting therefrom, to the extent otherwise included, the amounts of:

- Consolidated Current Liabilities;

- minority interests in Consolidated Subsidiaries held by Persons other than CMS Energy or a Restricted Subsidiary;

- excess of cost over fair value of assets of businesses acquired, as determined in good faith by the Board of Directors as evidenced by Board resolutions;

- any revaluation or other write-up in value of assets subsequent to December 31, 1996, as a result of a change in the method of valuation in accordance with generally accepted accounting principles;

- unamortized debt discount and expenses and other unamortized deferred charges, goodwill, patents, trademarks, service marks, trade names, copyrights, licenses organization or developmental expenses and other intangible items;

- treasury stock; and

- any cash set apart and held in a sinking or other analogous fund established for the purpose of redemption or other retirement of Capital Stock to the extent such obligation is not reflected in Consolidated Current Liabilities.

"Consolidated Net Worth" of any Person means the total of the amounts shown on the consolidated balance sheet of such Person and its consolidated subsidiaries, determined on a consolidated basis in accordance with generally accepted accounting principles, as of any date selected by such Person not more than 90 days prior to the taking of any action for the purpose of which the determination is being made (and adjusted for any material events since such date), as (1) the par or stated value of all outstanding Capital Stock plus (2) paid-in capital or capital surplus relating to such Capital Stock plus (3) any retained earnings or earned surplus less (A) any accumulated deficit, (B) any amounts attributable to Redeemable Stock and (C) any amounts attributable to Exchangeable Stock.

"Consolidated Subsidiary" means, any Subsidiary whose accounts are or are required to be consolidated with the accounts of CMS Energy in accordance with generally accepted accounting principles.

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

"Designated Enterprises Subsidiary" means any wholly-owned subsidiary of Enterprises formed after the date of the Supplemental Indenture which is designated a Designated Enterprises Subsidiary by the Board of Directors.

"Enterprises" means CMS Enterprises Company, a Michigan corporation and wholly-owned subsidiary of CMS Energy.

"Exchangeable Stock" means any Capital Stock of a corporation that is exchangeable or convertible into another security (other than Capital Stock of such corporation that is neither Exchangeable Stock nor Redeemable Stock).

"Holder" means the Person in whose name a Note is registered in the security register kept by CMS Energy for that purpose.

"Hybrid Preferred Securities" means any preferred securities issued by a Hybrid Preferred Securities Subsidiary, w