MOODY'S
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Rating Action: Moody's upgrades CMS and Consumers, outlook stable

Global Credit Research - 18 Apr 2017

Approximately $9.8 billion of debt and credit facilities affected

New York, April 18, 2017 -- Moody's Investors Service upgraded the ratings of CMS Energy Corporation (CMS, senior unsecured to Baa1 from Baa2), and its electric and gas utility subsidiary Consumers Energy Company (Consumers, senior unsecured shelf to (P) A2 from (P) A3), and revised the outlook for both issuers to stable. Concurrently, consistent with the improved credit quality of Consumers, we have upgraded its short term rating for commercial paper to P-1.

RATINGS RATIONALE

"Today's upgrades recognize the continued strong financial performance that has been demonstrated by both Consumers and CMS as the companies invest meaningfully in their systems while controlling costs and benefiting from a supportive relationship with their regulator" said Laura Schumacher, Vice President - Senior Credit Officer. The upgrades consider ongoing modest deleveraging that is slowly reducing CMS consolidated debt and bringing its holding company debt to a level that, while still substantial, is commensurate with some other utility families with similar ratings. The upgrades also consider the relative position of credit metrics and ratings of both CMS and Consumers vis-à-vis those of their peer companies, including the other major rated Michigan utility family, DTE Energy Company (Baa1, stable) and its subsidiaries DTE Electric Company (A2, stable) and DTE Gas Company (A2, stable).

The ratings of CMS and Consumers reflect the above average regulatory environment in which Consumers operates and the resulting stable and predictable consolidated cash flows that are produced by the consolidated entity. The ratings recognize the limited business risk that exists within the family as over 90% of CMS' earnings and cash flow is generated by Consumers. A combination of supportive regulation and a continued focus on cost containment and efficiency has resulted in cash flow credit metrics that have been consistently strong. For example Consumer's ratio of cash from operations excluding changes in working capital (CFO pre-WC) to debt is around 25% while CMS's ratio is around 17%. These metrics are squarely within the respective "A" and "Baa" scoring ranges for these factors in our rating methodology for regulated electric and gas utilities. In calculating the CMS ratio we have excluded the debt (certificates of deposit) and cash flow associated with EnerBank, CMS' relatively small, self-funding, FDIC insured, industrial bank subsidiary that does not contribute meaningfully to its consolidated financial performance.

The upgrades reflect CMS' progress in slowly reducing its consolidated leverage position, and our expectation that this trend will continue. As of year-end 2016, we calculate CMS' consolidated debt to capital ratio at about 59%. The ratio has been declining by about 1% per year, and by 2021 we expect it will move into the 55% range. The percentage of parent holding company debt in CMS consolidated capital structure has also been slowly moderating. As of December 2016, including our standard analytical adjustments, we estimate CMS' holding company debt represented about 26% of its consolidated capital structure (inclusive of EnerBank obligations), or about 29% of total Consumers and CMS holding company debt. While this level of parent company debt is still significant, and a key driver of the two notch rating differential between CMS and Consumers senior unsecured ratings, it is in line with some other, similarly rated utility families.

Outlook

The stable outlook for CMS and Consumers reflects our expectation of a continued steady financial performance due in large part to a constructive legislative and above average regulatory environment in Michigan. The outlook also incorporates our view that the companies will maintain prudent financial policies with a focus on cost containment such that, at CMS, the ratio of CFO pre-W/C to debt will remain in the mid-to-high teens; and at Consumers, the ratio of CFO pre-W/C to debt will remain in the range of 25%. We also expect that consolidated debt to capital will continue to trend modestly downward.

Factors that Could Lead to an Upgrade

An increase in sustainable cash flow or a reduction in leverage resulting in strengthening credit metrics, for example at Consumers, a ratio of CFO pre-WC to debt remaining above 25%, and at CMS, above 20%; a reduction in CMS' parent holding company debt; or if the Michigan regulatory environment were to become even more formulaic, transparent or timely with its suite of recovery mechanisms.

Factors that Could Lead to a Downgrade

A material deterioration in Michigan's regulatory support, or a reduction in cash flow or increase in leverage that results in a sustained decline in credit metrics. For example, at Consumers, CFO pre-WC to debt falling to the high-teens, at CMS, CFO pre-WC to debt falling below the high-teens. An increase in CMS holding company debt could also put pressure on the ratings.

Upgrades:

Issuer: CMS Energy Corporation

....Senior Unsecured Shelf, Upgraded to (P)Baa1 from (P)Baa2

....Senior Secured Bank Credit Facility, Upgraded to A3 from Baa1

....Senior Unsecured Regular Bond/Debenture, Upgraded to Baa1 from Baa2

Issuer: Consumers Energy Company

....Senior Unsecured Shelf, Upgraded to (P)A2 from (P)A3

....Senior Secured Shelf, Upgraded to (P)Aa3 from (P)A1

....Underlying Senior Secured Regular Bond/Debenture, Upgraded to Aa3 from A1

....Senior Secured Regular Bond/Debenture, Upgraded to Aa3 from A1

....Pref. Stock Preferred Stock, Upgraded to A3 from Baa1

....Senior Secured Bank Credit Facility, Upgraded to Aa3 from A1

....Senior Secured First Mortgage Bonds, Upgraded to Aa3 from A1

....Senior Unsecured Commercial Paper, Upgraded to P-1 from P-2

Outlook Actions:

Issuer: CMS Energy Corporation

....Outlook, Changed To Stable From Positive

Issuer: Consumers Energy Company

....Outlook, Changed To Stable From Positive

CMS Energy Corporation (CMS) is an energy holding company whose principal subsidiary, Consumers Energy Company (Consumers), is a Michigan regulated electric and gas utility representing over 90% of CMS' earnings and cash flow. In addition to Consumers, CMS holds interests in 1,177 gross MW of unregulated, primarily natural gas-fired, generation located mostly within Michigan, and EnerBank, a FDIC-insured industrial bank providing unsecured consumer installment loans for financing home improvements.

The principal methodology used in these ratings was Regulated Electric and Gas Utilities published in December 2013. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

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Laura Schumacher
VP - Senior Credit Officer
Infrastructure Finance Group
Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
U.S.A.
JOURNALISTS: 212-553-0376
SUBSCRIBERS: 212-553-1653

Jim Hempstead
MD - Utilities
Infrastructure Finance Group
JOURNALISTS: 212-553-0376
SUBSCRIBERS: 212-553-1653

Releasing Office:
Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
U.S.A.
JOURNALISTS: 212-553-0376
SUBSCRIBERS: 212-553-1653

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