

CONSUMERS ENERGY CO
Form S-3/A
June 25, 2014
[Table of Contents](#)

As filed with the Securities and Exchange Commission on June 25, 2014

Registration Nos. 333-195654 and 333-195654-01

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

PRE-EFFECTIVE AMENDMENT NO. 2
TO
REGISTRATION STATEMENT
ON

FORM S-3

UNDER

THE SECURITIES ACT OF 1933

CONSUMERS ENERGY COMPANY

(Exact Name of Registrant and Sponsor
as Specified in Its Charter)

Michigan

(State or Other Jurisdiction of
Incorporation or Organization)

38-0442310

(I.R.S. Employer Identification Number)

One Energy Plaza
Jackson, Michigan 49201
(517) 788-0550

(Address, Including Zip Code,
and Telephone Number, Including Area Code,
of Registrant's Principal Executive Offices)

CONSUMERS 2014 SECURITIZATION FUNDING LLC

(Exact Name of Registrant and Issuing Entity
as Specified in Its Charter)

Delaware

(State or Other Jurisdiction of
Incorporation or Organization)

46-5038143

(I.R.S. Employer Identification Number)

One Energy Plaza
Jackson, Michigan 49201
(517) 788-1030

(Address, Including Zip Code,
and Telephone Number, Including Area Code,
of Registrant's Principal Executive Offices)

Edgar Filing: CONSUMERS ENERGY CO - Form S-3/A

Catherine M. Reynolds
General Counsel
Consumers Energy Company
One Energy Plaza
Jackson, Michigan 49201
(517) 788-1030

(Name, Address, Including Zip Code, and Telephone Number, Including Area Code, of Agent For Service)

With a Copy to:

David S. Baxter, Esq.
Pillsbury Winthrop Shaw Pittman LLP
1540 Broadway
New York, New York 10036-4039
(212) 858-1222

Approximate Date of Commencement of Proposed Sale to the Public:

From time to time after this Registration Statement becomes effective as determined by market conditions.

If the only securities being registered on this form are being offered pursuant to dividend or interest reinvestment plans, please check the following box.

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box.

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act of 1933, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act of 1933, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this form is a registration statement pursuant to General Instruction I.D. or a post-effective amendment thereto that shall become effective upon filing with the Commission pursuant to Rule 462(e) under the Securities Act of 1933, please check the following box.

If this form is a post-effective amendment to a registration statement filed pursuant to General Instruction I.D. filed to register additional securities or additional classes of securities pursuant to Rule 413(b) under the Securities Act of 1933, please check the following box.

Edgar Filing: CONSUMERS ENERGY CO - Form S-3/A

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 under the Exchange Act.

Large Accelerated Filer Accelerated Filer
 Non-Accelerated Filer Smaller reporting company
 (do not check if smaller reporting company)

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities To Be Registered	Amount To Be Registered	Proposed Maximum Offering Price Per Unit	Proposed Maximum Aggregate Offering Price	Amount of Registration Fee
Senior Secured Securitization Bonds, Series 2014A	\$ 389,600,000	100%(1)	\$ 389,600,000(1)	\$ 50,180.48(2)

(1) Estimated solely for the purpose of computing the registration fee pursuant to Rule 457(o) under the Securities Act of 1933.

(2) \$128.80 of the registration fee was previously paid on May 2, 2014, and \$50,051.68 of the registration fee was previously paid on June 10, 2014.

The registrants hereby amend this registration statement on such date or dates as may be necessary to delay its effective date until the registrants shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the registration statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

Table of Contents

The information in this prospectus supplement and the accompanying prospectus is not complete and may be changed. The bonds may not be sold until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus supplement and the accompanying prospectus are not an offer to sell nor do they seek an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

Subject to Completion

Preliminary Prospectus Supplement Dated June 25, 2014

PROSPECTUS SUPPLEMENT

(To Prospectus dated , 2014)

\$

Consumers 2014 Securitization Funding LLC

Issuing Entity

Senior Secured Securitization Bonds, Series 2014A

Tranche	Expected Weighted Average Life (Years)	Principal Amount Issued	Scheduled Final Payment Date	Final Maturity Date	Interest Rate	Initial Price to Public	Underwriting Discounts and Commissions(1)	Proceeds to Issuer (Before Expenses)
A-1		\$			%	%	% \$	
A-2		\$			%	%	% \$	
A-3		\$			%	%	% \$	

(1) We have agreed to pay or reimburse the underwriters for certain fees and expenses in connection with this offering. See Underwriting the Bonds and Use of Proceeds .

The total price to the public is \$. The total amount of the underwriting discounts and commissions is \$. The total amount of proceeds to the issuing entity before deduction of expenses (estimated to be \$) is \$.

Investing in the Senior Secured Securitization Bonds, Series 2014A involves risks. Please read Risk Factors beginning on page 10 of the accompanying prospectus.

Consumers 2014 Securitization Funding LLC, or the **issuing entity**, is issuing \$ _____ of Senior Secured Securitization Bonds, Series 2014A, referred to in this prospectus supplement as the **securitization bonds** or the **bonds**, in three tranches. Consumers Energy Company, or **Consumers Energy**, is the **depositor, seller, initial servicer** and **sponsor** with regard to the bonds. The bonds are senior secured obligations of the issuing entity supported by the securitization property, described in this prospectus supplement, which includes the right to a special, irrevocable nonbypassable charge, known as a **securitization charge**, paid by Michigan retail electric distribution customers of Consumers Energy (or any successor) based on their electricity usage as discussed in this prospectus supplement and the accompanying prospectus. Act 142 (defined in this prospectus supplement) mandates that securitization charges be adjusted at least annually, and the Michigan Public Service Commission, or the **MPSC**, further permits true-up adjustments to occur semi-annually (and in certain circumstances quarterly or more frequently) if necessary, in each case to ensure the expected recovery during the succeeding annual period of amounts required for the timely payment of debt service and other required amounts and charges in connection with the securitization bonds, as described further in this prospectus supplement and the accompanying prospectus. Credit enhancement for the bonds will be provided by these true-up adjustments as well as by accounts held under the indenture described in this prospectus supplement and the accompanying prospectus.

The bonds represent obligations only of the issuing entity and do not represent obligations of Consumers Energy or any of its affiliates other than the issuing entity. The bonds are secured by the assets of the issuing entity, consisting principally of the securitization property and funds on deposit in the collection account for the bonds and related subaccounts. Please read **The Bonds**, **The Collateral** and **The Securitization Property and Credit Enhancement** in this prospectus supplement. The bonds are not a debt or obligation of the State of Michigan and are not a charge on its full faith and credit or taxing power.

In its financing order, the MPSC affirms that it will act pursuant to its financing order to ensure that the expected securitization charges are sufficient to pay on a timely basis scheduled principal of and interest on the bonds and the ongoing other qualified costs as described below in this prospectus supplement and the accompanying prospectus. The financing order, together with the securitization charges authorized by the financing order, are irrevocable and not subject to reduction, impairment, postponement, termination or adjustment by further action of the MPSC, except by use of the true-up adjustment procedures approved in the financing order.

Additional information is contained in the accompanying prospectus. You should read this prospectus supplement and the accompanying prospectus carefully before you decide to invest in the bonds. This prospectus supplement may not be used to offer or sell the bonds unless accompanied by the prospectus.

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR DETERMINED IF THIS PROSPECTUS SUPPLEMENT AND THE ACCOMPANYING PROSPECTUS ARE TRUTHFUL OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

The underwriters expect to deliver the bonds through the book-entry facilities of The Depository Trust Company, or **DTC**, against payment in immediately available funds on or about _____, 2014. Each bond will be entitled to interest on _____ and _____ of each year. The first scheduled payment date is _____, 2014. Interest will accrue from _____, 2014 and must be paid by the purchaser if the bonds are delivered after that date. There currently is no secondary market for the bonds, and we cannot assure you that one will develop.

Citigroup

Goldman, Sachs & Co.

The date of this prospectus supplement is _____, 2014.

Table of Contents

TABLE OF CONTENTS

PROSPECTUS SUPPLEMENT

<u>READING THIS PROSPECTUS SUPPLEMENT AND THE ACCOMPANYING PROSPECTUS</u>	S-1
<u>SUMMARY OF TERMS</u>	S-2
<u>THE BONDS</u>	S-10
<u>THE TRUSTEE</u>	S-18
<u>CREDIT ENHANCEMENT</u>	S-19
<u>THE SECURITIZATION CHARGES</u>	S-22
<u>UNDERWRITING THE BONDS</u>	S-23
<u>AFFILIATIONS AND CERTAIN RELATIONSHIPS</u>	S-25
<u>USE OF PROCEEDS</u>	S-26
<u>MATERIAL U.S. FEDERAL INCOME TAX CONSEQUENCES</u>	S-27
<u>WHERE YOU CAN FIND MORE INFORMATION</u>	S-28
<u>LEGAL PROCEEDINGS</u>	S-29
<u>LEGAL MATTERS</u>	S-30
<u>OFFERING RESTRICTIONS IN CERTAIN JURISDICTIONS</u>	S-31

PROSPECTUS

<u>READING THIS PROSPECTUS AND THE PROSPECTUS SUPPLEMENT</u>	1
<u>PROSPECTUS SUMMARY</u>	2
<u>RISK FACTORS</u>	10
<u>REVIEW OF SECURITIZATION PROPERTY</u>	21
<u>ACT 142</u>	24
<u>CONSUMERS ENERGY'S FINANCING ORDER</u>	28
<u>DESCRIPTION OF THE SECURITIZATION PROPERTY</u>	31
<u>THE DEPOSITOR, SELLER, INITIAL SERVICER AND SPONSOR</u>	33
<u>CONSUMERS 2014 SECURITIZATION FUNDING LLC, THE ISSUING ENTITY</u>	38
<u>USE OF PROCEEDS</u>	41
<u>RELATIONSHIP TO THE 2001-1 SECURITIZATION BONDS</u>	42
<u>DESCRIPTION OF THE SECURITIZATION BONDS</u>	43
<u>THE TRUSTEE</u>	59
<u>SECURITY FOR THE SECURITIZATION BONDS</u>	60
<u>WEIGHTED AVERAGE LIFE AND YIELD CONSIDERATIONS FOR THE SECURITIZATION BONDS</u>	65
<u>THE SALE AGREEMENT</u>	66
<u>THE SERVICING AGREEMENT</u>	74
<u>HOW A BANKRUPTCY MAY AFFECT YOUR INVESTMENT</u>	82
<u>MATERIAL U.S. FEDERAL INCOME TAX CONSEQUENCES</u>	85
<u>ERISA CONSIDERATIONS</u>	89
<u>PLAN OF DISTRIBUTION</u>	91
<u>RATINGS FOR THE SECURITIZATION BONDS</u>	92
<u>WHERE YOU CAN FIND MORE INFORMATION</u>	93
<u>LEGAL MATTERS</u>	94
<u>GLOSSARY OF DEFINED TERMS</u>	95

Until 90 days after the date of this prospectus supplement, all dealers that effect transactions in these securities, whether or not participating in the offering described in this prospectus supplement, may be required to deliver a prospectus supplement and prospectus. This is in addition to the dealers' obligation to deliver a prospectus supplement and prospectus when acting as underwriters and with respect to their unsold allotments or subscriptions.

Table of Contents

READING THIS PROSPECTUS SUPPLEMENT AND THE ACCOMPANYING PROSPECTUS

This prospectus supplement and the accompanying prospectus provide information about us, the bonds and Consumers Energy Company, or **Consumers Energy**, the depositor, seller, initial servicer and sponsor of the bonds. This prospectus supplement and the accompanying prospectus describe the terms of the bonds offered hereby.

References in this prospectus supplement and the accompanying prospectus to the term **we, us** or the **issuing entity** mean Consumers 2014 Securitization Funding LLC, the entity that will issue the bonds. References to the **securitization bonds** or the **bonds**, unless the context otherwise requires, mean the securitization bonds offered pursuant to this prospectus supplement. References to **Consumers Energy**, the **depositor**, the **seller**, the **initial servicer** or the **sponsor** mean Consumers Energy Company. References to the **bondholders** or the **holders** refer to the registered holders of the securitization bonds. References to the **servicer** refer to Consumers Energy, initially acting in that capacity, and any successor servicer, under the **servicing agreement** referred to in this prospectus supplement. References to **Act 142** refer to the laws of the State of Michigan adopted in June 2000 enacted as 2000 PA 142, as amended, which authorizes the MPSC to approve the recovery of **qualified costs** by certain electric utilities through the issuance of securitization bonds. Unless the context otherwise requires, the term **customer** means a Michigan retail electric distribution customer of an electric utility such as Consumers Energy, and **covered electric customer** means all existing and future retail electric distribution customers of Consumers Energy or its successors, except for (i) customers taking retail open access, or **ROA**, service from Consumers Energy as of December 6, 2013 to the extent that those ROA customers remain, without transition to bundled service, on Consumers Energy's retail choice program, or **current choice customers**, (ii) customers to the extent they obtain or use **self-service power** (as defined under Glossary of Defined Terms in the accompanying prospectus) or (iii) customers to the extent engaged in **affiliate wheeling** (as defined under Glossary of Defined Terms in the accompanying prospectus). References to the **MPSC** refer to the Michigan Public Service Commission. You can find a glossary of some of the other defined terms we use in this prospectus supplement and the accompanying prospectus beginning on page 95 of the accompanying prospectus.

We have included cross-references to sections in this prospectus supplement and the accompanying prospectus where you can find further related discussions.

You should rely only on the information contained or incorporated by reference in this prospectus supplement, in the accompanying prospectus and in any other written communication from us or the underwriters specifying the terms of this offering. Neither we nor any underwriter, any agent, any dealer, any salesperson, the MPSC or Consumers Energy has authorized anyone else to provide you with any different or inconsistent information. If anyone provides you with different or inconsistent information, you should not rely on it. We are not offering to sell the bonds in any jurisdiction where the offer or sale is not permitted. The information in this prospectus supplement is current only as of the date of this prospectus supplement.

Table of Contents

SUMMARY OF TERMS

The following section is only a summary of selected information and does not provide you with all the information you will need to make your investment decision. There is more detailed information in this prospectus supplement and in the accompanying prospectus. To understand all of the terms of the offering of the bonds, carefully read this entire document and the accompanying prospectus.

Securities offered: \$ of Senior Secured Securitization Bonds, Series 2014A, scheduled to pay principal semi-annually and sequentially in accordance with the expected sinking fund schedule. Only the bonds are being offered through this prospectus supplement.

Issuing entity and capital structure: Consumers 2014 Securitization Funding LLC is a special purpose Delaware limited liability company. Consumers Energy Company is our sole member and owns all of our equity interests. We have no commercial operations. We were formed solely to purchase and own **securitization property** (as defined under Glossary of Defined Terms in the accompanying prospectus), to issue the bonds and to perform activities incidental thereto. Please read Consumers 2014 Securitization Funding LLC, the Issuing Entity in the accompanying prospectus.

In addition to the securitization property, we will be capitalized with an upfront cash deposit equity contribution from Consumers Energy equal to 0.5% of the bonds' initial principal amount issued held in the **capital subaccount** (as defined under Glossary of Defined Terms in the accompanying prospectus) and will have an **excess funds subaccount** (as defined under Glossary of Defined Terms in the accompanying prospectus) to retain any amounts collected and remaining on a **payment date** (as defined under Glossary of Defined Terms in the accompanying prospectus) after all payments on the bonds and all **ongoing other qualified costs** (as defined under Glossary of Defined Terms in the accompanying prospectus) have been made.

Purpose of transaction: This issuance of the bonds will enable Consumers Energy to recover certain qualified costs in the State of Michigan. Please read Act 142 in the accompanying prospectus.

Our address: One Energy Plaza
Jackson, Michigan 49201

Our telephone number: (517) 788-1030

Our managers: The following is a list of our managers as of the date of issuance of the bonds:

Name	Age	Background
Melissa M. Gleespen	46	Vice President, Secretary and manager of the issuing entity. Vice President and Corporate Secretary for CMS Energy Corporation, or CMS Energy , and Consumers Energy since October 2013. Joined CMS Energy and Consumers Energy in April 2013 as Supervisory Assistant General Counsel. Law Director and Assistant Corporate Secretary for Owens Corning from June 2012 through April 2013. Senior Securities Counsel and Assistant Corporate Secretary for Owens Corning from March 2009 through

Table of Contents

Catherine M. Reynolds	57	Senior Vice President, General Counsel and manager of the issuing entity. Senior Vice President and General Counsel of CMS Energy and Consumers Energy since 2013. Vice President, Deputy General Counsel and Corporate Secretary of CMS Energy and Consumers Energy from 2012-2013. Vice President and Corporate Secretary of CMS Energy and Consumers Energy from 2006-2012.
Thomas J. Webb	61	Executive Vice President and manager of the issuing entity. Executive Vice President and Chief Financial Officer of CMS Energy and Consumers Energy since 2002.
Orlando C. Figueroa	54	Manager of the issuing entity. Managing Director of Lord Securities Corporation since 2005.
Dewen Tarn	34	Manager of the issuing entity. Senior Vice President of Lord Securities Corporation since July 2012. Associate at Seward & Kissel LLP from April 2007 through June 2012.

Credit ratings:

We expect the bonds will receive credit ratings from two nationally recognized statistical rating organizations. Please read "Ratings for the Securitization Bonds" in the accompanying prospectus.

The depositor, seller, sponsor and initial servicer of the securitization property:

Consumers Energy, a wholly-owned subsidiary of CMS Energy, is an electric and gas utility company serving Michigan's lower peninsula. Consumers Energy owns and operates electric distribution and generation facilities and gas transmission, storage and distribution facilities. Consumers Energy serves individuals and businesses operating in the alternative energy, automotive, chemical, metal and food products industries, as well as a diversified group of other industries. Consumers Energy provides electricity and/or natural gas to approximately 6.5 million of Michigan's 10 million residents. Consumers Energy's rates and certain other aspects of its business are subject to the jurisdiction of the MPSC and the Federal Energy Regulatory Commission. The bonds do not constitute a debt, liability or other legal obligation of Consumers Energy or CMS Energy. Consumers Energy, acting as the initial servicer, and any successor or assignee servicer, will service the securitization property securing the bonds under a servicing agreement with us. Please read "The Depositor, Seller, Initial Servicer and Sponsor" and "The Servicing Agreement" in the accompanying prospectus.

Consumers Energy's address:

One Energy Plaza
Jackson, Michigan 49201

Consumers Energy's telephone number:

(517) 788-0550

Use of proceeds:

We will use the net proceeds from the sale of the bonds to pay our costs of issuance of the bonds and for our other initial costs of the transaction, or to reimburse Consumers Energy for expenses of authorization, issuance and sale of the bonds, and the balance will be used by us to purchase the securitization property from Consumers Energy. Consumers Energy will use the proceeds from the sale of the securitization property to retire a portion of its existing debt and/or equity. Please read "Use of Proceeds" in this

prospectus supplement and in the accompanying prospectus.

S-3

Table of Contents

Bond structure:	Sinking fund bond: tranche A-1, expected weighted average life years, tranche A-2, expected weighted average life years, and tranche A-3, expected weighted average life years. The bonds are scheduled to pay principal semi-annually and sequentially. Please read Expected Amortization Schedule in this prospectus supplement.
Trustee:	The Bank of New York Mellon, a New York banking corporation. Please read The Trustee in the accompanying prospectus for a description of the duties and responsibilities of the trustee under the indenture (each as defined under Glossary of Defined Terms in the accompanying prospectus).
Average life profile:	Prepayment is not permitted. Extension risk is possible but is expected to be statistically remote. Please read Expected Amortization Schedule Weighted Average Life Sensitivity in this prospectus supplement and Weighted Average Life and Yield Considerations for the Securitization Bonds in the accompanying prospectus.
No optional redemption:	No optional redemption. Non-callable for the life of the bonds.
Minimum denomination:	\$100,000, or integral multiples of \$1,000 in excess thereof, except that one bond of each tranche may be of a smaller denomination.
Credit/security:	<p>The bonds will be secured primarily by the securitization property, which includes our irrevocable right to impose, collect and receive a nonbypassable (as defined under Glossary of Defined Terms in the accompanying prospectus) consumption-based securitization charge from covered electric customers (approximately 1.8 million covered electric customers as of December 31, 2013). Securitization charges are set and periodically adjusted to collect amounts sufficient to ensure the expected recovery during the succeeding annual period of amounts required for the timely payment of debt service and other required amounts and charges in connection with the securitization bonds. Please read Credit Enhancement True-Up Mechanism for Payment of Scheduled Principal and Interest in this prospectus supplement, as well as the chart entitled Parties to Transaction and Responsibilities in the section captioned Prospectus Summary , and Act 142 and Description of the Securitization Property Creation of Securitization Property , in the accompanying prospectus.</p> <p>Neither the securitization property nor the other collateral securing the bonds is or will be a static pool of assets. The securitization property consists of all of Consumers Energy's rights and interests established pursuant to the financing order issued by the MPSC, referred to in this prospectus supplement as the financing order, transferred to us in connection with the issuance of the bonds, including the irrevocable right to impose, collect and receive nonbypassable securitization charges and the right to implement the true-up mechanism (as defined under Glossary of Defined Terms in the accompanying prospectus) discussed below. Upon the sale of the securitization property to us and the pledge to the trustee under the indenture, the securitization property will constitute a present property right created by Act 142 and the financing order and is protected by the state pledge in Act 142 described below.</p>

Table of Contents

The bonds are secured only by our assets, including the securitization property and also the funds on deposit in the **collection account** (as defined under **Glossary of Defined Terms** in the accompanying prospectus) for the bonds and related subaccounts. The subaccounts consist of a **general subaccount** (as defined under **Glossary of Defined Terms** in the accompanying prospectus), into which the servicer will deposit all securitization charge collections, a capital subaccount, which will be funded at closing in the amount of 0.5% of the initial aggregate principal amount of the bonds, and an excess funds subaccount, into which we will transfer any amounts collected and remaining on a payment date after all payments to bondholders and other parties (including Consumers Energy) have been made and any amounts drawn from the capital subaccount are replenished through the true-up mechanism. Amounts on deposit in each of these subaccounts will be available to make payments on the bonds on each payment date. For a description of the securitization property, please read **The Bonds** **The Securitization Property** in this prospectus supplement.

State pledge:

The State of Michigan has pledged in Act 142, for the benefit and protection of the holders of securitization bonds, including trustees, collateral agents and other persons acting for the benefit of the holders of securitization bonds, or the **financing parties**, under the financing order and Consumers Energy, that it will not take or permit any action that would impair the value of the securitization property, reduce or alter, except as allowed in connection with a **true-up adjustment** (as defined under **Glossary of Defined Terms** in the accompanying prospectus), or impair the securitization charges to be imposed, collected and remitted to the financing parties, until the principal, interest and premium, and any other charges incurred and contracts to be performed, in connection with the securitization bonds have been paid and performed in full.

Michigan has both a voter initiative and a referendum process. The time for challenging Act 142 through a referendum has expired, but the right of voters in Michigan to enact laws by initiative can be exercised at any time, provided a prescribed process is followed and successfully concluded. Constitutional protections against actions that violate the pledge of the State of Michigan should apply whether legislation is passed by the Michigan legislature or is brought about by a voter initiative.

Please read **Act 142 Electric Utilities May Securitize Qualified Costs** in the accompanying prospectus.

Table of Contents

True-up mechanism for payment of scheduled principal and interest:

Act 142 and the financing order mandate that securitization charges on covered electric customers be reviewed and adjusted by the MPSC at least annually to correct any overcollections or undercollections of the preceding 12 months and to ensure the expected recovery during the succeeding annual period of amounts required for the timely payment of debt service and other required amounts and charges in connection with the securitization bonds. In addition, the financing order provides that true-up adjustments are required on a semi-annual basis (or, one year prior to the last scheduled final payment date for the latest maturing tranche, on a quarterly basis) if the servicer determines that a true-up adjustment is necessary to ensure the expected recovery during the succeeding annual period of amounts required for the timely payment of debt service and other required amounts and charges in connection with the securitization bonds. True-up adjustments may also be made by the servicer more frequently at any time, without limits as to frequency, if the servicer determines that a true-up adjustment is necessary to ensure the expected recovery during the succeeding annual period of amounts required for the timely payment of debt service and other required amounts and charges in connection with the securitization bonds. The financing order permits mid-year true-up adjustments to be implemented immediately without additional MPSC approval if the proposed true-up adjustment is not opposed. Please read *Consumers Energy's Financing Order True-Up Mechanism* in the accompanying prospectus. In the financing order, the MPSC affirms that it will act pursuant to the financing order to ensure that expected securitization charges are sufficient to pay on a timely basis all scheduled principal of and interest on the bonds and ongoing other qualified costs in connection with the securitization bonds.

There is no cap on the level of securitization charges that may be imposed on covered electric customers to pay on a timely basis scheduled principal of and interest on the bonds and ongoing other qualified costs. Such securitization charges may continue to be imposed, charged and collected until the bonds are paid in full, except that securitization charges may not be billed more than 15 years after the beginning of the first complete billing cycle during which securitization charges were initially placed on any covered electric customer's bill. Through the true-up mechanism, which adjusts for undercollections of securitization charges due to any reason, and during that 15-year period, covered electric customers share in the liabilities of all other covered electric customers for the payment of securitization charges.

Please read *Act 142 Electric Utilities May Securitize Qualified Costs* and *The Servicing Agreement True-Up Adjustment Process* in the accompanying prospectus.

Table of Contents

- Nonbypassable securitization charges: Act 142 provides that the securitization charges are nonbypassable, and the financing order requires the imposition and the collection of securitization charges from all existing and future covered electric customers. Covered electric customers do not include (i) current choice customers, (ii) customers to the extent they obtain or use self-service power or (iii) customers to the extent engaged in affiliate wheeling. Any successor to Consumers Energy under Act 142, whether pursuant to any bankruptcy, reorganization or other insolvency proceeding or pursuant to any merger, acquisition, sale or transfer, by operation of law, as a result of electric utility restructuring or otherwise, must perform and satisfy all obligations of Consumers Energy under Act 142. The securitization charges are applied to covered electric customers individually and are adjusted and reallocated among all such covered electric customers as necessary under the true-up mechanism. Please read The Securitization Charges in this prospectus supplement and Consumers Energy's Financing Order and The Servicing Agreement True-Up Adjustment Process in the accompanying prospectus. Please also read Risk Factors Other Risks Associated with an Investment in the Securitization Bonds in the accompanying prospectus.
- Priority of payments: On each payment date for the bonds, the trustee will allocate or pay all amounts on deposit in the general subaccount of the collection account in the following order of priority:
1. payment of the trustee's fees, expenses and outstanding indemnity amounts in an amount not to exceed \$500,000 annually;
 2. payment of the servicing fee relating to the bonds, which will be a fixed amount specified in the servicing agreement, plus any unpaid servicing fees from prior payment dates as described under The Servicing Agreement Servicing Compensation in the accompanying prospectus;
 3. payment of the administration fee, which will be a fixed amount specified in the administration agreement between us and Consumers Energy, and of the fees of our independent managers, which will be in an amount specified in an agreement between us and our independent managers, each as described in the table on page S-16, plus any unpaid administration or management fees from prior payment dates;
 4. payment of all of our other ordinary periodic operating expenses relating to the bonds, such as accounting and audit fees, rating agency and related fees (i.e. website provider fees), legal fees and certain reimbursable costs of the administrator under the administration agreement;
 5. payment of the interest then due on the bonds, including any past-due interest (together with, to the extent lawful, interest thereon);
 6. payment of the principal required to be paid on the bonds on the final maturity date or as a result of acceleration upon an **event of default** (as defined under Description of the Securitization Bonds Events of Default; Rights Upon Event of Default in the accompanying prospectus);
 7. payment of the principal then scheduled to be paid on the bonds in accordance with the expected sinking fund schedule, including any previously unpaid scheduled principal, paid pro rata among the bonds if there is a deficiency;

Table of Contents

8. payment of any of our remaining unpaid operating expenses (including any such amounts owed to the trustee but unpaid due to the limitation in clause 1 above) and any remaining amounts owed pursuant to the **basic documents** (as defined under Glossary of Defined Terms in the accompanying prospectus);

9. replenishment of any amounts drawn from the capital subaccount;

10. so long as no event of default has occurred and is continuing, release to Consumers Energy of an amount equal to investment earnings since the previous payment date (or, in the case of the first payment date, since the issuance date) on the initial amount deposited by it into the capital subaccount;

11. allocation of the remainder, if any, to the excess funds subaccount; and

12. after the bonds have been paid in full and discharged and all of the foregoing amounts are paid in full, the balance, together with all amounts in the capital subaccount and the excess funds subaccount, to us free and clear of the lien of the indenture.

The annual servicing fee for the bonds in clause 2 payable to Consumers Energy or any affiliate thereof while it is acting as servicer shall not at any time exceed 0.05% of the original principal amount of the bonds. The annual servicing fee for the bonds payable to any other servicer not affiliated with Consumers Energy shall not at any time exceed 0.75% of the original principal amount of the bonds. Please read Credit Enhancement How Funds in the Collection Account Will Be Allocated in this prospectus supplement.

Other securitization bonds being serviced by Consumers Energy:

Consumers Energy will be the initial servicer of the securitization bonds. Consumers Energy currently acts as servicer with respect to the Securitization Bonds, Series 2001-1, or the **2001-1 securitization bonds**, issued by Consumers Funding LLC, a wholly-owned subsidiary of Consumers Energy, or the **2001-1 securitization bond issuer**. Please read Relationship to the 2001-1 securitization bonds in this prospectus supplement.

Relationship to the 2001-1 securitization bonds:

In November 2001, the 2001-1 securitization bond issuer issued and sold \$468,592,000 of 2001-1 securitization bonds in accordance with a financing order and order on rehearing issued by the MPSC on October 24, 2000 and January 4, 2001, respectively. After giving effect to payments on the 2001-1 securitization bonds on the April 20, 2014 quarterly payment date, the 2001-1 securitization bonds had \$70,614,670 in aggregate principal amount outstanding, which was equal to the amount set forth in the expected amortization schedule for the 2001-1 securitization bonds. The final legal maturity date of the 2001-1 securitization bonds is October 20, 2016, and the expected final payment date of the 2001-1 securitization bonds is October 20, 2015. Consumers Energy currently acts as servicer with respect to the 2001-1 securitization bonds. The 2001-1 securitization bond issuer will have no obligations under the securitization bonds, and we have no obligations under the 2001-1 securitization bonds. The security pledged to secure the securitization bonds will be separate from the security that is securing the 2001-1 securitization bonds. Please read Relationship to the 2001-1 Securitization Bonds in the accompanying prospectus.

Table of Contents

Initial securitization charge as a percentage of covered electric customer's total electricity bill:	The initial securitization charge for the bonds is expected to represent approximately 1% of the total monthly electric bill received by an average 656 kilowatt-hour, or kWh , Michigan residential covered electric customer served by Consumers Energy as of March 31, 2014. When combined with the securitization charges for the 2001-1 securitization bonds, the cumulative securitization charges would be expected to represent approximately 2.6% of the total monthly electric bill by an average 656 kWh Michigan residential covered electric customer served by Consumers Energy as of March 31, 2014.
Tax treatment:	Please read "Material U.S. Federal Income Tax Consequences" in the accompanying prospectus.
ERISA eligible:	Yes; please read "ERISA Considerations" in the accompanying prospectus.
Payment dates and interest accrual:	<p>Semi-annually, and on the final maturity date for any tranche. Interest will be calculated on a 30/360 basis. The first scheduled payment date is , 2014. If any interest payment date is not a business day (as defined under "Glossary of Defined Terms" in the accompanying prospectus), payments scheduled to be made on such date may be made on the next business day and no interest shall accrue upon such payment during the intervening period.</p> <p>Interest is due on each payment date for each tranche, and principal is due upon the final maturity date for each tranche.</p>
Expected settlement:	The issuance date will be on or about , 2014, settling flat. DTC, Clearstream Banking, société anonyme, and Euroclear Bank S.A./N.V., as operator of the Euroclear system.
Risk factors:	You should consider carefully the risk factors beginning on page 10 of the accompanying prospectus before you invest in the bonds.

Table of Contents**THE BONDS**

We will issue the bonds and secure their payment under an indenture that we will enter into with The Bank of New York Mellon, as trustee, referred to in this prospectus supplement and the accompanying prospectus as the **trustee**. We will issue the bonds in minimum denominations of \$100,000 and in integral multiples of \$1,000 in excess thereof, except that we may issue one bond in each tranche in a smaller denomination. The initial principal balance, scheduled final payment date, final maturity date and interest rate for each tranche of the bonds are stated in the table below:

Tranche	Expected Weighted Average Life (Years)	Principal Amount Issued	Scheduled Final Payment Date	Final Maturity Date	Interest Rate
A-1		\$			%
A-2		\$			%
A-3		\$			%

The scheduled final payment date for each tranche of the bonds is the date when the outstanding principal balance of that tranche will be reduced to zero if we make payments according to the expected amortization schedule for that tranche. The final maturity date for each tranche of bonds is the date when we are required to pay the entire remaining unpaid principal balance, if any, of all outstanding bonds of that tranche. The failure to pay principal of any tranche of the bonds by the final maturity date for that tranche is an event of default, but the failure to pay principal of any tranche of the bonds by the related scheduled final payment date will not be an event of default. Please read **Description of the Securitization Bonds Interest and Principal on the Securitization Bonds** and **Description of the Securitization Bonds Events of Default; Rights Upon Event of Default** in the accompanying prospectus.

The Collateral

The bonds will be secured under the indenture by all of our assets relating to the bonds. The principal asset pledged will be the securitization property relating to the bonds, which will constitute a present property right created under Act 142 by the financing order. The **collateral** includes all of our right, title and interest (whether owned on the issuance date or thereafter acquired or arising) in and to the following property:

- the securitization property created under and pursuant to the financing order and Act 142, and transferred by the seller to us pursuant to the **sale agreement** (as defined under **Glossary of Defined Terms** in the accompanying prospectus) (including, to the fullest extent permitted by law, the right to impose, collect and receive securitization charges, the right to obtain periodic adjustments to those charges, and all revenue, collections, payments, money and proceeds arising out of the rights and interests created under the financing order);
- all securitization charges related to the securitization property;

Edgar Filing: CONSUMERS ENERGY CO - Form S-3/A

- the sale agreement and the bill of sale executed in connection therewith and all property and interests in property transferred under the sale agreement and the bill of sale with respect to the securitization property and the securitization bonds;
- the servicing agreement, the administration agreement, the **intercreditor agreement** (as defined under Glossary of Defined Terms in the accompanying prospectus) and any subservicing, agency, administration or collection agreements executed in connection therewith, to the extent related to the foregoing securitization property and the securitization bonds;
- the collection account, all subaccounts thereof and all amounts of cash, instruments, investment property or other assets on deposit therein or credited thereto from time to time and all financial assets and securities entitlements carried therein or credited thereto;
- all rights to compel the servicer to file for and obtain true-up adjustments to the securitization charges in accordance with Act 142 and the financing order;
- all present and future claims, demands, causes and choses in action in respect of any or all of the foregoing, whether such claims, demands, causes and choses in action constitute securitization property, accounts,

Table of Contents

general intangibles, instruments, contract rights, chattel paper or proceeds of such items or any other form of property;

- all accounts, chattel paper, deposit accounts, documents, general intangibles, goods, instruments, investment property, letters of credit, letters-of-credit rights, money, commercial tort claims and supporting obligations related to the foregoing; and
- all payments on or under and all proceeds in respect of any or all of the foregoing.

The collateral does not include:

- cash that has been released pursuant to the terms of the indenture; and
- amounts deposited with us on the issuance date, for payment of costs of issuance with respect to the bonds (together with any interest earnings thereon).

Please read "Security for the Securitization Bonds" in the accompanying prospectus.

The Securitization Property

In general terms, all of the rights and interests of Consumers Energy established pursuant to the financing order, upon transfer to us pursuant to the sale agreement, are referred to in this prospectus supplement as the **securitization property**. The securitization property includes the right to impose, collect and receive securitization charges payable by all covered electric customers in an amount necessary to provide the full recovery of all qualified costs. Under the financing order, the customers responsible for paying securitization charges consist of all of Consumers Energy's covered electric customers. Covered electric customers do not include (i) current choice customers, (ii) customers to the extent they obtain or use self-service power or (iii) customers to the extent engaged in affiliate wheeling. Any successor to Consumers Energy under Act 142, whether pursuant to any bankruptcy, reorganization or other insolvency proceeding or pursuant to any merger, acquisition, sale or transfer, by operation of law, as a result of electric utility restructuring or otherwise, must perform and satisfy all obligations of Consumers Energy under Act 142.

During the twelve months ended December 31, 2013, approximately 39% of Consumers Energy's total electric usage (as measured by billed gigawatt-hour sales) in the State of Michigan was to residential customers, approximately 23% was to secondary customers and approximately 37% was to primary customers.

Edgar Filing: CONSUMERS ENERGY CO - Form S-3/A

We will purchase the securitization property from Consumers Energy. Neither the securitization property nor the other collateral securing the bonds is or will be a static pool of assets. Securitization charges authorized in the financing order are irrevocable and not subject to reduction, impairment, postponement, termination or, except for the specified true-up adjustments to correct any overcollections or undercollections, adjustment by further action of the MPSC. Securitization charges on covered electric customers will be adjusted at least annually to correct any overcollections or undercollections of the preceding 12 months and to ensure the expected recovery during the succeeding annual period of amounts required for the timely payment of debt service and other required amounts and charges in connection with the securitization bonds. Securitization charges will be adjusted semi-annually (or, one year prior to the last scheduled final payment date for the latest maturing tranche, quarterly) if the servicer determines that a true-up adjustment is necessary to ensure the expected recovery during the succeeding annual period of amounts required for the timely payment of debt service and other required amounts and charges in connection with the securitization bonds. True-up adjustments to securitization charges may also be made by the servicer more frequently at any time, without limits as to frequency, if the servicer determines that a true-up adjustment is necessary to ensure the expected recovery during the succeeding annual period of amounts required for the timely payment of debt service and other required amounts and charges in connection with the securitization bonds. The financing order permits mid-year true-up adjustments to be implemented immediately without additional MPSC approval if the proposed true-up adjustment is not opposed. Please read Credit Enhancement True-Up Mechanism for Payment of Scheduled Principal and Interest in this prospectus supplement. All revenues and collections resulting from securitization charges provided for in the financing order are part of the securitization property. The securitization property relating to the bonds is described in more detail under Description of the Securitization Property in the accompanying prospectus.

The servicer will bill, collect and post securitization charges allocable to the bonds from covered electric customers. Prior to the date on which the servicer remits the securitization charges to the trustee, the securitization

Table of Contents

charges may be commingled with the servicer's other funds, although the servicer will remit collections within two business days following the receipt of such securitization charges.

Because the amount of securitization charge collections will depend on the amount of covered electric customer usage of electricity, the amount of collections may vary substantially from year to year. Please read "The Depositor, Seller, Initial Servicer and Sponsor" in the accompanying prospectus.

Under the indenture, the trustee or the holders of the bonds have the right to foreclose or otherwise enforce the lien on the securitization property. However, in the event of foreclosure, there is likely to be a limited market, if any, for the securitization property. Therefore, foreclosure might not be a realistic or practical remedy. Please read "Risk Factors - Risk Associated with the Unusual Nature of the Securitization Property - Foreclosure of the trustee's lien on the securitization property for the securitization bonds might not be practical, and acceleration of the securitization bonds before maturity might have little practical effect" in the accompanying prospectus.

Financing Order

On December 6, 2013, the MPSC issued the financing order relating to the bonds. The financing order authorizes Consumers Energy to securitize and cause to be issued bonds in one or more series in an aggregate principal amount not to exceed \$389,600,000, representing qualified costs, as defined in Act 142, of the remaining book value of certain generating units and transaction and debt retirement costs. Consumers Energy unconditionally accepted all conditions and limitations requested by such order in a letter dated January 24, 2014 from Consumers Energy to the MPSC. As of January 24, 2014, the financing order was final and not subject to appeal.

The financing order also authorizes securitization charges in amounts sufficient to recover the principal of and interest on the bonds plus ongoing other qualified costs. The MPSC affirms that it will act pursuant to the financing order to ensure that expected securitization charges are sufficient to timely pay scheduled principal of and interest on the bonds and ongoing other qualified costs in connection with the securitization bonds. Please read "Consumers Energy's Financing Order" in the accompanying prospectus.

Payment Dates, Record Dates and Payment Sources

Beginning _____, 2014, we will make payments on the bonds semi-annually on each payment date, which is _____ and _____ of each year, or, if that day is not a business day, the following business day. On each payment date, we will make interest and principal payments to the persons or entities that are the holders of record as of the business day immediately prior to that payment date, which is referred to as the **record date**. On each payment date, we will pay amounts on outstanding bonds from amounts available in the collection account and the related subaccounts held pursuant to the indenture in the priority set forth under "Credit Enhancement - How Funds in the Collection Account Will Be Allocated" in this prospectus supplement. These available amounts, which will include amounts collected by the servicer for us with respect to the securitization charges, are described in greater detail under "Security For The Securitization Bonds - How Funds in the Collection Account will be Allocated" and "The Servicing Agreement - Remittances to Collection Account" in the accompanying prospectus.

Principal Payments

On each payment date, we will pay principal of the bonds to the bondholders equal to the sum, without duplication, of:

- the unpaid principal amount of any bond whose final maturity date is on that payment date;
- the unpaid principal amount of any bond upon acceleration following an event of default relating to the bonds;
- any overdue payments of principal;
- any unpaid and previously scheduled payments of principal; and
- the principal scheduled to be paid on any bond on that payment date,

but only to the extent funds are available in the collection account after payment of certain of our fees and expenses and after payment of interest as described under **Interest Payments** . To the extent funds are so available, we will make scheduled payments of principal of the bonds in the following order:

Table of Contents

1. to the holders of the tranche A-1 bonds, until the principal balance of that tranche has been reduced to zero;
2. to the holders of the tranche A-2 bonds, until the principal balance of that tranche has been reduced to zero; and
3. to the holders of the tranche A-3 bonds, until the principal balance of that tranche has been reduced to zero.

However, unless the bonds have been accelerated following an event of default, we will not pay principal of any tranche of bonds on any payment date if making the payment would reduce the principal balance of that tranche to an amount lower than the amount specified in the expected amortization schedule below for that tranche on that payment date. Unless the bonds have been accelerated following an event of default, any excess funds remaining in the collection account after payment of principal, interest, ongoing other qualified costs and other applicable fees and expenses, replenishment of any amounts drawn from the capital subaccount and release of investment earnings on funds in the capital subaccount will be retained in the excess funds subaccount. The entire unpaid principal balance of each tranche of the bonds will be due and payable on the final maturity date for that tranche.

If an event of default under the indenture has occurred and is continuing, the trustee or the holders of a majority in principal amount of the bonds then outstanding may declare the unpaid principal balance of the bonds, together with accrued interest thereon, to be due and payable. However, the nature of our business will result in payment of principal upon an acceleration of the bonds being made as funds become available. Please read [Risk Factors Risk Associated with the Unusual Nature of the Securitization Property](#) Foreclosure of the trustee's lien on the securitization property for the securitization bonds might not be practical, and acceleration of the securitization bonds before maturity might have little practical effect and [Risk Factors Risk Associated with Limited Source of Funds](#) You may experience material payment delays or incur a loss on your investment in the securitization bonds because the source of funds for payment is limited in the accompanying prospectus. If there is a shortfall in the amounts available to make principal payments on the bonds that are due and payable, including upon an acceleration following an event of default, the trustee will distribute principal from the collection account pro rata to each tranche of bonds based on the principal amount then due and payable on the payment date.

The expected sinking fund schedule below sets forth the corresponding principal payment that is scheduled to be made on each payment date for each tranche of the bonds from the issuance date to the scheduled final payment date. Similarly, the expected amortization schedule below sets forth the principal balance that is scheduled to remain outstanding on each payment date for each tranche of the bonds from the issuance date to the scheduled final payment date.

tranche of bonds and the actual final payment date of each tranche of bonds will depend on the timing of the servicer's receipt of securitization charges from covered electric customers. Please read "Weighted Average Life and Yield Considerations for the Securitization Bonds" in the accompanying prospectus for further information. Changes in the expected weighted average lives of the tranches of the bonds in relation to variances in actual energy consumption levels (electric sales) from forecast levels are shown below.

S-15

Table of Contents

Weighted Average Life Sensitivity

Tranche	Expected Weighted Average Life (Years)	-5% (Standard Deviations from Mean)		-15% (Standard Deviations from Mean)	
		Weighted Average Life (Years)	Change (Days)*	Weighted Average Life (Years)	Change (Days)*
A-1					
A-2					
A-3					

* Number is rounded to whole days.

Assumptions

For the purposes of preparing the above chart, the following assumptions, among others, have been made: (i) the forecast error stays constant over the life of the bonds and is equal to an overestimate of electricity usage of -5% (standard deviations from mean) or -15% (standard deviations from mean); (ii) the servicer makes timely and accurate filings to make a true-up adjustment to the securitization charges semi-annually; (iii) customer charge-off rates are held constant at approximately % for the residential **securitization rate class** (as defined under Glossary of Defined Terms in the accompanying prospectus) (comprised of approximately 1,574,000 customers as of December 31, 2013), approximately % for the secondary securitization rate class (comprised of approximately 207,000 customers as of December 31, 2013), approximately % for the primary securitization rate class (comprised of approximately 4,000 customers as of December 31, 2013) and approximately % for the streetlighting securitization rate class (comprised of approximately 5,000 customers as of December 31, 2013); (iv) days sales outstanding are based upon historical averages; (v) operating expenses are equal to projections; (vi) there is no acceleration of the final maturity date of the bonds; (vii) a permanent loss of all covered electric customers has not occurred; and (viii) the issuance date is , 2014. There can be no assurance that the weighted average lives of the bonds will be as shown.

Fees and Expenses

As set forth in the table below, the issuing entity is obligated to pay fees to the servicer, the trustee, its independent managers and Consumers Energy as administrator and to pay certain ongoing expenses. These obligations are included in ongoing other qualified costs and are components of the calculation of the securitization charges to be collected. The following table illustrates this arrangement.

Recipient	Source of Payment	Fees and Expenses Payable
Servicer	Securitization charge collections and investment earnings	\$ per annum (so long as servicer is Consumers Energy or an affiliate)
Trustee	Securitization charge collections and investment earnings	\$15,000 per annum, plus out-of-pocket expenses
Independent managers	Securitization charge collections and investment earnings	\$7,000 per annum, plus out-of-pocket expenses
Administration fee	Securitization charge collections and investment earnings	\$50,000 per annum, plus out-of-pocket expenses

The annual servicing fee payable to any servicer not affiliated with Consumers Energy shall not at any time exceed 0.75% of the original principal amount of the bonds.

Distribution Following Acceleration

Upon an acceleration of the maturity of the bonds, the total outstanding principal balance of and interest accrued on the bonds will be payable, without priority of interest over principal or principal over interest. Although

Table of Contents

principal will be due and payable upon acceleration, the nature of our business will result in principal being paid as funds become available. Please read **Risk Factors Risk Associated with the Unusual Nature of the Securitization Property** Foreclosure of the trustee's lien on the securitization property for the securitization bonds might not be practical, and acceleration of the securitization bonds before maturity might have little practical effect and **Risk Factors Risk Associated with Limited Source of Funds** You may experience material payment delays or incur a loss on your investment in the securitization bonds because the source of funds for payment is limited in the accompanying prospectus.

Interest Payments

Interest on each tranche of bonds will accrue from and including the issue date to but excluding the first payment date, and thereafter from and including the previous payment date to but excluding the applicable payment date until the bonds have been paid in full, at the interest rate indicated on the cover of this prospectus supplement and in the table on page S-10. On each payment date, we will pay interest on each tranche of the bonds equal to the following amounts:

- if there has been a payment default, any interest payable but unpaid on any prior payment date, together with interest on any such unpaid interest; and
- accrued interest on the principal balance of each tranche of the bonds as of the close of business on the preceding payment date (or, with respect to the initial payment date, the date of the original issuance of the bonds) after giving effect to all payments of principal made on the preceding payment date, if any.

Except as provided under **Distribution Following Acceleration** in this prospectus supplement, we will pay interest on the bonds before we pay principal on the bonds. Please read **Description of the Securitization Bonds Interest and Principal on the Securitization Bonds** in the accompanying prospectus. If there is a shortfall in the amounts available in the collection account to make interest payments on the bonds, the trustee will distribute interest pro rata to each tranche of bonds based on the amount of interest payable on each such outstanding tranche. Please read **Credit Enhancement Collection Account and Subaccounts** in this prospectus supplement. We will calculate interest on tranches of the bonds on the basis of a 360-day year of twelve 30-day months.

No Optional Redemption

We may not voluntarily redeem any tranche of the bonds.

Table of Contents

THE TRUSTEE

The Bank of New York Mellon, a New York banking corporation, will be the indenture trustee (**trustee**). The Bank of New York Mellon will also act as paying agent and registrar.

The Bank of New York Mellon's corporate trust businesses have office locations in various domestic and international cities. The indenture will be administered from The Bank of New York Mellon's corporate trust office located at 101 Barclay Street, New York, New York 10286, Attention: Asset Backed Securities Unit.

The Bank of New York Mellon serves or has served as indenture trustee, paying agent and registrar on several issues of similar asset-backed securities, including the 2001-1 securitization bonds issued by the 2001-1 securitization bond issuer.

The issuing entity, Consumers Energy and their respective affiliates may from time to time enter into normal banking and trustee relationships with The Bank of New York Mellon and its affiliates. No relationships currently exist or existed during the past two years between the issuing entity, Consumers Energy and their respective affiliates, on the one hand, and The Bank of New York Mellon and its affiliates, on the other hand, that would be outside the ordinary course of business or on terms other than would be obtained in an arm's length transaction with an unrelated third party.

Table of Contents

CREDIT ENHANCEMENT

Credit enhancement for the bonds is intended to protect you against losses or delays in scheduled payments on your bonds. Please read **Risk Factors** **Risk Associated with Limited Source of Funds**. You may experience material payment delays or incur a loss on your investment in the securitization bonds because the source of funds for payment is limited in the accompanying prospectus.

True-Up Mechanism for Payment of Scheduled Principal and Interest

Act 142 and the financing order mandate that securitization charges on covered electric customers be reviewed and adjusted by the MPSC at least annually to correct any overcollections or undercollections of the preceding 12 months and to ensure the expected recovery during the succeeding annual period of amounts required for the timely payment of debt service and other required amounts and charges in connection with the securitization bonds. In addition, the financing order provides that true-up adjustments are required on a semi-annual basis (or, one year prior to the last scheduled final payment date for the latest maturing tranche, on a quarterly basis) if the servicer determines that a true-up adjustment is necessary to ensure the expected recovery during the succeeding annual period of amounts required for the timely payment of debt service and other required amounts and charges in connection with the securitization bonds. True-up adjustments may also be made by the servicer more frequently at any time, without limits as to frequency, if the servicer determines that a true-up adjustment is necessary to ensure the expected recovery during the succeeding annual period of amounts required for the timely payment of debt service and other required amounts and charges in connection with the securitization bonds. The financing order permits mid-year true-up adjustments to be implemented immediately without additional MPSC approval if the proposed true-up adjustment is not opposed. In the financing order, the MPSC affirms that it will act pursuant to the financing order to ensure that expected securitization charges are sufficient to pay on a timely basis all scheduled principal of and interest on the bonds and ongoing other qualified costs in connection with the securitization bonds.

There is no cap on the level of securitization charges that may be imposed on covered electric customers to pay on a timely basis scheduled principal of and interest on the bonds and ongoing other qualified costs, and such securitization charges may continue to be imposed, charged and collected until the bonds are paid in full, except that securitization charges may not be billed more than 15 years after the beginning of the first complete billing cycle during which securitization charges were initially placed on any covered electric customer's bill. Through the true-up mechanism, which adjusts for undercollections of securitization charges due to any reason, covered electric customers share in the liabilities of all other covered electric customers for the payment of securitization charges.

Please read **The Securitization Charges** in this prospectus supplement and **Consumers Energy's Financing Order True-Up Mechanism** and **The Servicing Agreement True-Up Adjustment Process** in the accompanying prospectus.

Collection Account and Subaccounts

A collection account will be established for the bonds to hold the capital contribution from Consumers Energy and collected securitization charges periodically remitted by the servicer. The collection account will consist of the following subaccounts:

- the general subaccount;
- the excess funds subaccount; and
- the capital subaccount.

For administrative purposes, the subaccounts may be established as separate accounts that will be recognized individually as subaccounts and collectively as the collection account. Withdrawals from and deposits to these subaccounts will be made as described below in this prospectus supplement and under *Security for the Securitization Bonds Description of Indenture Accounts* and *Security for the Securitization Bonds How Funds in the Collection Account will be Allocated* in the accompanying prospectus.

The General Subaccount. The trustee will deposit collected securitization charges remitted to it by the servicer with respect to the bonds into the general subaccount. On each payment date, the trustee will allocate amounts in the general subaccount as described under *How Funds in the Collection Account Will Be Allocated* below.

Table of Contents

The Excess Funds Subaccount. The excess funds subaccount will be funded with collected securitization charges and earnings on amounts in the collection account in excess of the amount necessary to pay on any payment date:

- fees and expenses, including any indemnity payments, of the trustee, our independent managers, the servicer and the administrator and other fees, expenses, costs and charges;
- principal and interest payments on the bonds required to be paid or scheduled to be paid on that payment date; and
- any amount required to replenish any amounts drawn from the capital subaccount.

The periodic true-up adjustments of the securitization charges will be calculated to eliminate any amounts held in the excess funds subaccount.

If amounts available in the general subaccount are not sufficient to pay the fees and expenses due on any payment date, to make required or scheduled payments to the bondholders and to replenish any amounts drawn from the capital subaccount, the trustee will first draw on any amounts in the excess funds subaccount to make those payments.

The Capital Subaccount. On the date we issue the bonds, Consumers Energy will deposit \$ into the capital subaccount as a capital contribution to us, which is equal to 0.5% of the initial principal balance of the bonds. The capital contribution has been set at a level sufficient to obtain the ratings on the bonds described in the accompanying prospectus under Ratings for the Securitization Bonds . If amounts available in the general subaccount and the excess funds subaccount are not sufficient to make required or scheduled payments to the bondholders and to pay the fees and expenses specified in the indenture due on any payment date, the trustee will draw on amounts in the capital subaccount to make those payments.

How Funds in the Collection Account Will Be Allocated

Amounts remitted by the servicer to the trustee with respect to the bonds, including any indemnity amounts and all investment earnings on amounts in the subaccounts in the collection account will be deposited into the general subaccount of the collection account.

On each payment date, the trustee will allocate or pay all amounts on deposit in the general subaccount of the collection account for the bonds in the following priority:

Edgar Filing: CONSUMERS ENERGY CO - Form S-3/A

1. payment of the trustee's fees, expenses and outstanding indemnity amounts in an amount not to exceed \$500,000 annually;
2. payment of the servicing fee relating to the bonds, which will be a fixed amount specified in the servicing agreement, plus any unpaid servicing fees from prior payment dates as described under "The Servicing Agreement - Servicing Compensation" in the accompanying prospectus;
3. payment of the administration fee, which will be a fixed amount specified in the administration agreement between us and Consumers Energy, and of the fees of our independent managers, which will be in an amount specified in an agreement between us and our independent managers, each as described in the table on page S-16, plus any unpaid administration or management fees from prior payment dates;
4. payment of all of our other ordinary periodic operating expenses relating to the bonds, such as accounting and audit fees, rating agency and related fees (i.e. website provider fees), legal fees and certain reimbursable costs of the administrator under the administration agreement;
5. payment of the interest then due on the bonds, including any past-due interest (together with, to the extent lawful, interest thereon);
6. payment of the principal required to be paid on the bonds on the final maturity date or as a result of acceleration upon an event of default;
7. payment of the principal then scheduled to be paid on the bonds in accordance with the expected sinking fund schedule, including any previously unpaid scheduled principal, paid pro rata among the bonds if there is a deficiency;

Table of Contents

8. payment of any of our remaining unpaid operating expenses (including any such amounts owed to the trustee but unpaid due to the limitation in clause 1 above) and any remaining amounts owed pursuant to the basic documents;

9. replenishment of any amounts drawn from the capital subaccount;

10. so long as no event of default has occurred and is continuing, release to Consumers Energy of an amount equal to investment earnings since the previous payment date (or, in the case of the first payment date, since the issuance date) on the initial amount deposited by it into the capital subaccount;

11. allocation of the remainder, if any, to the excess funds subaccount; and

12. after the bonds have been paid in full and discharged and all of the foregoing amounts are paid in full, the balance, together with all amounts in the capital subaccount and the excess funds subaccount, to us free and clear of the lien of the indenture.

The amounts paid during any calendar year in respect of the servicing fee in clause 2 may not exceed 0.05% of the original principal balance of the bonds (for so long as Consumers Energy or any of its affiliates is the servicer) and may not exceed 0.75% of the original principal balance of the bonds if Consumers Energy or any of its affiliates is not the servicer. The administrator is also entitled to reimbursement of certain out-of-pocket expenses, such as those of accountants and counsel. Please read "Risk Factors - Other Risks Associated with an Investment in the Securitization Bonds - Consumers Energy's indemnification obligations under the sale agreement and servicing agreement are limited and might not be sufficient to protect your investment in the securitization bonds" in the accompanying prospectus.

If, on any payment date, funds in the general subaccount are insufficient to make the allocations or payments contemplated by clauses 1 through 9 of the second paragraph of this subsection, the trustee will draw from amounts on deposit in the following subaccounts in the following order up to the amount of the shortfall:

1. from the excess funds subaccount for allocations and payments contemplated in such clauses 1 through 9; and

2. from the capital subaccount for allocations and payments contemplated in such clauses 1 through 8.

If, on any payment date, available collections of securitization charges allocable to the bonds, together with available amounts in the related subaccounts, are not sufficient to pay all amounts due on all outstanding bonds on that payment date, amounts available will be allocated sequentially in the following order, in each case to the extent of available funds:

1. pro rata to interest, based on the amount of interest then due and payable on each tranche of the bonds;
2. pro rata to principal, based on the principal amount of each tranche then due and payable; and
3. pro rata to principal, based upon the principal amount of each tranche then scheduled to be paid, including any previously unpaid scheduled principal.

If the trustee uses amounts on deposit in the capital subaccount to pay those amounts or make those transfers, as the case may be, subsequent adjustments to the related securitization charges will take into account, among other things, the need to replenish those amounts.

Table of Contents

THE SECURITIZATION CHARGES

Consumers Energy will be the initial servicer of the bonds. Beginning with the first billing cycle after the date we issue the bonds, the initial securitization charges will be imposed on covered electric customers in each securitization rate class at the applicable rate for the class determined pursuant to the financing order. These securitization charges will be adjusted at least annually, or more frequently under certain circumstances, by the servicer in accordance with its filings with, and, when required, approvals granted by, the MPSC. Securitization charges may not be billed more than 15 years after the beginning of the first complete billing cycle during which securitization charges were initially placed on any covered electric customer's bill. Please read "Description of the Securitization Property" "Creation of Securitization Property" in the accompanying prospectus.

Listed in the table below are the estimated initial securitization charges by securitization rate class. The actual initial securitization charge assessed to each securitization rate class may be different.

Initial Securitization Charges

Securitization Rate Class	Initial Securitization Charge Rate (\$ per kWh)
Residential	\$
Secondary	
Primary	
Streetlighting	

All covered electric customers are responsible for securitization charges. True-up adjustments will be made on a proportionate basis based on the securitization charge rate applicable among the securitization rate classes.

Please read "Description of the Securitization Property" "Creation of Securitization Property" and "Description of the Securitization Property" "Securitization Rate Classes" in the accompanying prospectus.

Table of Contents**UNDERWRITING THE BONDS**

Subject to the terms and conditions in the underwriting agreement among us, Consumers Energy and the underwriters, for whom Citigroup Global Markets Inc. and Goldman, Sachs & Co. are acting as representatives, we have agreed to sell to the underwriters, and the underwriters have severally agreed to purchase, the principal amount of the bonds listed opposite each underwriter's name below:

Underwriter	Tranche A-1	Tranche A-2	Tranche A-3	Total
Citigroup Global Markets Inc.	\$	\$	\$	\$
Goldman, Sachs & Co.				
Total	\$	\$	\$	\$

Under the underwriting agreement, the underwriters will take and pay for all of the bonds we offer, if any are taken. If an underwriter defaults, the underwriting agreement provides that the purchase commitments of the non-defaulting underwriters may be increased or the underwriting agreement may be terminated.

The Underwriters' Sales Price for the Bonds

The bonds sold by the underwriters to the public will be initially offered at the prices to the public set forth on the cover of this prospectus supplement. The underwriters propose initially to offer the bonds to dealers at such prices, less a selling concession not to exceed the percentage listed below for each tranche. The underwriters may allow, and dealers may reallow, a discount not to exceed the percentage listed below for each tranche.

	Selling Concession	Reallowance Discount
Tranche A-1	%	%
Tranche A-2	%	%
Tranche A-3	%	%

After the initial public offering, the public offering prices, selling concessions and reallowance discounts may change.

No Assurance as to Resale Price or Resale Liquidity for the Bonds

The bonds are a new issue of securities with no established trading market. They will not be listed on any securities exchange. The underwriters have advised us that they intend to make a market in the bonds, but they are not obligated to do so and may discontinue market making at any time without notice. We cannot assure you that a liquid trading market will develop for the bonds.

Various Types of Underwriter Transactions That May Affect the Price of the Bonds

The underwriters may engage in overallotment transactions, stabilizing transactions, syndicate covering transactions and penalty bids with respect to the bonds in accordance with Regulation M under the Securities Exchange Act of 1934, as amended, or the **Exchange Act**. Overallotment transactions involve syndicate sales in excess of the offering size, which create a syndicate short position. Stabilizing transactions are bids to purchase the bonds, which are permitted, so long as the stabilizing bids do not exceed a specific maximum price. Syndicate covering transactions involve purchases of the bonds in the open market after the distribution has been completed in order to cover syndicate short positions. Penalty bids permit the underwriters to reclaim a selling concession from a syndicate member when the bonds originally sold by the syndicate member are purchased in a syndicate covering transaction. These overallotment transactions, stabilizing transactions, syndicate covering transactions and penalty bids may cause the prices of the bonds to be higher than they would otherwise be. None of us, Consumers Energy, the trustee, our managers or any of the underwriters represents that the underwriters will engage in any of these transactions or that these transactions, if commenced, will not be discontinued without notice at any time. Neither we nor Consumers Energy has entered into any arrangement with any underwriter under which an underwriter may purchase additional bonds in connection with this offering.

The underwriters and their affiliates have in the past provided, and may in the future from time to time provide, investment banking and general financing and banking services to Consumers Energy and its affiliates for which they have in the past received, and in the future may receive, customary fees. In addition, each underwriter may from time to time take positions in the bonds. Citigroup Global Markets Inc., as financial advisor, has rendered certain financial advisory/structuring services to us and has received \$175,000 and will receive the additional

Table of Contents

amount set forth in Use of Proceeds below for such services, which additional amount is a component of the underwriting discount and expenses. In accordance with FINRA Rule 5110, both of these amounts and the reimbursement of the financial advisor's expenses are deemed underwriting compensation in connection with the offering.

We and Consumers Energy have agreed to indemnify the underwriters against some liabilities, including liabilities under the Securities Act of 1933, as amended, or to contribute to payments the underwriters may be required to make in respect of those liabilities.

The underwriters are offering the bonds, subject to prior sale, when, as and if issued to and accepted by them, subject to approval of legal matters, including the validity of the bonds and other conditions contained in the underwriting agreement, such as receipt of ratings confirmations, officers' certificates and legal opinions. The underwriters reserve the right to withdraw, cancel or modify offers to the public and to reject offers in whole or in part.

We expect to deliver the bonds against payment for the bonds on or about the date specified in the last paragraph of the cover page of this prospectus supplement, which will be the business day following the date of pricing of the bonds. Since trades in the secondary market generally settle in three business days, purchasers who wish to trade bonds on the date of pricing or the succeeding business days will be required, by virtue of the fact that the bonds initially will settle in T+ , to specify alternative settlement arrangements to prevent a failed settlement.

Table of Contents

AFFILIATIONS AND CERTAIN RELATIONSHIPS

The issuing entity is a wholly-owned subsidiary of Consumers Energy. Consumers Energy is an operating subsidiary of CMS Energy. The Bank of New York Mellon has been the trustee in connection with the 2001-1 securitization bonds issued by the 2001-1 securitization bond issuer. One of the underwriters of the bonds, Citigroup Global Markets Inc., also served as the financial advisor to Consumers Energy in connection with the structuring of the bonds. Each of the sponsor, the depositor, Citigroup Global Markets Inc. and Goldman, Sachs & Co. may maintain other banking relationships in the ordinary course with The Bank of New York Mellon.

S-25

Table of Contents

USE OF PROCEEDS

We will use the net proceeds from the sale of the bonds to pay our costs of issuance of the bonds and for our other initial costs of the transaction, or to reimburse Consumers Energy for expenses of authorization, issuance and sale of the bonds, and the balance will be used by us to purchase the securitization property from Consumers Energy. Consumers Energy will use the proceeds from the sale of the securitization property to retire a portion of its existing debt and/or equity.

The costs of issuance of the securitization bonds and other initial costs of the transaction, net of underwriting discounts and commissions of \$, are expected to be approximately \$. An aggregate of approximately \$ of such costs are payable to the servicer in connection with set-up costs, including costs incurred in connection with establishing the issuing entity and building the necessary information technology systems, processes and reports. The costs of issuance of the securitization bonds and other initial costs of the transaction include the financial advisory fee, including \$325,000 payable to Citigroup Global Markets Inc. in respect of the additional portion of the financial advisory fee referenced above under Underwriting the Bonds in this prospectus supplement and \$ payable to Citigroup Global Markets Inc. for reimbursement of expenses incurred as financial/structuring advisor for the transaction.

Table of Contents

MATERIAL U.S. FEDERAL INCOME TAX CONSEQUENCES

Pillsbury Winthrop Shaw Pittman LLP, special tax counsel to us and Consumers Energy, has issued an opinion that, for U.S. federal income tax purposes, (i) we will not be treated as a taxable entity separate and apart from Consumers Energy and (ii) the bonds will be treated as debt of Consumers Energy. Each beneficial owner of a bond, by acquiring a beneficial interest, agrees to treat such bond as indebtedness of our sole member secured by the collateral for federal (and, to the extent applicable, state) income tax purposes unless otherwise required by appropriate taxing authorities. Please read "Material U.S. Federal Income Tax Consequences" in the accompanying prospectus.

S-27

Table of Contents

WHERE YOU CAN FIND MORE INFORMATION

To the extent that we are required by law to file such reports and information with the Securities and Exchange Commission, or the **SEC**, under the Exchange Act, we will file annual and distribution reports and other information with the SEC. We are incorporating by reference any future filings we or the sponsor, but solely in its capacity as our sponsor, make with the SEC under Section 13(a), 13(c), 14 or 15(d) of the Exchange Act prior to the termination of the offering, excluding any information that is furnished to, and not filed with, the SEC. These reports will be filed under our own name as issuing entity. Please read "Where You Can Find More Information" in the accompanying prospectus. Under the indenture, we may voluntarily suspend or terminate our filing obligations as issuing entity with the SEC, to the extent permitted by applicable law.

S-28

Table of Contents

LEGAL PROCEEDINGS

There are no legal or governmental proceedings pending against us, the sponsor, the seller, the trustee or the servicer, or of which any property of the foregoing is subject, that is material to the holders of the bonds.

S-29

Table of Contents

LEGAL MATTERS

Certain legal matters relating to the bonds, including certain U.S. federal income tax matters, will be passed on by Pillsbury Winthrop Shaw Pittman LLP, counsel to Consumers Energy and the issuing entity, by Richards, Layton & Finger, P.A., special Delaware counsel to the issuing entity, by Miller Canfield Paddock and Stone, P.L.C., Michigan counsel to Consumers Energy and the issuing entity, and by Hunton & Williams LLP, counsel to the underwriters. Pillsbury Winthrop Shaw Pittman LLP has acted and is expected to act as counsel to the underwriters of other securities issued by Consumers Energy and CMS Energy from time to time. Hunton & Williams LLP has acted and is expected to act as counsel to Consumers Energy from time to time.

S-30

Table of Contents

OFFERING RESTRICTIONS IN CERTAIN JURISDICTIONS

NOTICE TO RESIDENTS OF THE EUROPEAN ECONOMIC AREA

In relation to each Member State of the European Economic Area that has implemented the prospectus directive (as defined below) (each, a **relevant member state**), each of the underwriters has represented and agreed that with effect from and including the date on which the prospectus directive is implemented in that relevant member state (the **relevant implementation date**) it has not made and will not make an offer of the securitization bonds to the public in that relevant member state prior to the publication of a prospectus in relation to the securitization bonds that has been approved by the competent authority in that Member State or, where appropriate, approved in another relevant member state and published and notified to the competent authority in that relevant member state, all in accordance with the prospectus directive as implemented in that relevant member state or following, in either case, 12 months after such publication, except that it may, with effect from and including the relevant implementation date, make an offer of the securitization bonds to the public in that relevant member state: (i) solely to qualified investors (as defined in the prospectus directive); (ii) to fewer than 100 natural or legal persons (or, if the relevant member state has implemented the relevant provision of and Directive 2010/73/EU, 150 natural or legal persons) other than qualified investors as defined in the prospectus directive, subject to obtaining the prior consent of the representative of the underwriters for any such offer; or (iii) in any other circumstances falling within Article 3(2) of the prospectus directive, provided that no such offer of the securitization bonds shall require the issuing entity or any underwriter to publish a prospectus pursuant to Article 3 of the prospectus directive or supplement a prospectus pursuant to Article 16 of the prospectus directive.

For purposes of this provision, the expression **offer of the securitization bonds to the public** in relation to any securitization bonds in any relevant member state means the communication in any form and by any means of sufficient information on the terms of the offer and the securitization bonds to be offered so as to enable an investor to decide to purchase or subscribe for the securitization bonds, as the same may be varied in that Member State by any measure implementing the prospectus directive in that Member State, and the expression **prospectus directive** means Directive 2003/71/EU and includes any relevant implementing measure or amending measure in each relevant member state.

NOTICE TO RESIDENTS OF THE UNITED KINGDOM

Each of the underwriters has represented and agreed that (i) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000, as amended (the **FSMA**)) received by it in connection with the issue or sale of the securitization bonds in circumstances in which Section 21(1) of the FSMA does not apply to the issuing entity and (ii) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the securitization bonds in, from or otherwise involving the United Kingdom.

NOTICE TO RESIDENTS OF HONG KONG

Each underwriter has represented and agreed that it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any bonds other than (i) to **professional investors** as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made under that ordinance or (ii) in other circumstances that do not result in the document being a **prospectus** as defined in the Companies

Edgar Filing: CONSUMERS ENERGY CO - Form S-3/A

Ordinance (Cap. 32) of Hong Kong or that do not constitute an offer to the public within the meaning of that ordinance; and it has not issued, or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the securitization bonds, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to bonds that are or are intended to be disposed of only to persons outside Hong Kong or only to **professional investors** as defined in the Securities and Futures Ordinance (Cap. 571) and any rules made under that ordinance.

NOTICE TO RESIDENTS OF JAPAN

The securitization bonds have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended, the **Financial Instruments and Exchange Act**), and

S-31

Table of Contents

each underwriter has represented and agreed that it will not offer or sell any of the securitization bonds, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (which term as used in this paragraph means any person resident of Japan, including any corporation or other entity organized under the laws of Japan) or to, or for the benefit of, others for reoffering or resale, directly or indirectly, in Japan or to a resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Financial Instruments and Exchange Act and any other applicable laws, regulations and ministerial guidelines and regulations of Japan.

NOTICE TO RESIDENTS OF THE PEOPLE'S REPUBLIC OF CHINA

The securitization bonds shall not be offered or sold in the People's Republic of China, excluding Hong Kong, Macau and Taiwan, or the PRC, as part of the initial distribution of the securitization bonds.

This prospectus supplement and the accompanying prospectus do not constitute an offer to sell or the solicitation of an offer to buy any securities in the PRC to any person to whom it is unlawful to make the offer or solicitation in the PRC.

The PRC does not represent that this prospectus supplement and the accompanying prospectus may be lawfully distributed, or that any bonds may be lawfully offered, in compliance with any applicable registration or other requirements in the PRC, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the issuing entity that would permit a public offering of any bonds or the distribution of this prospectus supplement and the accompanying prospectus in the PRC. Accordingly, the securitization bonds are not being offered or sold within the PRC by means of this prospectus supplement and the accompanying prospectus or any other document. Neither this prospectus supplement and the accompanying prospectus nor any advertisement or other offering material may be distributed or published in the PRC, except under circumstances that will result in compliance with any applicable laws and regulations. The PRC shall not be responsible or liable for any approvals, registration or filing procedures required by the PRC investors in connection with their subscriptions under this prospectus supplement under the laws of the PRC as well as any other requirements under other foreign laws.

NOTICE TO RESIDENTS OF SINGAPORE

This prospectus supplement and the accompanying prospectus have not been registered and will not be registered as a prospectus with the Monetary Authority of Singapore. Accordingly, the securitization bonds may not be offered or sold or made the subject of an invitation for subscription or purchase nor may this prospectus supplement and the accompanying prospectus or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of bonds be circulated or distributed whether directly or indirectly to any person in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the **Securities and Futures Act**), (ii) to a relevant person pursuant to Section 275(1) of the Securities and Futures Act, or any person pursuant to Section 275(1A) of the Securities and Futures Act, and in accordance with the conditions, specified in Section 275 of the Securities and Futures Act, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the Securities and Futures Act.

Where the securitization bonds are subscribed or purchased under Section 275 of the Securities and Futures Act by a relevant person that is: (i) a corporation (which is not an accredited investor as defined in Section 4A of the Securities and Futures Act) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or (ii) a trust

Edgar Filing: CONSUMERS ENERGY CO - Form S-3/A

(where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor, then securities (as defined in Section 239(1) of the Securities and Futures Act) of that corporation or the beneficiaries rights and interest (howsoever described) in that trust shall not be transferable within six months after that corporation or that trust has acquired the foregoing securities pursuant to an offer made under Section 275 of the Securities and Futures Act except: (1) to an institutional investor or to a relevant person defined in Section 275(2) of the Securities and Futures Act, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the Securities and Futures Act; (2) where no consideration is or will be given for the transfer; (3) where the transfer is by operation of law; or (4) as specified in Section 276(7) of the Securities and Futures Act or Regulation 32 of the Securities and Futures (Offers of Investments) (Shares and Debentures) Regulations.

S-32

Table of Contents

The information in this prospectus is not complete and may be changed. The bonds may not be sold until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell nor does it seek an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

Subject to Completion

Preliminary Prospectus Dated June 25, 2014

PROSPECTUS

Consumers 2014 Securitization Funding LLC

Issuing Entity

Senior Secured Securitization Bonds, Series 2014A

Consumers Energy Company

Depositor, Seller, Initial Servicer and Sponsor

You should carefully consider the Risk Factors beginning on page 10 of this prospectus before you invest in the Senior Secured Securitization Bonds, Series 2014A.

We, the issuing entity, will issue the Senior Secured Securitization Bonds, Series 2014A (referred to in this prospectus as the **bonds**) in one or more tranches as described in this prospectus. The bonds are senior secured obligations of the issuing entity supported by the securitization property, described in this prospectus and the related prospectus supplement, which includes the right to a special, irrevocable nonbypassable charge, known as a **securitization charge**, paid by Michigan retail electric distribution customers of Consumers Energy (or any successor) based on their electricity usage as discussed in this prospectus and the related prospectus supplement. Act 142 (defined in this prospectus) mandates that securitization charges be adjusted at least annually, and the Michigan Public Service Commission, or the **MPSC**, further permits true-up adjustments to occur semi-annually (and in certain circumstances quarterly or more frequently) if necessary, in each case to ensure the expected recovery during the succeeding annual period of amounts required for the timely payment of debt service and other required amounts and charges in connection with the securitization bonds, as described further in this prospectus and the related prospectus supplement. Credit enhancement for the bonds will be provided by these true-up adjustments as well as by accounts held under the indenture described in this prospectus and the related prospectus supplement. The bonds represent only our obligations and are backed only by our assets. Consumers

Edgar Filing: CONSUMERS ENERGY CO - Form S-3/A

Energy Company and its affiliates, other than us, are not liable for any payments on the bonds. The bonds are not a debt or obligation of the State of Michigan and are not a charge on its full faith and credit or taxing power.

We are a special purpose entity and own no property other than the collateral described in this prospectus. The collateral is the sole source of payment for the bonds.

We may offer and sell the bonds by use of this prospectus. We will provide the specific terms of the offering of the bonds in a supplement to this prospectus. You should read this prospectus and the related prospectus supplement carefully before you invest in the bonds. This prospectus may not be used to offer and sell the bonds unless accompanied by a prospectus supplement.

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR DETERMINED WHETHER THIS PROSPECTUS IS TRUTHFUL OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

The date of this Prospectus is _____, 2014.

Table of Contents

TABLE OF CONTENTS

<u>READING THIS PROSPECTUS AND THE PROSPECTUS SUPPLEMENT</u>	1
<u>PROSPECTUS SUMMARY</u>	2
<u>RISK FACTORS</u>	10
<u>REVIEW OF SECURITIZATION PROPERTY</u>	21
<u>ACT 142</u>	24
<u>CONSUMERS ENERGY'S FINANCING ORDER</u>	28
<u>DESCRIPTION OF THE SECURITIZATION PROPERTY</u>	31
<u>THE DEPOSITOR, SELLER, INITIAL SERVICER AND SPONSOR</u>	33
<u>CONSUMERS 2014 SECURITIZATION FUNDING LLC, THE ISSUING ENTITY</u>	38
<u>USE OF PROCEEDS</u>	41
<u>RELATIONSHIP TO THE 2001-1 SECURITIZATION BONDS</u>	42
<u>DESCRIPTION OF THE SECURITIZATION BONDS</u>	43
<u>THE TRUSTEE</u>	59
<u>SECURITY FOR THE SECURITIZATION BONDS</u>	60
<u>WEIGHTED AVERAGE LIFE AND YIELD CONSIDERATIONS FOR THE SECURITIZATION BONDS</u>	65
<u>THE SALE AGREEMENT</u>	66
<u>THE SERVICING AGREEMENT</u>	74
<u>HOW A BANKRUPTCY MAY AFFECT YOUR INVESTMENT</u>	82
<u>MATERIAL U.S. FEDERAL INCOME TAX CONSEQUENCES</u>	85
<u>ERISA CONSIDERATIONS</u>	89
<u>PLAN OF DISTRIBUTION</u>	91
<u>RATINGS FOR THE SECURITIZATION BONDS</u>	92
<u>WHERE YOU CAN FIND MORE INFORMATION</u>	93
<u>LEGAL MATTERS</u>	94
<u>GLOSSARY OF DEFINED TERMS</u>	95

Table of Contents

READING THIS PROSPECTUS AND THE PROSPECTUS SUPPLEMENT

This prospectus is part of a registration statement we have filed with the Securities and Exchange Commission, or the **SEC**. This prospectus provides you with a general description of the bonds we may offer. When we offer the bonds, we will provide a supplement to this prospectus. The prospectus supplement will describe the specific terms of the offering. The prospectus supplement may also contain information that supplements the information contained in this prospectus, and you should rely on the supplementary information in the prospectus supplement. Please read carefully this prospectus, the prospectus supplement and the information, if any, contained in the documents we refer to in this prospectus under the heading "Where You Can Find More Information".

References in this prospectus and the prospectus supplement to the terms **we**, **us** or the **issuing entity** mean Consumers 2014 Securitization Funding LLC. References to **Consumers Energy**, the **depositor**, the **seller**, the **initial servicer** or the **sponsor** mean Consumers Energy Company. References to the **securitization bonds** or the **bonds**, unless the context otherwise requires, mean the securitization bonds offered pursuant to the prospectus supplement. References to the **bondholders** or the **holders** refer to the registered holders of the securitization bonds. References to the **servicer** refer to Consumers Energy, initially acting in that capacity, and any successor servicer, under the **servicing agreement** referred to in this prospectus. References to **Act 142** refer to the laws of the State of Michigan adopted in June 2000 enacted as 2000 PA 142, as amended, which authorizes the MPSC to approve the recovery of **qualified costs** by certain electric utilities through the issuance of securitization bonds. Unless the context otherwise requires, the term **customer** means a Michigan retail electric distribution customer of an electric utility such as Consumers Energy, and **covered electric customer** means all existing and future retail electric distribution customers of Consumers Energy or its successors, except for (i) customers taking retail open access, or **ROA**, service from Consumers Energy as of December 6, 2013 to the extent that those ROA customers remain, without transition to bundled service, on Consumers Energy's retail choice program, or **current choice customers**, (ii) customers to the extent they obtain or use **self-service power** (as defined under "Glossary of Defined Terms") or (iii) customers to the extent engaged in **affiliate wheeling** (as defined under "Glossary of Defined Terms"). References to the **MPSC** refer to the Michigan Public Service Commission. You can find a glossary of some of the other defined terms we use in this prospectus beginning on page 95 of this prospectus.

We have included cross-references to sections in this prospectus where you can find further related discussions. You can also find key topics in the table of contents on the preceding pages. Check the table of contents to locate these sections.

You should rely only on the information contained or incorporated by reference in this prospectus and the prospectus supplement. We have not authorized anyone else to provide you with any different information. If anyone provides you with different or inconsistent information, you should not rely on it. We are not making an offer to sell the bonds in any jurisdiction where the offer or sale is not permitted. The information in this prospectus is current only as of the date of this prospectus.

Table of Contents

PROSPECTUS SUMMARY

This summary contains a brief description of the bonds and applies to the bonds we are offering by use of this prospectus. You will find a more detailed description of the terms of the offering of the bonds in the prospectus supplement.

You should carefully consider the Risk Factors beginning on page 10 of this prospectus before you invest in the bonds.

Summary of the Securitization Bonds

<i>The issuing entity:</i>	Consumers 2014 Securitization Funding LLC is a special purpose Delaware limited liability company. Consumers Energy Company is our sole member and owns all of our equity interests. We have no commercial operations. We were formed solely to purchase and own securitization property (as defined under "Glossary of Defined Terms"), to issue the bonds secured by securitization property and to perform any activity incidental thereto, and our organizational documents prohibit us from engaging in any other activity except as specifically authorized by the financing order issued by the MPSC on December 6, 2013, or the financing order .
<i>Purpose of transaction:</i>	This issuance of securitization bonds will enable Consumers Energy to recover certain qualified costs in the State of Michigan. Please read "Act 142" in this prospectus.
<i>Our address:</i>	One Energy Plaza Jackson, Michigan 49201
<i>Our telephone number:</i>	(517) 788-1030
<i>Depositor, Seller, Initial Servicer and Sponsor:</i>	Consumers Energy Company, referred to as Consumers Energy , a wholly-owned subsidiary of CMS Energy Corporation, referred to as CMS Energy , is an electric and gas utility company serving Michigan's lower peninsula. Consumers Energy owns and operates electric distribution and generation facilities and gas transmission, storage and distribution facilities. Consumers Energy serves individuals and businesses operating in the alternative energy, automotive, chemical, metal and food products industries, as well as a diversified group of other industries. Consumers Energy provides electricity and/or natural gas to approximately 6.5 million of Michigan's 10 million residents. Consumers Energy's rates and certain other aspects of its business are subject to the jurisdiction of the MPSC and the Federal Energy Regulatory Commission. Neither Consumers Energy nor CMS Energy is an obligor of the bonds.

Consumers Energy will sell the securitization property created by the financing order to us in return for our payment of a price equal to the net proceeds of the bonds.

Edgar Filing: CONSUMERS ENERGY CO - Form S-3/A

Consumers Energy, acting as the initial servicer, and any successor servicer, referred to in this prospectus as the **servicer**, will service the securitization property under a servicing agreement with us. Consumers Energy currently acts as servicer with respect to the Securitization Bonds, Series 2001-1, or the **2001-1 securitization bonds**, issued by Consumers Funding LLC, a wholly-owned subsidiary of Consumers Energy, or the **2001-1 securitization bond issuer**. Please read Relationship to the 2001-1 Securitization Bonds in this prospectus.

Consumers Energy's address:

One Energy Plaza
Jackson, Michigan 49201

Consumers Energy's phone number:

(517) 788-0550

The trustee:

The **trustee** for the bonds will be named in the prospectus supplement.

Transaction overview:

Act 142 allows the recovery of qualified costs by certain electric utilities through the issuance of securitization bonds. Act 142 establishes a process to obtain a financing order under which the MPSC is allowed to impose an irrevocable, **nonbypassable, securitization charge** (as each is defined under Glossary of Defined Terms) for

Table of Contents

payment of the bonds on customers of an electric utility (or its successors). The amount and terms for collections of these securitization charges are governed by one or more financing orders issued to an electric utility by the MPSC. Act 142 permits an electric utility to transfer its rights and interests under a financing order, including the right to impose, collect and receive securitization charges, to a special purpose entity formed by the electric utility to issue securitization bonds secured by the right to receive revenues arising from the securitization charges. The electric utility's right to impose, collect, receive and adjust the securitization charges, and all revenue, collections, payments, money and proceeds arising out of the rights and interests created under the financing order, upon transfer to the issuing entity, constitute securitization property. The financing order applicable to the bonds, which was issued by the MPSC on December 6, 2013, is further described below. Please read "Consumers Energy's Financing Order" in this prospectus.

On December 6, 2013, the MPSC issued the financing order to Consumers Energy to enable Consumers Energy to recover certain qualified costs through the issuance of securitization bonds, in an aggregate principal amount not to exceed \$389,600,000, representing qualified costs, as defined in Act 142, of the remaining book value of certain generating units and transaction and debt retirement costs. Please read "Consumers Energy's Financing Order" in this prospectus for a discussion of the qualified costs authorized in the financing order, which we refer to in this prospectus and the prospectus supplement as **qualified costs**.

The primary transactions underlying the offering of the bonds are as follows:

- Consumers Energy will sell securitization property to us in exchange for an amount equal to the proceeds from the sale of the bonds after paying issuance and certain other initial costs of the transaction;
- we will sell the bonds, which will be secured primarily by the securitization property, to the underwriters named in the prospectus supplement; and
- Consumers Energy will act as the initial servicer of the securitization property.

The bonds are not obligations of the trustee, our managers, Consumers Energy, CMS Energy or of any of their affiliates other than us. The bonds are also not obligations of the State of Michigan or any county, municipality or other political subdivision of the State of Michigan.

Table of Contents

Parties to Transaction and Responsibilities

The following chart represents a general summary of the parties to the transactions underlying the offering of the bonds, their roles and their various relationships to the other parties:

Flow of Funds

The following chart represents a general summary of the flow of funds:

Table of Contents

The Collateral

The principal asset securing the bonds will be securitization property, which is a present property right created under Act 142 by a financing order issued by the MPSC. The **collateral** includes all of our right, title and interest (whether owned on the issuance date or thereafter acquired or arising) in and to the following property:

- the securitization property created under and pursuant to the financing order and Act 142, and transferred by the seller to us pursuant to the **sale agreement** (as defined under Glossary of Defined Terms) (including, to the fullest extent permitted by law, the right to impose, collect and receive securitization charges, the right to obtain periodic adjustments to those charges, and all revenue, collections, payments, money and proceeds arising out of the rights and interests created under the financing order);
- all securitization charges related to the securitization property;
- the sale agreement and the bill of sale executed in connection therewith and all property and interests in property transferred under the sale agreement and the bill of sale with respect to the securitization property and the securitization bonds;
- the servicing agreement, the administration agreement, the **intercreditor agreement** (as defined under Glossary of Defined Terms) and any subservicing, agency, administration or collection agreements executed in connection therewith, to the extent related to the foregoing securitization property and the securitization bonds;
- the **collection account** (as defined under Glossary of Defined Terms), all subaccounts thereof and all amounts of cash, instruments, investment property or other assets on deposit therein or credited thereto from time to time and all financial assets and securities entitlements carried therein or credited thereto;
- all rights to compel the servicer to file for and obtain **true-up adjustments** (as defined under Glossary of Defined Terms) to the securitization charges in accordance with Act 142 and the financing order;
- all present and future claims, demands, causes and choses in action in respect of any or all of the foregoing, whether such claims, demands, causes and choses in action constitute securitization property, accounts, general intangibles, instruments, contract rights, chattel paper or proceeds of such items or any other form of property;
- all accounts, chattel paper, deposit accounts, documents, general intangibles, goods, instruments, investment property, letters of credit, letters-of-credit rights, money, commercial tort claims and supporting obligations related to the foregoing; and

- all payments on or under and all proceeds in respect of any or all of the foregoing.

The collateral does not include:

- cash that has been released pursuant to the terms of the **indenture** (as defined under **Glossary of Defined Terms**); and
- amounts deposited with us on the issuance date, for payment of costs of issuance with respect to the bonds (together with any interest earnings thereon).

Please read **Security for the Securitization Bonds** in this prospectus.

The Securitization Property

In general terms, all of the rights and interests of Consumers Energy established pursuant to the financing order that are transferred to us pursuant to the sale agreement are referred to in this prospectus and the prospectus supplement as the **securitization property**. Securitization property includes the right to impose, collect, receive and adjust securitization charges in amounts sufficient to pay principal and interest and to replenish the **capital subaccount** (as defined under **Glossary of Defined Terms**) in connection with the bonds and to pay **ongoing other qualified costs** (as defined under **Glossary of Defined Terms**). Securitization charges are payable by all covered electric customers in an amount necessary to provide the full recovery of all qualified costs, including debt service. Under the financing order, the customers responsible for paying securitization charges consist of all of Consumers Energy's covered electric customers. Covered electric customers who subsequently receive electric delivery service from a successor to Consumers Energy pursuant to bankruptcy, reorganization or other insolvency proceeding or any merger, acquisition, sale or transfer must pay the securitization charge. Covered electric customers do not include (i) current choice customers, (ii) customers to the extent they obtain or use self-service power or (iii)

Table of Contents

customers to the extent engaged in affiliate wheeling. During the twelve months ended December 31, 2013, approximately 39% of Consumers Energy's total electric usage (as measured by billed gigawatt-hour, or **GWh**, sales) in the State of Michigan was to residential customers, approximately 23% was to secondary customers and approximately 37% was to primary customers.

Neither the securitization property nor the other collateral securing the bonds is or will be a static pool of assets. The securitization charges are irrevocable and not subject to reduction, impairment, postponement, termination or adjustment by further action of the MPSC, except for annual, semi-annual (or, one year prior to the last scheduled final payment date for the latest maturing tranche, quarterly) and interim true-up adjustments to correct overcollections or undercollections of the preceding 12 months and to ensure the expected recovery during the succeeding annual period of amounts required for the timely payment of debt service and other required amounts and charges in connection with the securitization bonds. Please read "The Servicing Agreement True-Up Adjustment Process". All revenues and collections resulting from the securitization charges are part of the securitization property.

We will purchase securitization property from Consumers Energy to support the issuance of the bonds. The servicer will collect the applicable securitization charges from covered electric customers, and will remit the collections to the trustee.

Because the amount of securitization charge collections will depend on the amount of electricity consumed by covered electric customers within Consumers Energy's **service territory** (as defined under "Glossary of Defined Terms"), the amount of collections may vary substantially from year to year. Please read "The Depositor, Seller, Initial Servicer and Sponsor".

Interest Payments

Interest on each tranche of bonds will accrue from the issue date at the interest rate stated in the prospectus supplement. On each **payment date** (as defined under "Glossary of Defined Terms"), we will pay interest on each tranche of bonds equal to the following amounts:

- if there has been a payment default, any interest payable but unpaid on any prior payment dates, together with interest on any such unpaid interest; and
- accrued interest on the principal balance of each tranche of bonds as of the close of business on the preceding payment date (or, in the case of the first payment date, on the date of the original issuance of each tranche of bonds) after giving effect to all payments of principal made on the preceding payment date, if any.

We will pay interest on each tranche of bonds before we pay the principal of each tranche of bonds. Please read "Description of the Securitization Bonds Interest and Principal on the Securitization Bonds". If there is a shortfall in the amounts available in the collection account to make interest payments, the trustee will distribute interest pro rata to each tranche of bonds based on the amount of interest payable on each outstanding tranche. Unless otherwise specified in the prospectus supplement, we will calculate interest on the basis of a 360-day year of twelve 30-day months.

Principal Payments, Record Dates and Payment Sources

On each payment date specified in the prospectus supplement, we will pay amounts then due or scheduled to be paid on the outstanding bonds from amounts available in the collection account and the related subaccounts held pursuant to the indenture. We will make these payments to the holders of record of the bonds on the related **record date** specified in the prospectus supplement. Amounts available to make these payments, which will include the applicable securitization charges collected by the servicer for us since the last payment date, are described in greater detail under **Security for the Securitization Bonds How Funds in the Collection Account will be Allocated** and **The Servicing Agreement Remittances to Collection Account** .

Priority of Payments

On each payment date, the trustee will allocate or pay all amounts on deposit in the **general subaccount** (as defined under **Glossary of Defined Terms**) of the collection account in the following order of priority:

1. payment of the trustee's fees, expenses and outstanding indemnity amounts in an amount not to exceed annually the amount set forth in the prospectus supplement;
2. payment of the servicing fee, which will be a fixed amount specified in the servicing agreement, plus any unpaid servicing fees from prior payment dates as described under **The Servicing Agreement Servicing Compensation** ;

Table of Contents

3. payment of the administration fee, which will be a fixed amount specified in the administration agreement between us and Consumers Energy, and of the fees of our independent managers, which will be in an amount specified in an agreement between us and our independent managers, plus any unpaid administration or management fees from prior payment dates;
4. payment of all of our other ordinary periodic operating expenses relating to the bonds, such as accounting and audit fees, rating agency and related fees (i.e. website provider fees), legal fees and certain reimbursable costs of the administrator under the administration agreement;
5. payment of the interest then due on the bonds, including any past-due interest (together with, to the extent lawful, interest thereon);
6. payment of the principal required to be paid on the bonds on the final maturity date or as a result of acceleration upon an **event of default** (as defined under Description of the Securitization Bonds Events of Default; Rights Upon Event of Default);
7. payment of the principal then scheduled to be paid on the bonds in accordance with the expected sinking fund schedule, including any previously unpaid scheduled principal, paid pro rata among the bonds if there is a deficiency;
8. payment of any of our remaining unpaid operating expenses (including any such amounts owed to the trustee but unpaid due to the limitation in clause 1 above) and any remaining amounts owed pursuant to the **basic documents** (as defined under Glossary of Defined Terms);
9. replenishment of any amounts drawn from the capital subaccount;
10. so long as no event of default has occurred and is continuing, release to Consumers Energy of an amount equal to investment earnings since the previous payment date (or, in the case of the first payment date, since the issuance date) on the initial amount deposited by it into the capital subaccount;
11. allocation of the remainder, if any, to the **excess funds subaccount** (as defined under Glossary of Defined Terms); and
12. after the bonds have been paid in full and discharged and all of the foregoing amounts are paid in full, the balance, together with all amounts in the capital subaccount and the excess funds subaccount, to us free and clear of the lien of the indenture.

Edgar Filing: CONSUMERS ENERGY CO - Form S-3/A

The trustee's fees referred to in clause 1 above, the amount of the servicer's fee referred to in clause 2 above and the amount of the administration fee referred to in clause 3 above will be described in the prospectus supplement and, in the case of the servicer's fee, may not exceed the amounts approved in the financing order. The priority of payments for the collected securitization charges, as well as available amounts in the subaccounts, are described in more detail under "Security for the Securitization Bonds - How Funds in the Collection Account will be Allocated", as well as in the prospectus supplement.

Credit Enhancement

Credit enhancement for the bonds, which is intended to protect you against losses or delays in scheduled payments on the bonds, will be as follows:

- Act 142 and the financing order mandate that securitization charges on covered electric customers be reviewed and adjusted by the MPSC at least annually to correct any overcollections or undercollections of the preceding 12 months and to ensure the expected recovery during the succeeding annual period of amounts required for the timely payment of debt service and other required amounts and charges in connection with the securitization bonds. In addition, the financing order provides that adjustments are required on a semi-annual basis (or, one year prior to the last scheduled final payment date for the latest maturing tranche, on a quarterly basis) if the servicer determines that an adjustment is necessary to ensure the expected recovery during the succeeding annual period of amounts required for the timely payment of debt service and other required amounts and charges in connection with the securitization bonds. Adjustments may also be made by the servicer more frequently at any time, without limits as to frequency, if the servicer determines that an adjustment is necessary to ensure the expected recovery during the succeeding annual period of amounts required for the timely payment of debt service and other required amounts and charges in connection with the securitization bonds. The financing order permits mid-year adjustments to be implemented immediately without additional MPSC approval if the proposed adjustment is not opposed. We sometimes refer to these adjustments as the **true-up adjustments** and the process for making such adjustments as the **true-up mechanism**. Please read "Consumers Energy's Financing Order - True-Up Mechanism".

Table of Contents

- **Collection Account** Under the indenture, the trustee will maintain a collection account for the bonds, divided into various subaccounts. The primary subaccounts for credit enhancement purposes are:
 - the general subaccount the trustee will deposit into the general subaccount all securitization charge collections remitted to it by the servicer;
 - the capital subaccount Consumers Energy will deposit an amount specified in the prospectus supplement into the capital subaccount on the date of issuance of the bonds; and
 - the excess funds subaccount any excess amount of collected securitization charges and investment earnings not released to us will be held in the excess funds subaccount.

State Pledge

The State of Michigan has pledged in Act 142, for the benefit and protection of the holders of securitization bonds, including trustees, collateral agents and other persons acting for the benefit of the holders of securitization bonds, or the **financing parties**, under the financing order and Consumers Energy, that it will not take or permit any action that would impair the value of the securitization property, reduce or alter, except as allowed in connection with a true-up adjustment, or impair the securitization charges to be imposed, collected and remitted to the financing parties, until the principal, interest and premium, and any other charges incurred and contracts to be performed, in connection with the securitization bonds have been paid and performed in full.

Michigan has both a voter initiative and a referendum process. The time for challenging Act 142 through a referendum has expired, but the right of voters in Michigan to enact laws by initiative can be exercised at any time, provided a prescribed process is followed and successfully concluded. Constitutional protections against actions that violate the pledge of the State of Michigan should apply whether legislation is passed by the Michigan legislature or is brought about by a voter initiative.

The bonds are not a debt or obligation of the State of Michigan and are not a charge on its full faith and credit or taxing power.

No Optional Redemption

We will not have the option to redeem or otherwise prepay any bonds.

Payment and Record Dates

The payment and record dates for the bonds will be specified in the prospectus supplement.

Scheduled Final Payment Dates and Final Maturity Dates

Failure to pay a scheduled principal payment on any payment date or the entire outstanding amount of the bonds of any tranche by the scheduled final payment date for such tranche will not result in a default with respect to that tranche. The failure to pay the entire outstanding principal balance of the bonds of any tranche will result in a default only if such payment has not been made by the final maturity date for the tranche. We will specify the scheduled final payment date and the final maturity date of each tranche of bonds in the prospectus supplement.

Ratings for the Securitization Bonds

We expect the bonds will receive credit ratings from two nationally recognized statistical rating organizations (**NRSROs**). Please read [Ratings for the Securitization Bonds](#) .

Reports to Bondholders

Pursuant to the indenture, we will make available on our website to the holders of record of the bonds regular reports prepared by the servicer containing information concerning, among other things, us and the collateral. The reports will be available to beneficial owners of the bonds upon written request to the trustee or the servicer. These reports will not be examined and reported upon by an independent public accountant. In addition, no independent public accountant will provide an opinion thereon. Please read [Description of the Securitization Bonds Reports to Bondholders](#) .

Table of Contents

Servicing Compensation

We will pay the servicer on each payment date the servicing fee with respect to the bonds. As long as Consumers Energy or any affiliated entity acts as servicer, this fee, which will be set forth in the prospectus supplement, will be no more than the lowest rate between 0.05% and 0.10% on an annualized basis of the original principal amount of securitization bonds consistent with market conditions at the time of the bond issuance. If a successor servicer that is not an affiliate of Consumers Energy is appointed, the servicing fee will be negotiated by the successor servicer and the trustee, but will not exceed 0.75% of the original principal amount of the bonds on an annualized basis. In no event will the trustee be liable for any servicing fee in its individual capacity.

U.S. Federal Income Tax Status

In the opinion of Pillsbury Winthrop Shaw Pittman LLP, special tax counsel to us and to Consumers Energy, for U.S. federal income tax purposes, the bonds will be treated as debt of Consumers Energy, our sole member. If you purchase a beneficial interest in any bond, you agree by your purchase to treat the bonds as debt of our sole member for U.S. federal income tax purposes.

ERISA Considerations

Investors who are acting on behalf of or using assets of certain employee benefit plans or arrangements subject to the Employee Retirement Income Security Act of 1974, as amended, known as **ERISA**, or Section 4975 of the Internal Revenue Code of 1986, as amended, or the **Internal Revenue Code**, may acquire the bonds subject to specified conditions. The acquisition and holding of the bonds could be treated as a direct or indirect prohibited transaction under ERISA. Accordingly, each purchaser or holder of the bonds purchasing or holding those bonds on behalf of or with assets of such an employee benefit plan or arrangement will be deemed to certify that the purchase and subsequent holding of the bonds would not result in a non-exempt prohibited transaction under the rules of ERISA, the Internal Revenue Code or other similar applicable law. Please read ERISA Considerations .

Table of Contents

RISK FACTORS

Please carefully consider all the information we have included or incorporated by reference in this prospectus and the prospectus supplement, including the risks described below, before deciding whether to invest in the bonds.

Risk Associated with Limited Source of Funds

You may experience material payment delays or incur a loss on your investment in the securitization bonds because the source of funds for payment is limited.

The only source of funds for payment of the bonds will be our assets, which consist of:

- the securitization property securing the bonds, including the right to impose, collect and receive the securitization charges and our right to adjust them under the true-up mechanism;
- the funds on deposit in the accounts held pursuant to the indenture; and
- our rights under various contracts we describe in this prospectus.

The bonds are not a debt or obligation of the State of Michigan and are not a charge on its full faith and credit or taxing power, nor will the bonds be insured or guaranteed by Consumers Energy, including in its capacity as the servicer, or by its parent, CMS Energy, any of their respective affiliates (other than us), the trustee or any other person or entity. Thus, you must rely for payment of the bonds solely upon Act 142, state and federal constitutional rights to enforcement of Act 142, the financing order, collections of the securitization charges and funds on deposit in the related accounts held pursuant to the indenture. Our organizational documents restrict our right to acquire other assets unrelated to the transactions described in this prospectus. Please read Consumers 2014 Securitization Funding LLC, The Issuing Entity .

Risks Associated with Potential Judicial, Legislative or Regulatory Actions

We are not obligated to indemnify you for changes in law.

Edgar Filing: CONSUMERS ENERGY CO - Form S-3/A

Neither we nor Consumers Energy will indemnify you for any changes in the law, including any federal preemption or repeal or amendment of Act 142, that may affect the value of your bonds. Consumers Energy will agree in the servicing agreement to institute any action or proceeding as may be reasonably necessary to block or overturn any attempts to cause a repeal, modification or amendment to Act 142 that would be materially adverse to us, the trustee or bondholders. Please read *The Sale Agreement Covenants of the Seller* and *The Servicing Agreement Servicing Standards and Covenants*. However, we cannot assure you that Consumers Energy would be able to take this action or that this action would be successful.

Future judicial action could reduce the value of your investment in the securitization bonds.

The securitization property securing the bonds is the creation of Act 142 and the financing order that has been issued by the MPSC to Consumers Energy. There is uncertainty associated with investing in bonds payable from an asset that depends for its existence on legislation because there is limited judicial or regulatory experience implementing and interpreting the legislation. Because the securitization property is a creation of Act 142, any judicial determination affecting the validity of or interpreting Act 142, the securitization property or our ability to make payments on the bonds might have an adverse effect on the bonds. A federal or state court could be asked in the future to determine whether the relevant provisions of Act 142 are unlawful or invalid. If Act 142 is invalidated, the financing order might also be invalidated.

Other states have passed legislation similar to Act 142 to authorize recoveries by utilities of specified costs, such as environmental control costs, hurricane recovery costs, or costs associated with deregulation of the electricity market, and some of those laws have been challenged by judicial actions or utility commission proceedings. To date, none of those challenges has succeeded, but future judicial challenges might be made. An unfavorable decision regarding another state's law would not automatically invalidate Act 142 or the financing order, but it might provoke a challenge to Act 142, establish a legal precedent for a successful challenge to Act 142 or heighten awareness of the political and other risks of the bonds, and in that way may limit the liquidity and value of the bonds. Therefore, legal activity in other states may indirectly affect the value of your investment in the bonds.

Future state legislative action might attempt to reduce the value of your investment in the securitization bonds.

Despite its pledge in Act 142 not to take or permit certain actions that would impair the value of the securitization property or the securitization charges, the Michigan legislature might in the future attempt to repeal or amend Act 142 in a

Table of Contents

manner that limits or alters the securitization property so as to reduce its value. For a description of the pledge of the State of Michigan, please read Act 142 Electric Utilities May Securitizate Qualified Costs State Pledge . It might be possible for the Michigan legislature to repeal or amend Act 142 notwithstanding the pledge of the State of Michigan if the legislature acts in order to serve a significant and legitimate public purpose. Any of these actions, as well as the costly and time-consuming litigation that likely would ensue, might adversely affect the price and liquidity of, the dates of payment of interest on and principal of, and the weighted average lives of, the bonds. Moreover, the outcome of any litigation cannot be predicted. Accordingly, you might incur a loss on or delay in recovery of your investment in the bonds.

If an action of the Michigan legislature adversely affecting the securitization property or the ability to collect securitization charges were considered a taking under the United States or Michigan Constitutions, the State of Michigan might be obligated to pay compensation for the taking. However, even in that event, there is no assurance that any amount provided as compensation would be sufficient for you to recover fully your investment in the bonds or to offset interest lost pending that recovery.

Under the Michigan Constitution, the Michigan electorate has the power of initiative, which gives the electorate the ability to propose laws and to enact and repeal laws that the legislature has the power otherwise to enact. Among other requirements, qualifying an initiative for an election requires petitions signed by registered electors constituting at least 8% of the total votes cast for governor at the immediately preceding general election at which a governor was elected. An initiative proposal that is not subsequently approved by the legislature will become effective only if it is approved by a majority of the electors voting at the next general election. As of the date of this prospectus, no voter initiative or petition affecting the securitization bonds was pending or certified, and Consumers Energy is unaware of any efforts to circulate petitions for action.

The enforcement of any rights against the State of Michigan or the MPSC under the pledge of the State of Michigan may be subject to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against state and local governmental entities in Michigan. These limitations might include, for example, the necessity to exhaust administrative remedies prior to bringing suit in a court or limitations on type and locations of courts in which the State of Michigan or the MPSC may be sued.

The federal government might preempt Act 142 without full compensation.

Federal preemption of Act 142 could prevent bondholders from receiving payments on the bonds. In the past, bills have been introduced in Congress to prohibit the recovery of charges similar to the securitization charges, although Congress has not enacted any law to that effect. As of the date of this prospectus, we are not aware of the House or the Senate, or any of their committees having primary relevant jurisdiction, having considered legislation that would prohibit the recovery of charges similar to the securitization charges. However, we can give no assurances that Congress may not do so in the future. Enactment of a federal law prohibiting the recovery of charges similar to the securitization charges might have the effect of preempting Act 142 and thereby prohibiting the recovery of the securitization charges, which would cause delays and losses on payments on the bonds.

We can give no assurances that a court would consider the preemption by federal law of Act 142 to be a taking of property from us or the bondholders under the U.S. Constitution or under the Constitution of the State of Michigan. Moreover, even if this preemption of Act 142 by the federal government were considered a taking under the U.S. Constitution or under the Constitution of the State of Michigan for which the federal government had to pay just compensation, we can give no assurance that this compensation would be sufficient to pay the full amount of principal of and interest on the bonds or to pay those amounts on a timely basis.

The MPSC might attempt to take actions that could reduce the value of your investment in the securitization bonds.

Act 142 provides that a financing order together with the securitization charges authorized in the financing order are irrevocable and that the MPSC may not impair, reduce or alter, except for the true-up adjustments, the securitization charges authorized under a financing order. However, the MPSC retains the power to adopt, revise or rescind rules or regulations affecting Consumers Energy. The MPSC also retains the power to interpret the financing order granted to Consumers Energy, and in that capacity might be called upon to rule on the meanings of provisions of the financing order that might need further elaboration. Any new or amended regulations or orders from the MPSC might attempt to affect the ability of the servicer to collect the securitization charges in full and on a timely basis, affecting the amortization of the bonds and their weighted average lives, and, accordingly, the rating of the bonds or their price. However, in the financing order, the MPSC reaffirmed that it shall not reduce, impair, postpone, terminate or otherwise adjust the securitization charges approved in the financing order or impair the securitization property or the collection of securitization charges or the recovery of the qualified costs and ongoing other qualified costs and that it will act pursuant to the financing order to ensure that the expected securitization

Table of Contents

charges are sufficient to pay on a timely basis scheduled principal of and interest on the securitization bonds issued pursuant to the financing order and the ongoing other qualified costs in connection with the securitization bonds.

The servicer is required to file with the MPSC, on our behalf, certain adjustments of the securitization charges. Please read Consumers Energy's Financing Order True-Up Mechanism and The Servicing Agreement True-Up Adjustment Process. True-up adjustment procedures may be challenged in the future. Challenges to or delays in the true-up adjustment process might adversely affect the market perception and valuation of the bonds. Also, any litigation might materially delay securitization charge collections due to delayed implementation of true-up adjustments and might result in missing payments or payment delays and lengthened weighted average life of the bonds.

Servicing Risks

Inaccurate forecasting of electric usage or collections might reduce scheduled payments on the securitization bonds.

The securitization charges are assessed based on forecasted covered electric customer usage. The amount and the rate of securitization charge collections will depend in part on actual electricity usage and the amount of collections and write-offs for each **securitization rate class** (as defined under Glossary of Defined Terms). If the servicer inaccurately forecasts either electricity usage or customer delinquency or charge-offs when setting or adjusting the securitization charges, there could be a shortfall or material delay in securitization charge collections, which might result in missed or delayed payments of principal and interest and lengthened weighted average life of the bonds. Please read Consumers Energy's Financing Order True-Up Mechanism and The Servicing Agreement True-Up Adjustment Process.

Inaccurate forecasting of electricity usage by the servicer might result from, among other things:

- unanticipated weather or economic conditions, resulting in less electricity usage than forecast;
- general economic conditions being worse than expected, causing covered electric customers to migrate from Consumers Energy's service territory or reduce their electricity usage;
- the occurrence of a natural disaster, such as a hurricane, wind storm or an act of terrorism, cyber attack or other catastrophic event;
- unanticipated changes in the market structure of the electric industry;

Edgar Filing: CONSUMERS ENERGY CO - Form S-3/A

- covered electric customers consuming less electricity than anticipated because of increased energy prices, unanticipated increases in conservation efforts or unanticipated increases in electric usage efficiency;
- differences or changes in forecasting methodology; or
- future access to alternative sources of energy, including self-generation of electric power.

Inaccurate forecasting of delinquency or charge-off rates by the servicer might result also from, among other things, unexpected deterioration of the economy or the unanticipated declaration of a moratorium on terminating electric service to covered electric customers in the event of extreme weather, either of which would cause greater delinquencies or charge-offs than expected or force Consumers Energy to grant additional payment relief to more covered electric customers, or any other unanticipated change in law that makes it more difficult for Consumers Energy to terminate service to nonpaying covered electric customers or that requires Consumers Energy to apply more lenient credit standards in accepting covered electric customers.

Your investment in the securitization bonds depends on Consumers Energy or its successors or assignees acting as servicer of the securitization property.

Consumers Energy, as servicer, will be responsible for, among other things, calculating, billing, collecting and posting the securitization charges from covered electric customers, submitting requests to the MPSC to adjust these charges, monitoring the collateral for the bonds and taking certain actions in the event of non-payment by a covered electric customer. The trustee's receipt of collections in respect of the securitization charges, which will be used to make payments on bonds, will depend in part on the skill and diligence of the servicer in performing these functions. The systems that the servicer has in place for securitization charge billings, collections and postings, as the same may be modified by any applicable current or future MPSC regulations, might, in particular circumstances, cause the servicer to experience difficulty in performing these functions in a timely and completely accurate manner. If the servicer fails to make collections for any reason, then the servicer's payments to the trustee in respect of the securitization charges might be delayed or reduced. In that event, our payments on the bonds might be delayed or reduced.

Table of Contents

If we need to replace Consumers Energy as the servicer, we may experience difficulties finding and using a replacement servicer.

If Consumers Energy ceases to service the securitization property related to the bonds, it might be difficult to find a successor servicer. Also, any successor servicer might have less experience and ability than Consumers Energy and might experience difficulties in collecting securitization charges and determining appropriate adjustments to the securitization charges and billing and/or payment arrangements may change, resulting in delays or disruptions of collections. A successor servicer might not be willing to perform except for fees higher than those approved in the financing order and might charge fees that, while permitted under the financing order, are substantially higher than the fees paid to Consumers Energy as servicer. Although a true-up adjustment would be required to allow for the increase in fees, there could be a gap between the incurrance of those fees and the implementation of a true-up adjustment to adjust for that increase that might adversely affect distributions to bondholders. In the event of the commencement of a case by or against the servicer under Title 11 of the United States Code, as amended, or the **Bankruptcy Code**, or similar laws, we and the trustee might be prevented from effecting a transfer of servicing due to operation of the Bankruptcy Code. Any of these factors might delay the timing of payments and reduce the value of your investment.

Consumers Energy currently has an accounts receivable sale arrangement under which it sells substantially all of its accounts receivable on a revolving basis (other than the securitization charges in respect of the 2001-1 securitization bonds and the securitization charges, which are entitlements of the 2001-1 securitization bond issuer and ours, respectively, and not Consumers Energy, and all of which are excluded from this arrangement). In addition, Consumers Energy has sold certain securitization property (which is separate from the securitization property described in this prospectus and the prospectus supplement) to the 2001-1 securitization bond issuer. Under the intercreditor agreement to be entered into at the time of issuance of the bonds among Consumers Energy, the issuing entity, the trustee, the parties to Consumers Energy's accounts receivable sale program, the 2001-1 securitization bond issuer and the trustee for the 2001-1 securitization bonds, replacement of the servicer would require the agreement of the trustee, the trustee for the 2001-1 securitization bonds and the administrative agent under the accounts receivable sale program. In the event of a default by the servicer under the servicing agreement, if the trustee, the trustee for the 2001-1 securitization bonds and the administrative agent under the accounts receivable sale program are unable to agree on a replacement servicer, the trustee would not be able to replace Consumers Energy or any successor as servicer. Any of these events could adversely affect the billing, collection and posting of the securitization charges and the value of your investment in the securitization bonds. See The Servicing Agreement Intercreditor Agreement .

In addition to the above, it is possible that Consumers Energy may, in the future, cause subsidiaries to issue other securities, similar to the bonds, that are backed by securitization charges owing from covered electric customers or similar types of property. Consumers Energy has covenanted in the sale agreement that, in the event of any issuance of that sort, it will also enter into an intercreditor agreement with the trustee and the trustees for those other issuances, which would provide that the servicer for the bonds and those other issuances must be one and the same entity. Any expansion of the intercreditor agreement to include those subsequent issuances could further impair the ability of the bondholders to appoint a successor servicer in the event of a servicer default.

Changes to billing, collection and posting practices might reduce the value of your investment in the securitization bonds.

The financing order specifies the methodology for determining the amount of the securitization charges we may impose. However, subject to any required MPSC approval, the servicer may set its own billing, collection and posting arrangements with covered electric customers from whom it collects securitization charges, provided that these arrangements comply with any applicable MPSC customer safeguards and the provisions of the servicing agreement. For example, to recover part of an outstanding bill, the servicer may agree to extend a covered electric customer's payment schedule or to write off the remaining portion of the bill, including the securitization charges. Also, subject to any required MPSC approval, the servicer may change billing, collection and posting practices, which might adversely impact the timing and amount of covered electric customer payments and might reduce securitization charge collections, thereby limiting our ability to make scheduled payments on the bonds. Separately, the MPSC might require changes to these practices. Any changes in billing, collection and posting practices or

regulations might make it more difficult for the servicer to collect the securitization charges and adversely affect the value of your investment in the bonds.

It may be difficult for successor servicers to collect the securitization charge from Consumers Energy's covered electric customers.

Any successor servicer may bring an action against a covered electric customer for non-payment of the securitization charge, but only a successor servicer that is a successor electric utility may terminate service for failure to pay the securitization charge. A successor servicer that does not have the threat of termination of service available to enforce payment of the

Table of Contents

securitization charge may not be able to fully collect total securitization charges. This inability may reduce the value of your investment.

Future adjustments to securitization charges by securitization rate class might result in insufficient collections.

The covered electric customers who pay securitization charges are divided into separate securitization rate classes. Securitization charges for the bonds will be allocated among securitization rate classes in accordance with the 4CP 50/25/25 production cost allocation methodology, as required by the MPSC and approved in Case No. U-17087. This methodology allocates 50% of charges based upon each rate class' average contribution to summer system peak demands, 25% of charges based upon each rate class' average contribution to on-peak energy consumption and 25% of charges based upon each rate class' contribution to total energy consumption. Average rate class contribution levels reflect the most recent available three year historical load profiles, applied to the most recent sales forecast. Any shortfall in collections from any securitization rate class will be included in the true-up mechanism and collected from all covered electric customers subject to the securitization charge. The percentage allocation of cost to any particular securitization rate class may change to reflect changing average contribution levels relative to system levels. If enough covered electric customers in a securitization rate class fail to pay securitization charges or cease to be covered electric customers, the servicer might have to substantially increase the securitization charges for the remaining covered electric customers. Other factors, such as economic conditions, could lead to non-residential customers reducing their usage of electricity or to abandon operation of their facilities. The inability to impose, collect and receive securitization charges from those covered electric customers could lead to increases in securitization charges for the remaining covered electric customers. These increases could lead to further unanticipated failures by the remaining covered electric customers to pay securitization charges, thereby increasing the risk of a shortfall in funds to pay the bonds. Please see Consumers Energy's Financing Order True-up Mechanism for more detail.

Risk Associated with the Unusual Nature of the Securitization Property

Securitization charges may not be billed more than 15 years after the beginning of the first complete billing cycle during which securitization charges were initially placed on any covered electric customer's bill.

Securitization charges may not be billed more than 15 years after the beginning of the first complete billing cycle during which securitization charges were initially placed on any covered electric customer's bill. If securitization charges collected from billings through this period are not sufficient to repay the securitization bonds in full, no other funds will be available to pay the unpaid balance due on the securitization bonds.

Foreclosure of the trustee's lien on the securitization property for the securitization bonds might not be practical, and acceleration of the securitization bonds before maturity might have little practical effect.

Under Act 142 and the indenture, the trustee or the bondholders have the right to foreclose or otherwise enforce the lien on the securitization property securing the bonds. However, in the event of foreclosure, there is likely to be a limited market, if any, for the securitization property. Therefore, foreclosure might not be a realistic or practical remedy. Moreover, although principal of the bonds will be due and payable upon acceleration of the bonds before maturity, securitization charges likely would not be accelerated and the nature of our business will result in principal of the bonds being paid as funds become available. If there is an acceleration of the bonds, all tranches of the bonds will be paid pro rata; therefore, some tranches might be paid earlier than expected and some tranches might be paid later than expected.

Risk Associated with Storms

Storm damage to Consumers Energy's operations could impair payment of the securitization bonds.

Consumers Energy's operations could be impacted by hurricanes, tropical storms, wind storms or ice storms. Distribution and generation facilities could be damaged or destroyed and usage of electricity could be interrupted temporarily, reducing the collections of securitization charges. There could be longer-lasting weather-related adverse effects on residential and commercial development and economic activity among Consumers Energy's covered electric customers, which could cause the securitization charges to be greater than expected.

Risks Associated with Potential Bankruptcy Proceedings of the Seller or the Servicer

For a more detailed discussion of the following bankruptcy risks, please read [How a Bankruptcy May Affect Your Investment](#) . In addition, the risk factors enumerated below in this subsection are based on general legal principles and outcomes; each bankruptcy case is factually unique, and the outcome of any bankruptcy case is based upon the application of legal principles to the specific facts of that bankruptcy case.

Table of Contents

The servicer will commingle the securitization charges with other revenues it collects, which might obstruct access to the securitization charges in case of the servicer's bankruptcy and reduce the value of your investment in the securitization bonds.

The servicer will be required to remit collections to the trustee within two **business days** (as defined under Glossary of Defined Terms) of receipt. The servicer will not segregate the securitization charges from the other funds it collects from covered electric customers or its general funds, including funds in respect of Consumers Energy's accounts receivable sale program and amounts relating to the 2001-1 securitization bonds. The securitization charges will be segregated only when the servicer remits them to the trustee.

Despite this requirement, the servicer might fail to pay the full amount of the securitization charges to the trustee or might fail to do so on a timely basis. This failure, whether voluntary or involuntary, might materially reduce the amount of securitization charge collections available to make payments on the bonds.

Act 142 provides that the priority of a lien and security interest perfected in securitization property is not impaired by the commingling of the funds arising from securitization charges with other funds. In a bankruptcy of the servicer, however, a bankruptcy court might rule that federal bankruptcy law takes precedence over Act 142 and might decline to recognize our right to collections of the securitization charges that are commingled with other funds of the servicer as of the date of bankruptcy. If so, the collections of the securitization charges held by the servicer as of the date of bankruptcy would not be available to pay amounts owing on the bonds. In this case, we would have only a general unsecured claim against the servicer for those amounts. This decision could cause material delays in payments of principal or interest, or losses, on your bonds and could materially reduce the value of your investment in the bonds.

The bankruptcy of Consumers Energy or any successor seller might result in losses or delays in payments on the securitization bonds.

Act 142 and the financing order provide that as a matter of Michigan state law:

- that securitization property constitutes a present property right even though the imposition and collection of securitization charges depends on the further acts of the electric utility or others that have not yet occurred; and
- that the rights of an electric utility to securitization property before its sale to any assignee shall be considered a property interest in a contract;
- that the financing order shall remain in effect and the securitization property shall continue to exist until the securitization bonds and expenses related to the securitization bonds have been paid in full;

- that an agreement by an electric utility or assignee to transfer securitization property that expressly states that the transfer is a sale or other absolute transfer signifies that the transaction is a true sale and is not a secured transaction and that title, legal and equitable, has passed to the entity to which the securitization property is transferred.

These provisions are important to maintaining payments on the bonds in accordance with their terms during any bankruptcy of Consumers Energy. In addition, the transaction has been structured with the objective of keeping us legally separate from Consumers Energy and its other affiliates in the event of a bankruptcy of Consumers Energy or any of those other affiliates.

A bankruptcy court generally follows state property law on issues such as those addressed by the state law provisions described above. However, a bankruptcy court does not follow state law if it determines that the state law is contrary to a paramount federal bankruptcy policy or interest. If a bankruptcy court in a Consumers Energy bankruptcy refused to enforce one or more of the state property law provisions described above, the effect of this decision on you as a beneficial owner of the bonds might be similar to the treatment you would receive in a Consumers Energy bankruptcy if the bonds had been issued directly by Consumers Energy. A decision by the bankruptcy court that, despite our separateness from Consumers Energy, our assets and liabilities and those of Consumers Energy should be consolidated would have a similar effect on you as a bondholder.

We have taken steps together with Consumers Energy, as the seller, to reduce the risk that, in the event the seller or an affiliate of the seller were to become the debtor in a bankruptcy case, a court would order that our assets and liabilities be substantively consolidated with those of the seller or an affiliate of the seller. Nonetheless, these steps might not be completely effective, and thus if the seller or an affiliate of the seller were to become a debtor in a bankruptcy case, a court might order that our assets and liabilities be consolidated with those of the seller or an affiliate of the seller. This might cause material delays in payment of, or losses on, your bonds and might materially reduce the value of your investment in the bonds. For example:

Table of Contents

- without permission from the bankruptcy court, the trustee might be prevented from taking actions against Consumers Energy or recovering or using funds on your behalf or replacing Consumers Energy as the servicer;
- the bankruptcy court might order the trustee to exchange the securitization property for other property, of lower value;
- tax or other government liens on Consumers Energy's property might have priority over the trustee's lien and might be paid from collected securitization charges before payments on the bonds;
- the trustee's lien might not be properly perfected in the collected securitization property collections prior to or as of the date of Consumers Energy's bankruptcy, with the result that the bonds would represent only general unsecured claims against Consumers Energy;
- the bankruptcy court might rule that neither our property interest nor the trustee's lien extends to securitization charges in respect of electricity consumed after the commencement of Consumers Energy's bankruptcy case, with the result that the bonds would represent only general unsecured claims against Consumers Energy;
- we and Consumers Energy might be relieved of any obligation to make any payments on the bonds during the pendency of the bankruptcy case and might be relieved of any obligation to pay interest accruing after the commencement of the bankruptcy case;
- Consumers Energy might be able to alter the terms of the bonds as part of its plan of reorganization;
- the bankruptcy court might rule that the securitization charges should be used to pay, or that we should be charged for, a portion of the cost of providing electric service; or
- the bankruptcy court might rule that the remedy provisions of the sale agreement are unenforceable, leaving us with an unsecured claim for actual damages against Consumers Energy that may be difficult to prove or, if proven, to collect in full.

Furthermore, if Consumers Energy enters bankruptcy proceedings, it might be permitted to stop acting as servicer and it may be difficult to find a third party to act as servicer. The failure of the servicer to perform its duties or the inability to find a successor servicer might cause payment delays or losses on your investment in the bonds. Also, the mere fact of a servicer or seller bankruptcy proceeding might have an adverse effect on the resale market for the bonds and on the value of the bonds.

The sale of the securitization property might be construed as a financing and not a sale in a case of Consumers Energy's bankruptcy, which might delay or limit payments on the securitization bonds.

Act 142 provides that an agreement by an electric utility to transfer securitization property that expressly states that the transfer is a sale or other absolute transfer signifies that the transaction is a true sale and is not a secured transaction and that title, legal and equitable, has passed to the entity to which the securitization property is transferred and that a true sale applies regardless of, among other things, the treatment of the transfer as a financing for tax, financial reporting or other purposes. We and Consumers Energy will treat the transaction as a sale under applicable law, although for financial reporting and federal and state income tax purposes the transaction will be treated as a financing. In the event of a bankruptcy of Consumers Energy, a party in interest in the bankruptcy might assert that the sale of the securitization property to us was a financing transaction and not a sale or other absolute transfer and that the treatment of the transaction for financial reporting and tax purposes as a financing and not a sale lends weight to that position. If a court were to characterize the transaction as a financing, we expect that we would, on behalf of ourselves and the trustee, be treated as a secured creditor of Consumers Energy in the bankruptcy proceedings, although a court might determine that we only have an unsecured claim against Consumers Energy. Even if we had a security interest in the securitization property (which the sale agreement purports to provide in the event sale treatment is disallowed), we would not likely have access to the related securitization charge collections during the bankruptcy and would be subject to the risks of a secured creditor in a bankruptcy case, including the possible bankruptcy risks described under . The bankruptcy of Consumers Energy or any successor seller might result in losses or delays in payments on the securitization bonds . As a result, repayment of the bonds might be significantly delayed and a plan of reorganization in the bankruptcy might permanently modify the amount and timing of payments to us of the related securitization charge collections and therefore the amount and timing of funds available to us to pay bondholders.

If the servicer enters bankruptcy proceedings, the remittances of the securitization charges by the servicer prior to the date of bankruptcy might constitute preferences, which means these funds might be unavailable to pay amounts owing on the securitization bonds.

In the event of a bankruptcy of the servicer, a party in interest might take the position that the remittance to the trustee of funds prior to the bankruptcy of the servicer pursuant to the servicing agreement was a payment on account of antecedent

Table of Contents

debt owed by the servicer and therefore constitutes a preference under bankruptcy law. If a court were to hold that the remittance of funds constitutes a preference, any remittance of that sort within 90 days of the filing of the bankruptcy petition (or within one year if the remittance was on account of antecedent debt owed to us as opposed to the bondholders) could be avoidable, and the funds could be required to be returned to the bankruptcy estate of the servicer. To the extent that securitization charges have been commingled with the general funds of the servicer prior to the transfer of funds to the trustee, the risk that a court would hold that a remittance of funds was a preference would increase. The trustee would merely be an unsecured creditor of the servicer. If any funds were required to be returned to the bankruptcy estate of the servicer, we would expect that the amount of any future securitization charges would be increased through the true-up mechanism to recover that amount.

Claims against Consumers Energy or any successor seller might be limited in the event of a bankruptcy of the seller.

If the seller were to become a debtor in a bankruptcy case, claims, including indemnity claims, by us against the seller under the sale agreement and the other documents executed in connection with the sale agreement would be unsecured claims and would be adjudicated in the bankruptcy case. In addition, the bankruptcy court might estimate any contingent claims that we have against the seller and, if it determines that the contingency giving rise to these claims is unlikely to occur, estimate the claims at a lower amount. A party in interest in the bankruptcy of the seller might challenge the enforceability of the indemnity provisions in a sale agreement. If a court were to hold that the indemnity provisions were unenforceable, we would be left with a claim for actual damages against the seller based on breach of contract principles, which would be subject to estimation and/or calculation by the court. We cannot give any assurance as to the result if any of the above-described actions or claims were made. Furthermore, we cannot give any assurance as to what percentage of their claims, if any, unsecured creditors would receive in any bankruptcy proceeding involving the seller.

The bankruptcy of Consumers Energy or any successor seller might limit the remedies available to the trustee.

If an event of default is caused by the electric utility or its successors in paying revenues arising with respect to securitization property to the collection account, Act 142 provides that the MPSC or a court of appropriate jurisdiction, upon the application of a financing party, including the trustee, and without limiting any other remedies available to the financing party, including the trustee, shall order the sequestration and payment to the financing party, including the trustee, of revenues arising with respect to the securitization property. Act 142 further provides that the order shall remain in full force and effect notwithstanding any bankruptcy, reorganization or other insolvency proceedings with respect to the debtor, pledgor or transferor of the property. There can be no assurance, however, that a court or the MPSC would issue this order after a Consumers Energy bankruptcy in light of the automatic stay provisions of Section 362 of the Bankruptcy Code. In that event, the trustee would be required to seek an order from the bankruptcy court lifting the automatic stay to permit this action by the MPSC or court of appropriate jurisdiction and an order requiring an accounting and segregation of the revenues arising from the securitization property. There can be no assurance that a court would grant either order.

Other Risks Associated with an Investment in the Securitization Bonds

Consumers Energy's indemnification obligations under the sale agreement and servicing agreement are limited and might not be sufficient to protect your investment in the securitization bonds.

Edgar Filing: CONSUMERS ENERGY CO - Form S-3/A

Consumers Energy is obligated under the sale agreement to indemnify us and the trustee, for itself and on behalf of the bondholders, only in specified circumstances and will not be obligated to repurchase any securitization property in the event of a breach of any of its representations, warranties or covenants regarding the securitization property. Similarly, Consumers Energy is obligated under the servicing agreement to indemnify us and the trustee, for itself and on behalf of the bondholders. Please read [The Sale Agreement](#) and [The Servicing Agreement](#) .

Neither the trustee nor the bondholders will have the right to accelerate payments on the bonds as a result of a breach under the sale agreement or servicing agreement, absent an event of default under the indenture relating to the bonds as described in [Description of the Securitization Bonds](#) [Events of Default](#); [Rights Upon Event of Default](#) . Furthermore, Consumers Energy might not have sufficient funds available to satisfy its indemnification obligations under the basic documents, and the amount of any indemnification paid by Consumers Energy might not be sufficient to pay all obligations and/or costs owed by us or for you to recover all of your investment in the bonds. In addition, if Consumers Energy becomes obligated to indemnify bondholders, the then-current ratings on the bonds will likely be downgraded as a result of the circumstances causing the breach and the fact that bondholders will be unsecured creditors of Consumers Energy with respect to any of these indemnification amounts.

Table of Contents

Self-service power may result in fewer customers for Consumers Energy and reduce the population of customers responsible for securitization charges.

Broader use of covered electric customers availing themselves to self-service power may result from those customers' changing perceptions of the merits of utilizing Consumers Energy's service, from tax or other economic incentives or from technological developments resulting in smaller-scale, more fuel-efficient, more environmentally-friendly and/or more cost-effective sources of power. Moreover, an increase in self-service power may result if extreme weather conditions result in shortages of grid-supplied energy or if other factors cause grid-supplied energy to be less reliable. These developments may result in greater numbers of covered electric customers reducing or eliminating their payment of securitization charges, thereby causing securitization charges to the remaining covered electric customers to increase.

The credit ratings are no indication of the expected rate of payment of principal on the securitization bonds.

We expect the bonds will receive credit ratings from two NRSROs. A rating is not a recommendation to buy, sell or hold the bonds. The ratings merely analyze the probability that we will repay the total principal amount of the bonds at the final maturity date (which is later than the scheduled final payment date) and will make timely interest payments. The ratings are not an indication that the **rating agencies** (as defined under "Glossary of Defined Terms") believe that principal payments are likely to be paid on time according to the expected sinking fund schedule.

Under Rule 17g-5 under the Securities Exchange Act of 1934, as amended, or the **Exchange Act**, NRSROs providing the sponsor with the requisite certification will have access to all information posted on a website by the sponsor for the purpose of determining the initial rating and monitoring the rating after the issuance date in respect of the bonds. As a result, an NRSRO other than the NRSROs hired by the sponsor (the **hired NRSROs**) may issue ratings on the bonds (**unsolicited ratings**), which may be lower, and could be significantly lower, than the ratings assigned by the hired NRSROs. The unsolicited ratings may be issued prior to, or after, the issuance date in respect of the bonds. Issuance of any unsolicited rating will not affect the issuance of the bonds. Issuance of an unsolicited rating lower than the ratings assigned by the hired NRSROs on the bonds might adversely affect the value of the bonds and, for regulated entities, could affect the status of the bonds as a legal investment or the capital treatment of the bonds. Investors in the bonds should consult with their legal counsel regarding the effect of the issuance of a rating by a non-hired NRSRO that is lower than the rating of a hired NRSRO. None of Consumers Energy, us, the underwriters or any of their affiliates will have any obligation to inform you of any unsolicited ratings assigned after the date of this prospectus. In addition, if we or Consumers Energy fail to make available to a non-hired NRSRO any information provided to any hired NRSRO for the purpose of assigning or monitoring the ratings on the bonds, a hired NRSRO could withdraw its ratings on the bonds, which could adversely affect the market value of your bonds and/or limit your ability to resell your bonds.

The absence of a secondary market for the securitization bonds might limit your ability to resell your securitization bonds.

The underwriters for the bonds might assist in resales of the bonds, but they are not required to do so. A secondary market for the bonds might not develop, and we do not expect to list the bonds on any securities exchange. If a secondary market does develop, it might not continue or it might not be sufficiently liquid to allow you to resell any of your bonds. Please read "Plan of Distribution".

You might receive principal payments for the securitization bonds later than you expect.

The amount and the rate of collection of the securitization charges for the bonds, together with the related securitization charge adjustments, will generally determine whether there is a delay in the scheduled repayments of bond principal. If the servicer collects the securitization charges at a slower rate than expected, it might have to request adjustments of the securitization charges to correct for those delays. If those adjustments are not timely and accurate, you might experience a delay in payments of principal and interest and a decrease in the value of your investment in the bonds.

Consumers Energy may sell property similar to the securitization property through another affiliated entity in the future.

Consumers sold property similar to the securitization property to the 2001-1 securitization bond issuer in 2001. Consumers Energy may in the future without your review or approval sell property similar to the securitization property to one or more entities other than us in connection with a new issuance of bonds similar to the bonds or similarly authorized types of bonds. Any new issuance may include terms and provisions that would be unique to that particular issue. We may not issue additional bonds.

Table of Contents

Consumers Energy has covenanted in the sale agreement not to sell securitization property owing from covered electric customers or similar property to other entities if the sale would result in the credit ratings on the bonds being reduced or withdrawn. Consumers Energy has also covenanted in the sale agreement that, in the event of any sale, it will have also entered into an intercreditor agreement with the trustee and the trustees for those other issuances, which would provide that the servicer for the bonds and those other issuances must be one and the same entity. In the event a covered electric customer does not pay in full all amounts owed under any bill, including securitization charges, Consumers Energy, as servicer, is required to allocate any resulting shortfalls in securitization charges ratably based on the amounts of securitization charges owing in respect of the bonds, and the total amounts owed by that covered electric customer. However, we cannot assure you that a new sale would not cause reductions or delays in payment of your bonds.

Regulatory provisions affecting certain investors could adversely affect the liquidity of the securitization bonds.

Articles 404 through 410 of the European Union Capital Requirements Regulation (Regulation (EU) No 575/2013) apply, in general, to securitizations issued on or after January 1, 2011. The European Union Capital Requirements Regulation (Regulation (EU) No 575/2013) restricts a credit institution and investment firm regulated in a Member State of the European Economic Area and its consolidated group affiliates from investing in a securitization (as defined by the European Union Capital Requirements Regulation (Regulation (EU) No 575/2013)) unless the originator, sponsor or original lender in respect of that securitization has explicitly disclosed to the credit institution and investment firm regulated in a Member State of the European Economic Area and its consolidated group affiliates that it will retain, on an ongoing basis, a material net economic interest of not less than 5% in that securitization in the manner contemplated by Article 405 of the European Union Capital Requirements Regulation (Regulation (EU) No 575/2013). The European Union Capital Requirements Regulation (Regulation (EU) No 575/2013) also requires that a credit institution and investment firm regulated in a Member State of the European Economic Area and its consolidated group affiliates be able to demonstrate that they have undertaken certain due diligence in respect of, among other things, the bonds they have acquired and the underlying exposures and that procedures have been established for monitoring the performance of the underlying exposures on an ongoing basis. Failure to comply with one or more of the requirements set out in the European Union Capital Requirements Regulation (Regulation (EU) No 575/2013) may result in the imposition of a penal capital charge with respect to the investment made in the securitization by a credit institution and investment firm regulated in a Member State of the European Economic Area and its consolidated group affiliates.

Article 17 of the European Union Alternative Investment Fund Managers Directive (Directive 2011/61/EU) (as supplemented by Section 5 of Commission Delegated Regulation (EU) No 231/2013) contains requirements similar to those set out in Articles 404 through 410 of the European Union Capital Requirements Regulation (Regulation (EU) No 575/2013) and applies to European Economic Area regulated alternative investment fund managers. Similar requirements are also scheduled to apply in the future to investment in securitizations by European Economic Area regulated UCITS fund managers and European Economic Area regulated insurance and reinsurance undertakings.

None of Consumers Energy, us, any underwriter or any other party to the transaction of which this offering is a part intends to retain a material net economic interest in the transaction of which this offering is a part for the purposes of the requirements discussed in the prior two paragraphs or take any other action that may be required by investors for the purposes of their compliance with the requirements discussed in the prior two paragraphs. This may have a negative impact on the regulatory capital position of a credit institution and investment firm regulated in a Member State of the European Economic Area and its consolidated group affiliates and on the value and liquidity of the bonds in the secondary market.

Investors in the bonds are responsible for analyzing their own regulatory position and are encouraged to consult their own investment and legal advisors regarding compliance with the requirements discussed in the prior three paragraphs and the suitability of the bonds for investment. None of Consumers Energy, us or any other party to the transaction of which this offering is a part makes any representation to any prospective investor or purchaser of the bonds regarding the regulatory capital treatment of their investment in the bonds now or at any time in the future.

If the investment of collected securitization charges and other funds held pursuant to the indenture in the collection account results in investment losses or the investments become illiquid, you may receive payment of principal of and interest on the securitization bonds later than you expect.

Funds held pursuant to the indenture in the collection account will be invested in eligible investments. Eligible investments include money market funds having a rating from Moody's Investors Service, Inc. (or any successor in interest), or **Moody's**, and Standard & Poor's Ratings Services, a Standard & Poor's Financial Services LLC business (or any successor in interest), or **S&P**, of Aaa and AAA, respectively. Although investments in these money market funds have traditionally been viewed as highly liquid with a low probability of principal loss, illiquidity and principal losses have been experienced by investors in certain of these funds as a result of disruptions in the financial markets in recent years. If investment losses or

Table of Contents

illiquidity are experienced, you might experience a delay in payments of principal and interest and a decrease in the value of your investment in the bonds.

Table of Contents

REVIEW OF SECURITIZATION PROPERTY

Pursuant to the rules of the SEC, Consumers Energy, as sponsor, has performed, as described below, a review of the securitization property underlying the bonds. As required by these rules, the review was designed and effected to provide reasonable assurance that disclosure regarding the securitization property is accurate in all material respects. Consumers Energy did not engage a third party in conducting its review.

The bonds will be secured under the indenture by the indenture's trust estate. The principal asset of the indenture's trust estate is the securitization property relating to the bonds. The securitization property is a present property right authorized and created pursuant to Act 142 and the financing order. The securitization property includes the right to impose, collect and receive nonbypassable irrevocable securitization charges in amounts necessary to provide the full recovery of all qualified costs, the right under the financing order to obtain periodic adjustments of securitization charges under Act 142 and all revenue, collections, payments, money and proceeds arising out of the rights and interests in such property. The securitization charges are payable by covered electric customers. Under the financing order, all covered electric customers are responsible for paying securitization charges. Covered electric customers do not include (i) current choice customers, (ii) customers to the extent they obtain or use self-service power or (iii) customers to the extent engaged in affiliate wheeling.

The securitization property is not a static pool of assets. Securitization charges that relate to the securitization property are irrevocable and not subject to reduction, impairment, postponement, termination or, except for the specified true-up adjustments to correct any overcollections or undercollections, adjustment by further action of the MPSC. Securitization charges on covered electric customers will be adjusted at least annually to correct any overcollections or undercollections of the preceding 12 months and to ensure the expected recovery during the succeeding annual period of amounts required for the timely payment of debt service and other required amounts and charges in connection with the securitization bonds. Securitization charges will be adjusted semi-annually (or, one year prior to the last scheduled final payment date for the latest maturing tranche, quarterly) if the servicer determines that a true-up adjustment is needed to ensure the expected recovery during the succeeding annual period of amounts required for the timely payment of debt service and other required amounts and charges in connection with the securitization bonds. True-up adjustments to securitization charges may also be made by the servicer more frequently at any time, without limits as to frequency, if the servicer determines that a true-up adjustment is needed to ensure the expected recovery during the succeeding annual period of amounts required for the timely payment of debt service and other required amounts and charges in connection with the securitization bonds. There is no cap on the level of securitization charges that may be imposed on covered electric customers as a result of the true-up adjustment process to pay on a timely basis scheduled principal of and interest on the bonds and ongoing other qualified costs. All revenues and collections resulting from securitization charges provided for in the financing order are part of the securitization property. The securitization property relating to the bonds is described in more detail under Description of the Securitization Property in this prospectus.

In the financing order, the MPSC, among other things:

- orders that Consumers Energy is authorized to impose and collect from all covered electric customers taking retail electric distribution service from Consumers Energy or its successor securitization charges in amounts sufficient to provide for the full and timely recovery of debt service and other required amounts and charges in connection with the securitization bonds;
- reaffirms that it shall not reduce, impair, postpone, terminate or otherwise adjust the securitization charges approved in the financing order or impair the securitization property or the collection of securitization charges or the recovery of the qualified costs and ongoing other qualified costs; and

- affirms that it will act pursuant to the financing order to ensure that the expected securitization charges are sufficient to pay on a timely basis scheduled principal of and interest on the securitization bonds issued pursuant to the financing order and the ongoing other qualified costs in connection with the securitization bonds.

Please read Act 142 and Consumers Energy's Financing Order in this prospectus for more information.

The characteristics of securitization property are unlike the characteristics of assets underlying mortgage and other commercial asset securitizations because securitization property is a creature of statute and state regulatory commission proceedings. Because the nature and characteristics of the securitization property and many elements of the bond securitization are set forth in and constrained by Act 142, Consumers Energy, as sponsor, does not select the assets to be securitized in ways common to many securitizations. Moreover, the bonds do not contain origination or underwriting elements similar to typical mortgage or other loan transactions involved in other forms of asset-backed securities. The financing order requires the imposition on, and collection of securitization charges from, existing and future covered electric customers. Since the securitization charges are assessed against all such covered electric customers and the true-up mechanism adjusts for the impact

Table of Contents

of customer defaults, the collectability of the securitization charges is not ultimately dependent upon the credit quality of particular Consumers Energy covered electric customers, as would be the case in the absence of the true-up mechanism.

The review by Consumers Energy of the securitization property underlying the bonds has involved a number of discrete steps and elements as described in more detail below. First, Consumers Energy has analyzed and applied Act 142's requirements for securitization of qualified costs in seeking approval of the MPSC for the issuance of the financing order and in its proposal with respect to the characteristics of the securitization property to be created pursuant to the financing order. In preparing this proposal, Consumers Energy worked with its counsel and its financial advisor in preparing the application for a financing order and with the MPSC on the terms of the financing order. Moreover, Consumers Energy worked with its counsel, its financial advisor and counsel to the financial advisor and the underwriters in preparing the legal agreements that provide for the terms of the bonds and the security for the bonds. Consumers Energy has analyzed economic issues and practical issues for the scheduled payment of the bonds, including the impact of economic factors, potential for disruptions due to weather or catastrophic events and its own forecasts for covered electric customer growth as well as the historic accuracy of its prior forecasts.

In light of the unique nature of the securitization property, Consumers Energy has taken (or, prior to the offering of the bonds, will take) the following actions in connection with its review of the securitization property and the preparation of the disclosure for inclusion in this prospectus and the prospectus supplement describing the securitization property, the bonds and the proposed securitization:

- reviewed Act 142, other relevant provisions of Michigan statutes and any applicable rules, regulations and orders of the MPSC as they relate to the securitization property in connection with the preparation and filing of the application with the MPSC for the approval of the financing order in order to confirm that the application and proposed financing order satisfied applicable statutory and regulatory requirements;