

DTE ENERGY CO  
Form 10-Q  
October 25, 2013

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

---

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period ended September 30, 2013

Commission file number 1-11607

DTE ENERGY COMPANY

(Exact name of registrant as specified in its charter)

Michigan 38-3217752

(State or other jurisdiction of  
incorporation or organization) (I.R.S. Employer  
Identification No.)

One Energy Plaza, Detroit, Michigan 48226-1279

(Address of principal executive offices) (Zip Code)

313-235-4000

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

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 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer   
(Do not check if a smaller  
reporting company)

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

At September 30, 2013, 176,797,248 shares of DTE Energy's common stock were outstanding, substantially all of which were held by non-affiliates.

---

DTE Energy Company

Quarterly Report on Form 10-Q  
Quarter Ended September 30, 2013

TABLE OF CONTENTS

	Page
<u>Definitions</u>	<u>1</u>
<u>Forward-Looking Statements</u>	<u>3</u>
<u>PART I - FINANCIAL INFORMATION</u>	
<u>Item 1. Financial Statements</u>	<u>4</u>
<u>Consolidated Statements of Operations (Unaudited)</u>	<u>4</u>
<u>Consolidated Statements of Comprehensive Income (Unaudited)</u>	<u>5</u>
<u>Consolidated Statements of Financial Position (Unaudited)</u>	<u>6</u>
<u>Consolidated Statements of Cash Flows (Unaudited)</u>	<u>8</u>
<u>Consolidated Statement of Changes in Equity (Unaudited)</u>	<u>9</u>
<u>Notes to Consolidated Financial Statements (Unaudited)</u>	<u>10</u>
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>39</u>
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	<u>51</u>
<u>Item 4. Controls and Procedures</u>	<u>54</u>
<u>PART II — OTHER INFORMATION</u>	
<u>Item 1. Legal Proceedings</u>	<u>55</u>
<u>Item 1A. Risk Factors</u>	<u>55</u>
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>56</u>
<u>Item 6. Exhibits</u>	<u>56</u>
<u>SIGNATURE</u>	<u>58</u>
EX-10-87	
EX-12-55	
EX-31-85	
EX-31-86	
EX-32-85	
EX-32-86	
EX-101.INS XBRL INSTANCE DOCUMENT	
EX-101.SCH XBRL TAXONOMY EXTENSION SCHEMA	
EX-101.CAL XBRL TAXONOMY EXTENSION CALCULATION LINKBASE	
EX-101.DEF XBRL TAXONOMY EXTENSION DEFINITION DATABASE	
EX-101.LAB XBRL TAXONOMY EXTENSION LABEL LINKBASE	
EX-101.PRE XBRL TAXONOMY EXTENSION PRESENTATION LINKBASE	

---

**DEFINITIONS**

ASC	Accounting Standards Codification
ASU	Accounting Standards Update
Citizens	Citizens Fuel Gas Company, which distributes natural gas in Adrian, Michigan
Company	DTE Energy Company and any subsidiary companies
Customer Choice	Michigan legislation giving customers the option to choose alternative suppliers for electricity and natural gas.
DTE Electric	DTE Electric Company (a direct wholly owned subsidiary of DTE Energy Company) and subsidiary companies. Formerly known as The Detroit Edison Company.
DTE Energy	DTE Energy Company, directly or indirectly the parent of DTE Electric, DTE Gas and numerous non-utility subsidiaries
DTE Gas	DTE Gas Company (an indirect wholly owned subsidiary of DTE Energy) and subsidiary companies. Formerly known as Michigan Consolidated Gas Company.
EPA	United States Environmental Protection Agency
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
FTRs	Financial transmission rights are financial instruments that entitle the holder to receive payments related to costs incurred for congestion on the transmission grid.
GCR	A Gas Cost Recovery mechanism authorized by the MPSC that allows DTE Gas to recover through rates its natural gas costs.
MCIT	Michigan Corporate Income Tax
MDEQ	Michigan Department of Environmental Quality
MISO	Midwest Independent System Operator is an Independent System Operator and the Regional Transmission Organization serving the Midwest United States and Manitoba, Canada.
MPSC	Michigan Public Service Commission
Non-utility	An entity that is not a public utility. Its conditions of service, prices of goods and services and other operating related matters are not directly regulated by the MPSC.
NRC	United States Nuclear Regulatory Commission
Production tax credits	

**Edgar Filing: DTE ENERGY CO - Form 10-Q**

Tax credits as authorized under Sections 45K and 45 of the Internal Revenue Code that are designed to stimulate investment in and development of alternate fuel sources. The amount of a production tax credit can vary each year as determined by the Internal Revenue Service.

PSCR	A Power Supply Cost Recovery mechanism authorized by the MPSC that allows DTE Electric to recover through rates its fuel, fuel-related and purchased power costs.
RDM	A Revenue Decoupling Mechanism authorized by the MPSC that is designed to minimize the impact on revenues of changes in average customer usage.
Securitization	DTE Electric financed specific stranded costs at lower interest rates through the sale of rate reduction bonds by a wholly-owned special purpose entity, The Detroit Edison Securitization Funding LLC.
Subsidiaries	The direct and indirect subsidiaries of DTE Energy Company
VIE	Variable Interest Entity

Units of Measurement

Bcf	Billion cubic feet of natural gas
Bcfe	Conversion metric using a standard ratio of one barrel of oil and/or natural gas liquids to 6 Mcf of natural gas equivalents.
BTU	Heat value (energy content) of fuel
dth/d	Decatherms per day
kWh	Kilowatthour of electricity
Mcf	Thousand cubic feet of natural gas
MMcf	Million cubic feet of natural gas
MW	Megawatt of electricity
MWh	Megawatthour of electricity

## FORWARD-LOOKING STATEMENTS

Certain information presented herein includes "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 with respect to the financial condition, results of operations and business of DTE Energy. Words such as "anticipate," "believe," "expect," "projected" and "goals" signify forward-looking statements. Forward-looking statements are not guarantees of future results and conditions, but rather are subject to numerous assumptions, risks and uncertainties that may cause actual future results to be materially different from those contemplated, projected, estimated or budgeted. Many factors may impact forward-looking statements including, but not limited to, the following:

- impact of regulation by the FERC, MPSC, NRC and other applicable governmental proceedings and regulations, including any associated impact on rate structures;
- the amount and timing of cost recovery allowed as a result of regulatory proceedings, related appeals or new legislation;
- impact of electric and natural gas utility restructuring in Michigan, including legislative amendments and Customer Choice programs;
- economic conditions and population changes in our geographic area resulting in changes in demand, customer conservation, thefts of electricity and natural gas and high levels of uncollectible accounts receivable;
- environmental issues, laws, regulations, and the increasing costs of remediation and compliance, including actual and potential new federal and state requirements;
- health, safety, financial, environmental and regulatory risks associated with ownership and operation of nuclear facilities;
- changes in the cost and availability of coal and other raw materials, purchased power and natural gas;
- the potential for losses on investments, including nuclear decommissioning and benefit plan assets and the related increases in future expense and contributions;
- volatility in the short-term natural gas storage markets impacting third-party storage revenues;
- access to capital markets and the results of other financing efforts which can be affected by credit agency ratings;
- instability in capital markets which could impact availability of short and long-term financing;
- the timing and extent of changes in interest rates;
- the level of borrowings;
- the potential for increased costs or delays in completion of significant construction projects;
- changes in and application of federal, state and local tax laws and their interpretations, including the Internal Revenue Code, regulations, rulings, court proceedings and audits;
- the effects of weather and other natural phenomena on operations and sales to customers, and purchases from suppliers;
- unplanned outages;
- the cost of protecting assets against, or damage due to, terrorism or cyber attacks;
- employee relations and the impact of collective bargaining agreements;
- the availability, cost, coverage and terms of insurance and stability of insurance providers;
- cost reduction efforts and the maximization of plant and distribution system performance;
- the effects of competition;
- changes in and application of accounting standards and financial reporting regulations;
- changes in federal or state laws and their interpretation with respect to regulation, energy policy and other business issues;
- binding arbitration, litigation and related appeals; and
- the risks discussed in our public filings with the Securities and Exchange Commission.

New factors emerge from time to time. We cannot predict what factors may arise or how such factors may cause our results to differ materially from those contained in any forward-looking statement. Any forward-looking statements speak only as of the date on which such statements are made. We undertake no obligation to update any

Edgar Filing: DTE ENERGY CO - Form 10-Q

forward-looking statement to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of unanticipated events.

**Part I — Financial Information****Item 1. Financial Statements****DTE Energy Company****Consolidated Statements of Operations (Unaudited)**

	Three Months Ended September 30, 2013	Nine Months Ended September 30, 2013	Three Months Ended September 30, 2012	Nine Months Ended September 30, 2012
	(In millions, except per share amounts)			
Operating Revenues	\$2,387	\$2,190	\$7,128	\$6,442
Operating Expenses				
Fuel, purchased power and gas	967	761	2,931	2,347
Operation and maintenance	728	687	2,168	2,111
Depreciation, depletion and amortization	284	259	811	730
Taxes other than income	84	78	262	252
Asset (gains) and losses, reserves and impairments, net	(5 )	(1 )	(6 )	(10 )
	2,058	1,784	6,166	5,430
Operating Income	329	406	962	1,012
Other (Income) and Deductions				
Interest expense	106	109	327	331
Interest income	(2 )	(2 )	(7 )	(7 )
Other income	(58 )	(47 )	(148 )	(125 )
Other expenses	7	9	23	27
	53	69	195	226
Income Before Income Taxes	276	337	767	786
Income Tax Expense	76	108	225	251
Income from Continuing Operations	200	229	542	535
Net Income from Discontinued Operations, net of tax	—	1	—	—
Net Income	200	230	542	535
Less: Net Income Attributable to Noncontrolling Interest	2	3	5	6
Net Income Attributable to DTE Energy Company	\$198	\$227	\$537	\$529
Basic Earnings per Common Share				
Income from continuing operations	\$1.13	\$1.31	\$3.07	\$3.09
Income from discontinued operations, net of tax	—	0.01	—	—
Total	\$1.13	\$1.32	\$3.07	\$3.09
Diluted Earnings per Common Share				
Income from continuing operations	\$1.13	\$1.30	\$3.07	\$3.08
Income from discontinued operations, net of tax	—	0.01	—	—
Total	\$1.13	\$1.31	\$3.07	\$3.08

Edgar Filing: DTE ENERGY CO - Form 10-Q

Weighted Average Common Shares Outstanding

Basic	175	172	174	171
Diluted	176	172	175	171
Dividends Declared per Common Share	\$0.66	\$0.62	\$1.93	\$1.80

See Notes to Consolidated Financial Statements (Unaudited)

## DTE Energy Company

## Consolidated Statements of Comprehensive Income (Unaudited)

	Three Months Ended September 30, 2013		Nine Months Ended September 30, 2013	
	2013 (In millions)	2012	2013	2012
Net income	\$200	\$230	\$542	\$535
Other comprehensive income (loss), net of tax:				
Benefit obligations, net of taxes of \$2, \$1, \$4 and \$4	2	3	7	9
Net unrealized gains on investments during the period, net of taxes of \$1, \$—, \$1 and \$—	1	—	1	1
Foreign currency translation, net of taxes of \$—, \$1, \$(1) and \$1	1	1	(1 )	1
Other comprehensive income	4	4	7	11
Comprehensive income	204	234	549	546
Less comprehensive income attributable to noncontrolling interests	2	3	5	6
Comprehensive income attributable to DTE Energy Company	\$202	\$231	\$544	\$540

See Notes to Consolidated Financial Statements (Unaudited)

## DTE Energy Company

## Consolidated Statements of Financial Position (Unaudited)

	September 30, 2013	December 31, 2012
	(In millions)	
<b>ASSETS</b>		
Current Assets		
Cash and cash equivalents	\$ 71	\$ 65
Restricted cash, principally Securitization	64	122
Accounts receivable (less allowance for doubtful accounts of \$67 and \$62, respectively)		
Customer	1,239	1,336
Other	81	126
Inventories		
Fuel and gas	467	527
Materials and supplies	258	234
Deferred income taxes	—	21
Derivative assets	72	108
Regulatory assets	49	182
Other	248	194
	2,549	2,915
Investments		
Nuclear decommissioning trust funds	1,139	1,037
Other	584	554
	1,723	1,591
Property		
Property, plant and equipment	24,795	23,631
Less accumulated depreciation, depletion and amortization	(9,284)	(8,947)
	15,511	14,684
Other Assets		
Goodwill	2,018	2,018
Regulatory assets	3,700	4,235
Securitized regulatory assets	280	413
Intangible assets	122	135
Notes receivable	104	112
Derivative assets	26	39
Other	198	197
	6,448	7,149
<b>Total Assets</b>	<b>\$ 26,231</b>	<b>\$ 26,339</b>

See Notes to Consolidated Financial Statements (Unaudited)

## DTE Energy Company

## Consolidated Statements of Financial Position (Unaudited) — (Continued)

	September 30, 2013	December 31, 2012		
	(In millions, except shares)			
<b>LIABILITIES AND EQUITY</b>				
<b>Current Liabilities</b>				
Accounts payable	\$ 866	\$ 848		
Accrued interest	114	93		
Dividends payable	116	107		
Short-term borrowings	271	240		
Current portion long-term debt, including capital leases	896	817		
Derivative liabilities	58	125		
Regulatory liabilities	230	89		
Other	457	449		
	3,008	2,768		
<b>Long-Term Debt (net of current portion)</b>				
Mortgage bonds, notes and other	6,253	6,220		
Securitization bonds	105	302		
Junior subordinated debentures	480	480		
Capital lease obligations	8	12		
	6,846	7,014		
<b>Other Liabilities</b>				
Deferred income taxes	3,290	3,191		
Regulatory liabilities	907	1,031		
Asset retirement obligations	1,800	1,719		
Unamortized investment tax credit	49	56		
Derivative liabilities	21	26		
Accrued pension liability	1,254	1,498		
Accrued postretirement liability	684	1,160		
Nuclear decommissioning	172	159		
Other	290	306		
	8,467	9,146		
<b>Commitments and Contingencies (Notes 7 and 12)</b>				
<b>Equity</b>				
Common stock, without par value, 400,000,000 shares authorized, 176,797,248 and 172,351,680 shares issued and outstanding, respectively	3,885	3,587		
Retained earnings	4,142	3,944		
Accumulated other comprehensive loss	(151 )	(158 )		
Total DTE Energy Company Equity	7,876	7,373		
Noncontrolling interests	34	38		
Total Equity	7,910	7,411		
Total Liabilities and Equity	\$ 26,231	\$ 26,339		

See Notes to Consolidated Financial Statements (Unaudited)



## DTE Energy Company

## Consolidated Statements of Cash Flows (Unaudited)

	Nine Months Ended September 30,	
	2013	2012
	(In millions)	
<b>Operating Activities</b>		
Net income	\$ 542	\$ 535
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation, depletion and amortization	811	747
Nuclear fuel amortization	25	25
Allowance for equity funds used during construction	(10	) (10
Deferred income taxes	162	96
Asset (gains) and losses, reserves and impairments, net	(5	) (7
Changes in assets and liabilities:		
Accounts receivable, net	177	237
Inventories	35	5
Accounts payable	(16	) (35
Derivative assets and liabilities	(23	) 38
Accrued pension obligation	(44	) (3
Accrued postretirement obligation	(191	) (143
Regulatory assets and liabilities	327	286
Other assets	(62	) (2
Other liabilities	(13	) (40
Net cash from operating activities	1,715	1,729
<b>Investing Activities</b>		
Plant and equipment expenditures — utility	(1,101	) (1,008
Plant and equipment expenditures — non-utility	(270	) (214
Proceeds from sale of assets	20	20
Restricted cash for debt redemption, principally Securitization	58	55
Proceeds from sale of nuclear decommissioning trust fund assets	40	48
Investment in nuclear decommissioning trust funds	(52	) (61
Other	(32	) (24
Net cash used for investing activities	(1,337	) (1,184
<b>Financing Activities</b>		
Issuance of long-term debt	768	495
Redemption of long-term debt	(855	) (447
Short-term borrowings, net	31	(321
Issuance of common stock	29	29
Dividends on common stock	(329	) (300
Other	(16	) (10
Net cash used for financing activities	(372	) (554
Net Increase (Decrease) in Cash and Cash Equivalents	6	(9
Cash and Cash Equivalents at Beginning of Period	65	68
Cash and Cash Equivalents at End of Period	\$ 71	\$ 59

## Supplemental Disclosure of Non-Cash Investing and Financing Activities

Edgar Filing: DTE ENERGY CO - Form 10-Q

Common stock issued for employee benefit and compensation plans	\$279	\$143
Plant and equipment expenditures in accounts payable	\$263	\$184

See Notes to Consolidated Financial Statements (Unaudited)

DTE Energy Company

Consolidated Statements of Changes in Equity (Unaudited)

	Common Stock	Retained Earnings	Other Comprehensive Loss	Non-Controlling Interest	Accumulated Total
	Shares	Amount			
(Dollars in millions, shares in thousands)					
Balance, December 31, 2012	172,352	\$3,587	\$3,944	\$ (158 )	\$ 38 \$7,411
Net income	—	—	537	—	5 542
Dividends declared on common stock	—	—	(339 )	—	— (339 )
Issuance of common stock	439	29	—	—	— 29
Contribution of common stock to pension plan	3,026	200	—	—	— 200
Foreign currency translation, net of tax	—	—	—	(1 )	— (1 )
Benefit obligations, net of tax	—	—	—	7	— 7
Net change in unrealized losses on investments, net of tax	—	—	—	1	— 1
Stock-based compensation, distributions to noncontrolling interests and other	980	69	—	—	(9 ) 60
Balance, September 30, 2013	176,797	\$3,885	\$4,142	\$ (151 )	\$ 34 \$7,910

See Notes to Consolidated Financial Statements (Unaudited)

## DTE Energy Company

### Notes to Consolidated Financial Statements (Unaudited)

#### NOTE 1 — ORGANIZATION AND BASIS OF PRESENTATION

##### Corporate Structure

DTE Energy owns the following businesses:

- DTE Electric, an electric utility engaged in the generation, purchase, distribution and sale of electricity to approximately 2.1 million customers in southeastern Michigan;
- DTE Gas, a natural gas utility engaged in the purchase, storage, transportation, distribution and sale of natural gas to approximately 1.2 million customers throughout Michigan and the sale of storage and transportation capacity; and
- Other businesses involved in 1) natural gas pipelines, gathering and storage; 2) power and industrial projects; and 3) energy marketing and trading operations.

DTE Electric and DTE Gas are regulated by the MPSC. Certain activities of DTE Electric and DTE Gas, as well as various other aspects of businesses under DTE Energy are regulated by the FERC. In addition, the Company is regulated by other federal and state regulatory agencies including the NRC, the EPA and the MDEQ.

References in this Report to “Company” or “DTE” are to DTE Energy and its subsidiaries, collectively.

##### Basis of Presentation

These Consolidated Financial Statements should be read in conjunction with the Notes to Consolidated Financial Statements included in the 2012 Annual Report on Form 10-K.

The accompanying Consolidated Financial Statements are prepared using accounting principles generally accepted in the United States of America. These accounting principles require management to use estimates and assumptions that impact reported amounts of assets, liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities. Actual results may differ from the Company’s estimates.

The Consolidated Financial Statements are unaudited, but in the Company's opinion include all adjustments necessary to present a fair statement of the results for the interim periods. All adjustments are of a normal recurring nature, except as otherwise disclosed in these Consolidated Financial Statements and Notes to Consolidated Financial Statements. Financial results for this interim period are not necessarily indicative of results that may be expected for any other interim period or for the fiscal year ending December 31, 2013.

Certain prior year balances were reclassified to match the current year's financial statement presentation.

##### Principles of Consolidation

The Company consolidates all majority-owned subsidiaries and investments in entities in which it has controlling influence. Non-majority owned investments are accounted for using the equity method when the Company is able to influence the operating policies of the investee. When the Company does not influence the operating policies of an

investee, the cost method is used. These consolidated financial statements also reflect the Company's proportionate interests in certain jointly owned utility plants. The Company eliminates all intercompany balances and transactions.

The Company evaluates whether an entity is a VIE whenever reconsideration events occur. The Company consolidates VIEs for which it is the primary beneficiary. If the Company is not the primary beneficiary and an ownership interest is held, the VIE is accounted for under the equity method of accounting. When assessing the determination of the primary beneficiary, the Company considers all relevant facts and circumstances, including: the power, through voting or similar rights, to direct the activities of the VIE that most significantly impact the VIE's economic performance and the obligation to absorb the expected losses and/or the right to receive the expected returns of the VIE. The Company performs ongoing reassessments of all VIEs to determine if the primary beneficiary status has changed.

## DTE Energy Company

## Notes to Consolidated Financial Statements (Unaudited) — (Continued)

Legal entities within the Company's Power and Industrial Projects segment enter into long-term contractual arrangements with customers to supply energy-related products or services. The entities are generally designed to pass-through the commodity risk associated with these contracts to the customers, with the Company retaining operational and customer default risk. These entities generally are VIEs and consolidated when the Company is the primary beneficiary. In addition, we have interests in certain VIEs that we share control of all significant activities for those entities with our partners, and therefore are accounted for under the equity method.

The Company has variable interests in VIEs through certain of its long-term purchase contracts. As of September 30, 2013, the carrying amount of assets and liabilities in the Consolidated Statements of Financial Position that relate to its variable interests under long-term purchase contracts are predominately related to working capital accounts and generally represent the amounts owed by the Company for the deliveries associated with the current billing cycle under the contracts. The Company has not provided any form of financial support associated with these long-term contracts. There is no significant potential exposure to loss as a result of its variable interests through these long-term purchase contracts.

In 2001, DTE Electric financed a regulatory asset related to Fermi 2 and certain other regulatory assets through the sale of rate reduction bonds by a wholly-owned special purpose entity, Securitization. DTE Electric performs servicing activities including billing and collecting surcharge revenue for Securitization. This entity is a VIE and is consolidated by the Company.

The maximum risk exposure for consolidated VIEs is reflected on the Company's Consolidated Statements of Financial Position. For non-consolidated VIEs, the maximum risk exposure is generally limited to its investment and amounts which it has guaranteed.

The following table summarizes the major balance sheet items for consolidated VIEs as of September 30, 2013 and December 31, 2012. All assets and liabilities of a consolidated VIE are presented where it has been determined that a consolidated VIE has either (1) assets that can be used only to settle obligations of the VIE or (2) liabilities for which creditors do not have recourse to the general credit of the primary beneficiary. VIEs, in which the Company holds a majority voting interest and is the primary beneficiary, that meet the definition of a business and whose assets can be used for purposes other than the settlement of the VIE's obligations have been excluded from the table below.

	September 30, 2013		December 31, 2012			
	Securitization	Other	Total	Securitization	Other	Total
	(In millions)					
<b>ASSETS</b>						
Cash and cash equivalents	\$—	\$10	\$10	\$—	\$10	\$10
Restricted cash	44	7	51	102	7	109
Accounts receivable	39	17	56	34	7	41
Inventories	—	112	112	—	141	141
Other current assets	—	1	1	—	1	1
Property, plant and equipment	—	100	100	—	93	93
Securitized regulatory assets	280	—	280	413	—	413
Other assets	5	9	14	7	11	18
	\$368	\$256	\$624	\$556	\$270	\$826
<b>LIABILITIES</b>						
Accounts payable and accrued current liabilities	\$2	\$35	\$37	\$11	\$14	\$25

Edgar Filing: DTE ENERGY CO - Form 10-Q

Current portion long-term debt, including capital leases	196	9	205	177	8	185
Current regulatory liabilities	48	—	48	50	—	50
Other current liabilities	—	3	3	—	4	4
Mortgage bonds, notes and other	—	22	22	—	25	25
Securitization bonds	105	—	105	302	—	302
Capital lease obligations	—	7	7	—	11	11
Other long-term liabilities	8	3	11	7	2	9
	\$359	\$79	\$438	\$547	\$64	\$611

11

---

## DTE Energy Company

## Notes to Consolidated Financial Statements (Unaudited) — (Continued)

Amounts for non-consolidated VIEs as of September 30, 2013 and December 31, 2012 are as follows:

	September 30, 2013 (In millions)	December 31, 2012
Other investments	\$138	\$130
Notes receivable	\$3	\$6

## NOTE 2 — SIGNIFICANT ACCOUNTING POLICIES

## Comprehensive Income

Comprehensive income is the change in common shareholders' equity during a period from transactions and events from non-owner sources, including net income. As shown in the following tables, amounts recorded to accumulated other comprehensive loss for the three and nine months ended September 30, 2013 include unrealized gains and losses from derivatives accounted for as cash flow hedges, unrealized gains and losses on available-for-sale securities and the Company's interest in other comprehensive income of equity investees, which comprise the net unrealized gains and losses on investments, changes in benefit obligations, consisting of deferred actuarial losses, prior service costs and transition amounts related to pension and other postretirement benefit plans, and foreign currency translation adjustments.

Changes in Accumulated Other Comprehensive Loss by Component  
(a)

For The Three Months Ended September 30, 2013

	Net	Net	Benefit	Foreign	
	Unrealized Gain/(Loss) on Derivatives	Unrealized Gain/(Loss) on Investments	Obligations (b)	Currency Translation	Total
Beginning balance, June 30, 2013	\$(4 )	\$(8 )	\$(143 )	\$—	\$(155 )
Other comprehensive income before reclassifications	—	1	—	1	2
Amounts reclassified from accumulated other comprehensive income	—	—	2	—	2
Net current-period other comprehensive income	—	1	2	1	4
Ending balance, September 30, 2013	\$4 )	\$7 )	\$(141 )	\$1	\$(151 )

Changes in Accumulated Other Comprehensive Loss by Component  
(a)

For The Nine Months Ended September 30, 2013

	Net	Net	Benefit	Foreign	
	Unrealized Gain/(Loss) on Derivatives	Unrealized Gain/(Loss) on Investments	Obligations (b)	Currency Translation	Total

Edgar Filing: DTE ENERGY CO - Form 10-Q

	(In millions)						
Beginning balance, December 31, 2012	\$ (4 )	\$ (8 )	) \$ (148 )	) \$ 2 )	\$ (158 )		
Other comprehensive income before reclassifications	—	1	—	(1 )	) —		
Amounts reclassified from accumulated other comprehensive income	—	—	7	—	7		
Net current-period other comprehensive income (loss)	—	1	7	(1 )	) 7		
Ending balance, September 30, 2013	\$ (4 )	\$ (7 )	) \$ (141 )	) \$ 1 )	\$ (151 )		

---

(a) All amounts are net of tax.

(b) The amounts reclassified from accumulated other comprehensive income are included in the computation of the net periodic pension cost (see Retirement Benefits and Trusteed Assets Note 13).

## DTE Energy Company

## Notes to Consolidated Financial Statements (Unaudited) — (Continued)

## Intangible Assets

The Company has certain intangible assets relating to emission allowances, renewable energy credits and non-utility contracts as shown below:

	September 30, 2013	December 31, 2012
	(In millions)	
Emission allowances	\$3	\$6
Renewable energy credits	48	44
Contract intangible assets	126	139
	177	189
Less accumulated amortization	41	34
Intangible assets, net	136	155
Less current intangible assets	14	20
	\$122	\$135

Emission allowances and renewable energy credits are charged to expense, using average cost, as the allowances and credits are consumed in the operation of the business. The Company amortizes contract intangible assets on a straight-line basis over the expected period of benefit, ranging from 3 to 30 years.

## Income Taxes

The Company's effective tax rate from continuing operations for the three months ended September 30, 2013 was 28 percent as compared to 32 percent for the three months ended September 30, 2012. The Company's effective tax rate from continuing operations for the nine months ended September 30, 2013 was 29 percent as compared to 32 percent for the nine months ended September 30, 2012. The decrease in the effective tax rate in 2013 is due primarily to higher production tax credits.

The Company had \$3 million of unrecognized tax benefits at September 30, 2013, that, if recognized, would favorably impact its effective tax rate. The Company believes that it is possible that there will be a decrease in the unrecognized tax benefits of up to \$1 million in the next twelve months.

DTE Energy Company  
Notes to Consolidated Financial Statements (Unaudited) — (Continued)

**NOTE 3 — FAIR VALUE**

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in a principal or most advantageous market. Fair value is a market-based measurement that is determined based on inputs, which refer broadly to assumptions that market participants use in pricing assets or liabilities. These inputs can be readily observable, market corroborated or generally unobservable inputs. The Company makes certain assumptions it believes that market participants would use in pricing assets or liabilities, including assumptions about risk, and the risks inherent in the inputs to valuation techniques. Credit risk of the Company and its counterparties is incorporated in the valuation of assets and liabilities through the use of credit reserves, the impact of which was immaterial at September 30, 2013 and December 31, 2012. The Company believes it uses valuation techniques that maximize the use of observable market-based inputs and minimize the use of unobservable inputs.

A fair value hierarchy has been established that prioritizes the inputs to valuation techniques used to measure fair value in three broad levels. The fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). In some cases, the inputs used to measure fair value might fall in different levels of the fair value hierarchy. All assets and liabilities are required to be classified in their entirety based on the lowest level of input that is significant to the fair value measurement in its entirety. Assessing the significance of a particular input may require judgment considering factors specific to the asset or liability, and may affect the valuation of the asset or liability and its placement within the fair value hierarchy. The Company classifies fair value balances based on the fair value hierarchy defined as follows:

Level 1 — Consists of unadjusted quoted prices in active markets for identical assets or liabilities that the Company has the ability to access as of the reporting date.

- Level 2 — Consists of inputs other than quoted prices included within Level 1 that are directly observable for the asset or liability or indirectly observable through corroboration with observable market data.

Level 3 — Consists of unobservable inputs for assets or liabilities whose fair value is estimated based on internally developed models or methodologies using inputs that are generally less readily observable and supported by little, if any, market activity at the measurement date. Unobservable inputs are developed based on the best available information and subject to cost-benefit constraints.

## DTE Energy Company

## Notes to Consolidated Financial Statements (Unaudited) — (Continued)

The following table presents assets and liabilities measured and recorded at fair value on a recurring basis as of September 30, 2013 and December 31, 2012:

	September 30, 2013					December 31, 2012				
	Level 1	Level 2	Level 3	Netting (a)	Net Balance	Level 1	Level 2	Level 3	Netting (a)	Net Balance
	(In millions)									
<b>Assets:</b>										
Cash equivalents (b)	\$—	\$68	\$—	\$—	\$68	\$—	\$123	\$—	\$—	\$123
Nuclear decommissioning trusts	757	382	—	—	1,139	694	343	—	—	1,037
Other investments (c) (d)	76	48	—	—	124	66	44	—	—	110
<b>Derivative assets:</b>										
Commodity Contracts:										
Natural Gas	388	61	34	(474 ) 9	555	66	24	(605 ) 40		
Electricity	—	210	88	(216 ) 82	—	226	134	(258 ) 102		
Other	48	9	5	(55 ) 7	6	3	2	(6 ) 5		
Total derivative assets	436	280	127	(745 ) 98	561	295	160	(869 ) 147		
Total	\$1,269	\$778	\$127	\$745 ) \$1,429	\$1,321	\$805	\$160	\$869 ) \$1,417		
<b>Liabilities:</b>										
<b>Derivative liabilities:</b>										
Interest rate contracts	\$—	\$—	\$—	\$—	\$—	\$—	\$—	\$—	\$—	\$—
Commodity Contracts:										
Natural Gas	(374 ) (49 ) (48 ) 445	(26 ) (526 ) (73 ) (62 ) 605	(56 )							
Electricity	— (204 ) (83 ) 236	(51 ) — (240 ) (111 ) 258	(93 )							
Other	(52 ) (5 ) — 55	(2 ) (6 ) (1 ) — 6	(1 )							
Total derivative liabilities	(426 ) (258 ) (131 ) 736	(79 ) (532 ) (315 ) (173 ) 869	(151 )							
Total	\$426 ) \$258 ) \$131 ) \$736	\$79 ) \$532 ) \$315 ) \$173 ) \$869	\$151 )							
Net Assets (Liabilities) at the end of the period	\$843	\$520	\$4 ) \$9 )	\$1,350	\$789	\$490	\$13 ) \$—			\$1,266
<b>Assets:</b>										
Current	\$400	\$285	\$94	\$639 ) \$140	\$493	\$372	\$120	\$754 ) \$231		
Noncurrent (e)	869	493	33	(106 ) 1,289	828	433	40	(115 ) 1,186		
Total Assets	\$1,269	\$778	\$127	\$745 ) \$1,429	\$1,321	\$805	\$160	\$869 ) \$1,417		
<b>Liabilities:</b>										
Current	\$379 ) \$189 ) \$(100 ) \$610	\$58 ) \$(466 ) \$(269 ) \$(144 ) \$754	\$125 )							
Noncurrent	(47 ) (69 ) (31 ) 126	(21 ) (66 ) (46 ) (29 ) 115	(26 )							
Total Liabilities	\$426 ) \$258 ) \$131 ) \$736	\$79 ) \$532 ) \$315 ) \$173 ) \$869	\$151 )							
Net Assets (Liabilities) at the end of the period	\$843	\$520	\$4 ) \$9 )	\$1,350	\$789	\$490	\$13 ) \$—			\$1,266

(a) Amounts represent the impact of master netting agreements that allow the Company to net gain and loss positions and cash collateral held or placed with the same counterparties.

(b) At September 30, 2013, available-for-sale securities of \$68 million included \$51 million and \$17 million of cash equivalents included in Restricted cash and Other investments, respectively, on the Consolidated Statements of

Edgar Filing: DTE ENERGY CO - Form 10-Q

Financial Position. At December 31, 2012, available-for-sale securities of \$123 million, included \$109 million and \$14 million of cash equivalents included in Restricted cash and Other investments, respectively, on the Consolidated Statements of Financial Position.

(c) Excludes cash surrender value of life insurance investments.

(d) Available-for-sale equity securities of \$6 million at September 30, 2013 and \$5 million at December 31, 2012, are included in Other investments on the Consolidated Statements of Financial Position.

(e) Includes \$124 million and \$110 million at September 30, 2013 and December 31, 2012, respectively, of Other investments that are included in the Consolidated Statements of Financial Position in Other investments.

#### Cash Equivalents

Cash equivalents include investments with maturities of three months or less when purchased. The cash equivalents shown in the fair value table are comprised of short-term investments and money market funds. The fair values of the shares in these investments are based upon observable market prices for similar securities and, therefore, have been categorized as Level 2 in the fair value hierarchy.

## DTE Energy Company

## Notes to Consolidated Financial Statements (Unaudited) — (Continued)

## Nuclear Decommissioning Trusts and Other Investments

The nuclear decommissioning trusts and other investments hold debt and equity securities directly and indirectly through institutional mutual funds. Exchange-traded debt and equity securities held directly are valued using quoted market prices in actively traded markets. The institutional mutual funds which hold exchange-traded equity or debt securities are valued based on the underlying securities, using quoted prices in actively traded markets.

Non-exchange-traded fixed income securities are valued based upon quotations available from brokers or pricing services. A primary price source is identified by asset type, class or issue for each security. The trustee monitors prices supplied by pricing services and may use a supplemental price source or change the primary price source of a given security if the trustee determines that another price source is considered to be preferable. DTE Energy has obtained an understanding of how these prices are derived, including the nature and observability of the inputs used in deriving such prices. Additionally, DTE Energy selectively corroborates the fair value of securities by comparison of market-based price sources. Investment policies and procedures are determined by the Company's Trust Investments Department which reports to the Company's Vice President and Treasurer.

## Derivative Assets and Liabilities

Derivative assets and liabilities are comprised of physical and financial derivative contracts, including futures, forwards, options and swaps that are both exchange-traded and over-the-counter traded contracts. Various inputs are used to value derivatives depending on the type of contract and availability of market data. Exchange-traded derivative contracts are valued using quoted prices in active markets. DTE Energy considers the following criteria in determining whether a market is considered active: frequency in which pricing information is updated, variability in pricing between sources or over time and the availability of public information. Other derivative contracts are valued based upon a variety of inputs including commodity market prices, broker quotes, interest rates, credit ratings, default rates, market-based seasonality and basis differential factors. DTE Energy monitors the prices that are supplied by brokers and pricing services and may use a supplemental price source or change the primary price source of an index if prices become unavailable or another price source is determined to be more representative of fair value. DTE Energy has obtained an understanding of how these prices are derived. Additionally, DTE Energy selectively corroborates the fair value of its transactions by comparison of market-based price sources. Mathematical valuation models are used for derivatives for which external market data is not readily observable, such as contracts which extend beyond the actively traded reporting period. The Company has established a Risk Management Committee whose responsibilities include directly or indirectly ensuring all valuation methods are applied in accordance with predefined policies. The development and maintenance of our forward price curves has been assigned to our Risk Management Department, which is separate and distinct from the trading functions within the Company.

The following tables present the fair value reconciliation of Level 3 assets and liabilities measured at fair value on a recurring basis for the three months and nine months ended September 30, 2013 and 2012:

	Three Months Ended September 30, 2013			Three Months Ended September 30, 2012				
	Natural Gas	Electricity	Other	Total	Natural Gas	Electricity	Other	Total
(In millions)								
Net Assets (Liabilities) as of June 30	\$(30 )	\$ 12	\$ 2	\$ (16 )	\$ 2	\$ 50	\$ 5	\$ 57
Transfers into Level 3	—	—	—	—	—	—	—	—
Transfers out of Level 3	—	(1 )	—	(1 )	—	—	—	—
Total gains (losses):								

Edgar Filing: DTE ENERGY CO - Form 10-Q

Included in earnings	8	17	—	25	(43 )	12	1	(30 )
Recorded in regulatory assets/liabilities —	—	—	3	3	—	—	7	7
Purchases, issuances and settlements:								
Settlements	8	(23 )	—	(15 )	(3 )	(38 )	(7 )	(48 )
Net Assets (Liabilities) as of September 30	\$14 )	\$5	\$5	\$4 )	\$44 )	\$24	\$6	\$14 )
The amount of total gains (losses) included in net income attributed to the change in unrealized gains (losses) related to assets and liabilities held at September 30, 2013 and 2012 and reflected in Operating revenues and Fuel, purchased power and gas in the Consolidated Statements of Operations	\$(8 )	\$8	\$—	\$—	\$(43 )	\$5	\$1	\$(37 )

## DTE Energy Company

## Notes to Consolidated Financial Statements (Unaudited) — (Continued)

	Nine Months Ended September 30, 2013			Total	Nine Months Ended September 30, 2012			Total
	Natural Gas	Electricity	Other		Natural Gas	Electricity	Other	
(In millions)								
Net Assets (Liabilities) as of December 31	\$(38 )	\$ 23	\$ 2	\$ (13 )	\$ 6	\$ 32	\$ 6	\$ 44
Transfers into Level 3	—	—	—	—	1	28	—	29
Transfers out of Level 3	(2 )	—	—	(2 )	(2 )	—	—	(2 )
Total gains (losses):								
Included in earnings	(1 )	44	—	43	(38 )	53	—	15
Recorded in regulatory assets/liabilities	—	—	7	7	—	—	12	12
Purchases, issuances and settlements:								
Purchases	—	(1 )	—	(1 )	—	1	—	1
Settlements	27	(61 )	(4 )	(38 )	(11 )	(90 )	(12 )	(113 )
Net Assets (Liabilities) as of September 30	\$(14 )	\$ 5	\$ 5	\$ (4 )	\$(44 )	\$ 24	\$ 6	\$(14 )
The amount of total gains (losses) included in net income attributed to the change in unrealized gains (losses) related to assets and liabilities held at September 30, 2013 and 2012 and reflected in Operating revenues and Fuel, purchased power and gas in the Consolidated Statements of Operations	\$(14 )	\$ 36	\$—	\$22	\$(39 )	\$ 43	\$—	\$4

Derivatives are transferred between levels primarily due to changes in the source data used to construct price curves as a result of changes in market liquidity. Transfers in and transfers out are reflected as if they had occurred at the beginning of the period. The following table shows transfers between the levels of the fair value hierarchy for the three months and nine months ended September 30, 2013 and 2012:

	Three Months Ended September 30, 2013			Three Months Ended September 30, 2012		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
	(In millions)					
Transfers into Level 1 from	\$ N/A	\$—	\$—	\$ N/A	\$—	\$—
Transfers into Level 2 from	—	N/A	1	—	N/A	—
Transfers into Level 3 from	—	—	N/A	—	—	N/A

	Nine Months Ended September 30, 2013			Nine Months Ended September 30, 2012		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
	(In millions)					
Transfers into Level 1 from	\$ N/A	\$—	\$—	\$ N/A	\$—	\$—
Transfers into Level 2 from	—	N/A	2	—	N/A	2
Transfers into Level 3 from	—	—	N/A	—	29	N/A

Edgar Filing: DTE ENERGY CO - Form 10-Q

The following table presents the unobservable inputs related to Level 3 assets and liabilities as of September 30, 2013:

September 30,  
2013

Commodity Contracts	Derivative Assets	Derivative Liabilities	Valuation Techniques	Unobservable Input	Range	Weighted Average
Natural Gas	\$34	\$ (48 )	Discounted Cash Flow	Forward basis price (per MMBtu)	\$(1.10 )—\$4.22	/MMBtu \$0.10 /MMBtu
Electricity	\$88	\$ (83 )	Discounted Cash Flow	Forward basis price (per MWh)	\$(8 )—\$15	/MWh \$2 /MWh

## DTE Energy Company

## Notes to Consolidated Financial Statements (Unaudited) — (Continued)

The following table presents the unobservable inputs related to Level 3 assets and liabilities as of December 31, 2012:

December 31,  
2012

Commodity Contracts	Derivative Assets	Derivative Liabilities	Valuation Techniques	Unobservable Input	Range		Weighted Average
Natural Gas	\$24	\$ (62 )	Discounted Cash Flow	Forward basis price (per MMBtu)	\$ (0.63 )—\$1.95	/MMBtu	\$0.03 /MMBtu
Electricity	\$134	\$ (111 )	Discounted Cash Flow	Forward basis price (per MWh)	\$ (2 )—\$16	/MWh	\$3 /MWh

The unobservable inputs used in the fair value measurement of the electricity and natural gas commodity types consist of inputs that are less observable due in part to lack of available broker quotes, supported by little, if any, market activity at the measurement date or are based on internally developed models. Certain basis prices (i.e. the difference in pricing between two locations) included in the valuation of natural gas and electricity contracts were deemed unobservable.

The inputs listed above would have a direct impact on the fair values of the above security types if they were adjusted. A significant increase (decrease) in the basis price would result in a higher (lower) fair value for long positions, with offsetting impacts to short positions.

## Fair Value of Financial Instruments

The fair value of financial instruments included in the table below is determined by using quoted market prices when available. When quoted prices are not available, pricing services may be used to determine the fair value with reference to observable interest rate indexes. DTE Energy has obtained an understanding of how the fair values are derived. DTE Energy also selectively corroborates the fair value of its transactions by comparison of market-based price sources. Discounted cash flow analyses based upon estimated current borrowing rates are also used to determine fair value when quoted market prices are not available. The fair values of notes receivable, excluding capital leases, are estimated using discounted cash flow techniques that incorporate market interest rates as well as assumptions about the remaining life of the loans and credit risk. Depending on the information available, other valuation techniques may be used that rely on internal assumptions and models. Valuation policies and procedures are determined by DTE Energy's Treasury Department which reports to the Company's Vice President and Treasurer.

The following table presents the carrying amount and fair value of financial instruments as of September 30, 2013 and December 31, 2012:

	September 30, 2013				December 31, 2012			
	Carrying Amount	Fair Value			Carrying Amount	Fair Value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
Notes receivable, excluding capital leases	\$37	\$—	\$—	\$37	\$39	\$—	\$—	\$39
Dividends payable	\$116	\$116	\$—	\$—	\$107	\$107	\$—	\$—
Short-term borrowings	\$271	\$—	\$271	\$—	\$240	\$—	\$240	\$—
Long-term debt	\$7,729	\$436	\$7,067	\$738	\$7,813	\$507	\$7,453	\$933

See Note 4 for further fair value information on financial and derivative instruments.

### Nuclear Decommissioning Trust Funds

DTE Electric has a legal obligation to decommission its nuclear power plants following the expiration of their operating licenses. This obligation is reflected as an asset retirement obligation on the Consolidated Statements of Financial Position. Rates approved by the MPSC provide for the recovery of decommissioning costs of Fermi 2 and the disposal of low-level radioactive waste. DTE Electric is continuing to fund FERC jurisdictional amounts for decommissioning even though explicit provisions are not included in FERC rates.

## DTE Energy Company

## Notes to Consolidated Financial Statements (Unaudited) — (Continued)

The following table summarizes the fair value of the nuclear decommissioning trust fund assets:

	September 30, 2013 (In millions)	December 31, 2012
Fermi 2	\$1,120	\$1,021
Fermi 1	3	3
Low level radioactive waste	16	13
Total	\$1,139	\$1,037

The costs of securities sold are determined on the basis of specific identification. The following table sets forth the gains and losses and proceeds from the sale of securities by the nuclear decommissioning trust funds:

	Three Months Ended		Nine Months Ended	
	September 30, 2013 (In millions)	2012	September 30, 2013 (In millions)	2012
Realized gains	\$11	\$7	\$30	\$21
Realized losses	\$(11)	) \$(6)	) \$(25)	) \$(17)
Proceeds from sales of securities	\$13	\$12	\$40	\$48

Realized gains and losses from the sale of securities for the Fermi 2 and the low-level radioactive waste funds are recorded to the Regulatory asset and Nuclear decommissioning liability. The following table sets forth the fair value and unrealized gains for the nuclear decommissioning trust funds:

	September 30, 2013		December 31, 2012	
	Fair Value (In millions)	Unrealized Gains	Fair Value (In millions)	Unrealized Gains
Equity securities	\$732	\$195	\$631	\$122
Debt securities	395	17	399	27
Cash and cash equivalents	12	—	7	—
	<b>\$1,139</b>	<b>\$212</b>	<b>\$1,037</b>	<b>\$149</b>

The debt securities at September 30, 2013 and December 31, 2012 had an average maturity of approximately 7 and 6 years, respectively. Securities held in the nuclear decommissioning trust funds are classified as available-for-sale. As DTE Electric does not have the ability to hold impaired investments for a period of time sufficient to allow for the anticipated recovery of market value, all unrealized losses are considered to be other-than-temporary impairments.

Unrealized losses incurred by the Fermi 2 trust are recognized as a Regulatory asset. DTE Electric recognized \$38 million and \$44 million of unrealized losses as Regulatory assets at September 30, 2013 and December 31, 2012, respectively. Since the decommissioning of Fermi 1 is funded by DTE Electric rather than through a regulatory recovery mechanism, there is no corresponding regulatory asset treatment. Therefore, unrealized losses incurred by the Fermi 1 trust are recognized in earnings immediately. There were no unrealized losses recognized in the three and nine months ended September 30, 2013 and September 30, 2012 for Fermi 1.

#### Other Securities

At September 30, 2013 and December 31, 2012, the securities were comprised primarily of money market and equity securities. During the three and nine months ended September 30, 2013 and September 30, 2012, no amounts of

Edgar Filing: DTE ENERGY CO - Form 10-Q

unrealized losses on available-for-sale securities were reclassified out of other comprehensive income and realized into net income for the periods. Gains related to trading securities held at September 30, 2013 and September 30, 2012 were \$14 million and \$11 million, respectively.

DTE Energy Company

Notes to Consolidated Financial Statements (Unaudited) — (Continued)

**NOTE 4 — FINANCIAL AND OTHER DERIVATIVE INSTRUMENTS**

The Company recognizes all derivatives at their fair value as Derivative Assets or Liabilities on the Consolidated Statements of Financial Position unless they qualify for certain scope exceptions, including the normal purchases and normal sales exception. Further, derivatives that qualify and are designated for hedge accounting are classified as either hedges of a forecasted transaction or the variability of cash flows to be received or paid related to a recognized asset or liability (cash flow hedge), or as hedges of the fair value of a recognized asset or liability or of an unrecognized firm commitment (fair value hedge). For cash flow hedges, the portion of the derivative gain or loss that is effective in offsetting the change in the value of the underlying exposure is deferred in Accumulated other comprehensive income and later reclassified into earnings when the underlying transaction occurs. Gains or losses from the ineffective portion of cash flow hedges are recognized in earnings immediately. For fair value hedges, changes in fair values for the derivative and hedged item are recognized in earnings each period. For derivatives that do not qualify or are not designated for hedge accounting, changes in fair value are recognized in earnings each period.

The Company's primary market risk exposure is associated with commodity prices, credit, and interest rates. The Company has risk management policies to monitor and manage market risks. The Company uses derivative instruments to manage some of the exposure. The Company uses derivative instruments for trading purposes in its Energy Trading segment. Contracts classified as derivative instruments include power, natural gas, oil and certain coal forwards, futures, options and swaps, and foreign currency exchange contracts. Items not classified as derivatives include natural gas inventory, pipeline transportation contracts, renewable energy credits and natural gas storage assets.

**Electric** — DTE Electric generates, purchases, distributes and sells electricity. DTE Electric uses forward energy contracts to manage changes in the price of electricity and fuel. Substantially all of these contracts meet the normal purchases and sales exemption and are therefore accounted for under the accrual method. Other derivative contracts are recoverable through the PSCR mechanism when settled. This results in the deferral of unrealized gains and losses as Regulatory assets or liabilities until realized.

**Gas** — DTE Gas purchases, stores, transports, distributes and sells natural gas and sells storage and transportation capacity. DTE Gas has fixed-priced contracts for portions of its expected natural gas supply requirements through 2016. Substantially all of these contracts meet the normal purchases and sales exemption and are therefore accounted for under the accrual method. DTE Gas may also sell forward transportation and storage capacity contracts. Forward transportation and storage contracts are generally not derivatives and are therefore accounted for under the accrual method.

**Gas Storage and Pipelines** — This segment is primarily engaged in services related to the transportation and storage of natural gas. Primarily fixed-priced contracts are used in the marketing and management of transportation and storage services. Generally these contracts are not derivatives and are therefore accounted for under the accrual method.

**Power and Industrial Projects** — This segment manages and operates onsite energy and pulverized coal projects, coke batteries, reduced emissions fuel projects, landfill gas recovery and power generation assets. Primarily fixed-price contracts are used in the marketing and management of the segment assets. These contracts are generally not derivatives and are therefore accounted for under the accrual method.

Edgar Filing: DTE ENERGY CO - Form 10-Q

Energy Trading — Commodity Price Risk — Energy Trading markets and trades electricity, coal, natural gas physical products and energy financial instruments, and provides energy and asset management services utilizing energy commodity derivative instruments. Forwards, futures, options and swap agreements are used to manage exposure to the risk of market price and volume fluctuations in its operations. These derivatives are accounted for by recording changes in fair value to earnings unless hedge accounting criteria are met.

Energy Trading — Foreign Currency Exchange Risk — Energy Trading has foreign currency exchange forward contracts to economically hedge fixed Canadian dollar commitments existing under natural gas and power purchase and sale contracts and natural gas transportation contracts. The Company enters into these contracts to mitigate price volatility with respect to fluctuations of the Canadian dollar relative to the U.S. dollar. These derivatives are accounted for by recording changes in fair value to earnings unless hedge accounting criteria are met.

DTE Energy Company

Notes to Consolidated Financial Statements (Unaudited) — (Continued)

**Corporate and Other — Interest Rate Risk** — The Company uses interest rate swaps, treasury locks and other derivatives to hedge the risk associated with interest rate market volatility. In 2004 and 2000, the Company entered into a series of interest rate derivatives to limit its sensitivity to market interest rate risk associated with the issuance of long-term debt. Such instruments were designated as cash flow hedges. The Company subsequently issued long-term debt and terminated these hedges at a cost that is included in Other comprehensive loss. Amounts recorded in Other comprehensive loss will be reclassified to interest expense through 2033. In 2013, the Company estimates reclassifying less than \$1 million of losses to earnings.

**Credit Risk** — The utility and non-utility businesses are exposed to credit risk if customers or counterparties do not comply with their contractual obligations. The Company maintains credit policies that significantly minimize overall credit risk. These policies include an evaluation of potential customers' and counterparties' financial condition, credit rating, collateral requirements or other credit enhancements such as letters of credit or guarantees. The Company generally uses standardized agreements that allow the netting of positive and negative transactions associated with a single counterparty. The Company maintains a provision for credit losses based on factors surrounding the credit risk of its customers, historical trends, and other information. Based on the Company's credit policies and its September 30, 2013 provision for credit losses, the Company's exposure to counterparty nonperformance is not expected to have a material adverse effect on the Company's financial statements.

#### Derivative Activities

The Company manages its mark-to-market (MTM) risk on a portfolio basis based upon the delivery period of its contracts and the individual components of the risks within each contract. Accordingly, it records and manages the energy purchase and sale obligations under its contracts in separate components based on the commodity (e.g. electricity or natural gas), the product (e.g. electricity for delivery during peak or off-peak hours), the delivery location (e.g. by region), the risk profile (e.g. forward or option), and the delivery period (e.g. by month and year). The following describes the categories of activities represented by their operating characteristics and key risks:

**Asset Optimization** — Represents derivative activity associated with assets owned and contracted by DTE Energy, including forward natural gas purchases and sales, natural gas transportation and storage capacity. Changes in the value of derivatives in this category typically economically offset changes in the value of underlying non-derivative positions, which do not qualify for fair value accounting. The difference in accounting treatment of derivatives in this category and the underlying non-derivative positions can result in significant earnings volatility.

• **Marketing and Origination** — Represents derivative activity transacted by originating substantially hedged positions with wholesale energy marketers, producers, end users, utilities, retail aggregators and alternative energy suppliers.

**Fundamentals Based Trading** — Represents derivative activity transacted with the intent of taking a view, capturing market price changes, or putting capital at risk. This activity is speculative in nature as opposed to hedging an existing exposure.

**Other** — Includes derivative activity at DTE Electric related to FTRs. Changes in the value of derivative contracts at DTE Electric are recorded as Derivative Assets or Liabilities, with an offset to Regulatory Assets or Liabilities as the settlement value of these contracts will be included in the PSCR mechanism when realized.

## DTE Energy Company

## Notes to Consolidated Financial Statements (Unaudited) — (Continued)

The following tables present the fair value of derivative instruments as of September 30, 2013 and December 31, 2012:

	September 30, 2013		December 31, 2012	
	Derivative Assets (In millions)	Derivative Liabilities	Derivative Assets	Derivative Liabilities
<b>Derivatives designated as hedging instruments:</b>				
Interest rate contracts	\$—	\$—	\$—	\$(1 )
<b>Derivatives not designated as hedging instruments:</b>				
Commodity Contracts:				
Natural Gas	\$483	\$(471 )	\$645 )	\$(661 )
Electricity	298	(287 )	360 )	(351 )
Other	62	(57 )	11 )	(7 )
Total derivatives not designated as hedging instruments:	\$843	\$(815 )	\$1,016 )	\$(1,019 )
Total derivatives:				
Current	\$711	\$(668 )	\$862 )	\$(879 )
Noncurrent	132	(147 )	154 )	(141 )
Total derivatives	\$843	\$(815 )	\$1,016 )	\$(1,020 )

Certain of the Company's derivative positions are subject to netting arrangements which provide for offsetting of asset and liability positions as well as related cash collateral. Such netting arrangements generally do not have restrictions. Under such netting arrangements, the Company offsets the fair value of derivative instruments with cash collateral received or paid for those contracts executed with the same counterparty, which reduces the Company's total assets and liabilities. Cash collateral is allocated between the fair value of derivative instruments and customer accounts receivable and payable with the same counterparty on a pro rata basis to the extent there is exposure. Any cash collateral remaining, after the exposure is netted to zero, is reflected in accounts receivable and accounts payable as collateral paid or received, respectively.

The Company also provides and receives collateral in the form of letters of credit which can be offset against net derivative assets and liabilities as well as accounts receivable and payable. The Company had issued letters of credit of approximately \$21 million and \$63 million at September 30, 2013 and December 31, 2012, respectively, which could be used to offset our net derivative liabilities. Letters of credit received from third parties which could be used to offset our net derivative assets were not material for the periods presented. Such balances of letters of credit are excluded from the tables below and are not netted with the recognized assets and liabilities in the Consolidated Statements of Financial Position.

For contracts with certain clearing agents the fair value of derivative instruments is netted against realized positions with the net balance reflected as either 1) a derivative asset or liability or 2) an account receivable or payable. Other than certain clearing agents, accounts receivable and accounts payable that are subject to netting arrangements have not been offset against the fair value of derivative assets and liabilities. Certain contracts that have netting arrangements have not been offset in the Consolidated Statements of Financial Position. The impact of netting these derivative instruments and cash collateral related to such contracts is not material. Only the gross amounts for these derivative instruments are included in the table below.

Edgar Filing: DTE ENERGY CO - Form 10-Q

As of September 30, 2013, the total cash collateral received, net of cash collateral posted, was \$30 million. As of December 31, 2012, the total cash collateral received, net of cash collateral posted, was \$20 million. As of September 30, 2013, derivative assets and derivative liabilities are shown net of cash collateral of \$29 million and \$20 million, respectively. There was no cash collateral related to unrealized positions to net against derivative assets and liabilities as of December 31, 2012. The Company recorded cash collateral paid of \$3 million and cash collateral received of \$24 million not related to unrealized derivative positions as of September 30, 2013. The Company recorded cash collateral paid of \$4 million and cash collateral received of \$24 million not related to unrealized derivative positions as of December 31, 2012. These amounts are included in accounts receivable and accounts payable and are recorded net by counterparty.

## DTE Energy Company

## Notes to Consolidated Financial Statements (Unaudited) — (Continued)

The following table presents the netting offsets of derivative assets and liabilities at September 30, 2013 and December 31, 2012:

	September 30, 2013			December 31, 2012			
	Gross Amounts of Assets Offset in the Consolidated Statements of Financial Position	Gross Amounts (Liabilities) Presented in the Consolidated Statements of Financial Position	Net Amounts of Assets (Liabilities) Presented in the Consolidated Statements of Financial Position	Gross Amounts of Assets Offset in the Consolidated Statements of Financial Position	Gross Amounts (Liabilities) Presented in the Consolidated Statements of Financial Position	Net Amounts of Assets (Liabilities) Presented in the Consolidated Statements of Financial Position	
<b>(In millions)</b>							
<b>Derivative assets:</b>							
Commodity Contracts:							
Natural Gas	\$483	\$ (474)	) \$ 9	\$645	\$ (605)	) \$ 40	
Electricity	298	(216)	) 82	360	(258)	) 102	
Other	62	(55)	) 7	11	(6)	) 5	
Total derivative assets	\$843	\$ (745)	) \$ 98	\$1,016	\$ (869)	) \$ 147	
<b>Derivative liabilities:</b>							
Interest rate contracts	\$—	\$—	\$—	\$ (1)	\$—	\$ (1)	)
Commodity Contracts:							
Natural Gas	(471)	) 445	(26)	(661)	) 605	(56)	)
Electricity	(287)	) 236	(51)	(351)	) 258	(93)	)
Other	(57)	) 55	(2)	(7)	) 6	(1)	)
Total derivative liabilities	\$ (815)	) \$ 736	\$ (79)	) \$ (1,020)	) \$ 869	\$ (151)	)

The following table presents the netting offsets of derivative assets and liabilities at September 30, 2013 and December 31, 2012:

	September 30, 2013			December 31, 2012				
	Derivative Assets Current	Derivative Liabilities Noncurrent	Derivative Assets Current	Derivative Liabilities Noncurrent	Derivative Assets Current	Derivative Liabilities Noncurrent		
<b>(In millions)</b>								
<b>Reconciliation of derivative instruments to Consolidated Statements of Financial Position:</b>								
Total fair value of derivatives	\$711	\$132	\$ (668)	) \$ (147)	) \$862	\$154	\$ (879)	) \$ (141)
Counterparty netting	(610)	) (106)	) 610	106	(754)	) (115)	) 754	115
Collateral adjustment	(29)	) —	—	20	—	—	—	—
Total derivatives as reported	\$72	\$26	\$ (58)	) \$ (21)	) \$108	\$39	\$ (125)	) \$ (26)



## DTE Energy Company

## Notes to Consolidated Financial Statements (Unaudited) — (Continued)

The effect of derivatives not designated as hedging instruments on the Consolidated Statements of Operations for the three and nine months ended September 30, 2013 and 2012 is as follows:

	Location of Gain (Loss) Recognized in Income on Derivatives	Gain (Loss) Recognized in Income on Derivatives for the Three Months Ended September 30, 2013		Gain (Loss) Recognized in Income on Derivatives for the Nine Months Ended September 30, 2013	
		2013	2012	2013	2012
		(In millions)			
Derivatives not Designated as Hedging Instruments					
Foreign currency exchange contracts	Operating Revenue	\$—	\$(2 )	\$(1 )	\$(1 )
Commodity Contracts:					
Natural Gas	Operating Revenue	1	(54 )	37	(51 )
Natural Gas	Fuel, purchased power and gas	(1 )	50	(33 )	45
Electricity	Operating Revenue	22	17	52	52
Other	Operating Revenue	1	1	1	12
Total		\$23	\$12	\$56	\$57

Revenues and energy costs related to trading contracts are presented on a net basis in the Consolidated Statements of Operations. Commodity derivatives used for trading purposes, and financial non-trading commodity derivatives, are accounted for using the mark-to-market method with unrealized and realized gains and losses recorded in Operating revenues. Non-trading physical commodity sale and purchase derivative contracts are generally accounted for using the mark-to-market method with unrealized and realized gains and losses for sales recorded in Operating revenue and purchases recorded in Fuel, purchased power and gas.

The effects of derivative instruments recoverable through the PSCR mechanism when realized on the Consolidated Statements of Financial Position were \$3 million and \$7 million in unrealized gains related to FTRs recognized in Regulatory liabilities for the three and nine months ended September 30, 2013, respectively.

The following represents the cumulative gross volume of derivative contracts outstanding as of September 30, 2013:

Commodity	Number of Units
Natural Gas (MMBtu)	683,113,433
Electricity (MWh)	59,672,654
Foreign Currency Exchange (\$ CAD)	48,741,288
FTR (MWh)	13,005,024

Various subsidiaries of the Company have entered into contracts which contain ratings triggers and are guaranteed by DTE Energy. These contracts contain provisions which allow the counterparties to request that the Company post cash or letters of credit as collateral in the event that DTE Energy's credit rating is downgraded below investment grade. Certain of these provisions (known as "hard triggers") state specific circumstances under which the Company can be asked to post collateral upon the occurrence of a credit downgrade, while other provisions (known as "soft triggers") are not as specific. For contracts with soft triggers, it is difficult to estimate the amount of collateral which may be requested by counterparties and/or which the Company may ultimately be required to post. The amount of such collateral which could be requested fluctuates based on commodity prices (primarily natural gas, power and coal) and

Edgar Filing: DTE ENERGY CO - Form 10-Q

the provisions and maturities of the underlying transactions. As of September 30, 2013, DTE Energy's contractual obligation to post collateral in the form of cash or letter of credit in the event of a downgrade to below investment grade, under both hard trigger and soft trigger provisions, was approximately \$327 million.

**DTE Energy Company**  
**Notes to Consolidated Financial Statements (Unaudited) — (Continued)**

**NOTE 5 — DISCONTINUED OPERATIONS**

**Sale of Unconventional Gas Production Business**

In December 2012, the Company sold its 100% equity interest in its Unconventional Gas Production business which consisted of gas and oil production assets in the western Barnett and Marble Falls shale areas of Texas. The activity of the discontinued business for the three and nine months ended September 30, 2012 is shown below. The amounts exclude general corporate overhead costs, and the related tax effects, and no portion of corporate interest costs were allocated to discontinued operations.

	Three Months Ended September 30, 2012 (In millions)	Nine Months Ended September 30, 2012
Operating Revenues	\$16	\$38
Operation and Maintenance	6	16
Depreciation, Depletion and Amortization	6	17
Taxes Other Than Income	1	2
Operating Income	3	3
Other (Income) and Deductions	1	4
Income Tax Expense (Benefit)	1	(1 )
Net Income Attributable to DTE Energy Company	\$1	\$—

**NOTE 6 — ASSET RETIREMENT OBLIGATIONS**

A reconciliation of the asset retirement obligations for the nine months ended September 30, 2013 follows:

	(In millions)
Asset retirement obligations at December 31, 2012	\$1,719
Accretion	79
Liabilities incurred	1
Liabilities settled	(12 )
Revision in estimated cash flows	13
Asset retirement obligations at September 30, 2013	\$1,800

**NOTE 7 — REGULATORY MATTERS**

**Transition of the City of Detroit's Public Lighting Department's (PLD) Customers to DTE Electric's Distribution System**

**Accounting Authority**

On June 28, 2013, DTE Electric filed an application for accounting authority to defer certain costs associated with the transition of the City of Detroit's PLD customers to the DTE Electric distribution system over a five to seven year system conversion period. The Company requested authority to defer as a regulatory asset, all net incremental revenue

Edgar Filing: DTE ENERGY CO - Form 10-Q

requirement associated with the transition. The net incremental revenue requirement includes costs to install meters and attach customers; system and customer facility upgrades and repairs; and the difference between DTE Electric's tariff rates and any transitional rates approved in the future. On July 11, 2013, the MPSC approved DTE Electric's request to defer, for accounting purposes, the net incremental revenue requirement.

The approval excludes the request to defer the difference between DTE Electric's tariff rates and any transitional rates that might be approved by the MPSC in the future. The MPSC will address proposed rates and recovery matters in a future contested proceeding. As the accounting order did not provide a regulatory recovery mechanism, a regulatory asset will not be recognized until a regulatory recovery mechanism is put into place and the recovery of the regulatory asset becomes probable.

DTE Energy Company

Notes to Consolidated Financial Statements (Unaudited) — (Continued)

**Transitional Reconciliation Mechanism (TRM)**

On July 19, 2013, DTE Electric filed its TRM application proposing a transitional tariff option for certain former PLD customers and a modified line extension provision. The application also proposes a recovery mechanism for the deferred incremental revenue requirement described above. The application further discusses that DTE Electric will be requesting recovery, in subsequent PSCR cases, of PLD transmission delivery service costs incurred while DTE Electric is temporarily relying upon PLD to operate and maintain PLD's system during the system conversion period. If the MPSC determines that the transmission costs are not recoverable in the PSCR, the Company requested recovery as part of the TRM.

**2009 Electric Rate Case Filing - Court of Appeals Remand to MPSC**

In April 2012, the Michigan Court of Appeals (COA) issued a decision relating to an appeal of the January 2010 MPSC rate order in DTE Electric's January 2009 rate case filing. The COA found that the record of evidence in the January 2010 rate order was insufficient to support the MPSC's authorization to recover costs for the advanced metering infrastructure (AMI) program and remanded this matter to the MPSC. On October 17, 2013, the MPSC issued an order affirming the approximately \$8 million rate increase authorized in the MPSC's January 2010 rate order for the AMI program and further concluded that the evidence presented after remand supports the authorized cost recovery.

**2010 Electric Rate Case Filing - Court of Appeals Decision**

In July 2013, the COA issued a decision relating to an appeal of the October 2011 MPSC order in DTE Electric's October 2010 rate case filing. The COA found that the record of evidence in the 2010 rate case order was insufficient to support the MPSC's authorization to recover costs for the AMI program and remanded this matter to the MPSC. The MPSC had approved \$55 million of the average rate base related to the AMI program in the October 2011 order. DTE Electric is currently operating its AMI program pursuant to the MPSC's approval set forth in the October 2011 order. On August 29, 2013, the MPSC reopened the 2010 electric rate case for the limited purpose of addressing the COA's opinion on AMI. The Company is unable to predict the outcome of this matter or the timing of its resolution.

**Power Supply Cost Recovery Proceedings**

The PSCR process is designed to allow DTE Electric to recover all of its power supply costs if incurred under reasonable and prudent policies and practices. DTE Electric's power supply costs include fuel and related transportation costs, purchased and net interchange power costs, nitrogen oxide and sulfur dioxide emission allowances costs, urea costs, transmission costs and MISO costs. The MPSC reviews these costs, policies and practices for prudence in annual plan and reconciliation filings.

**2012 PSCR Year -** In March 2013, DTE Electric filed the 2012 PSCR reconciliation calculating a net under-recovery of approximately \$87 million that includes an under-recovery of approximately \$148 million for the 2011 PSCR year. The reconciliation includes approximately \$30 million of purchased power costs related to the manual shutdown of our Fermi 2 nuclear power plant in June 2012 caused by the failure of one of the plant's two non-safety related feed-water pumps. The plant was restarted on July 30, 2012 which restored production to nominal 68% of full capacity. In September 2013, the repair to the plant was completed and production was returned to full capacity. We were able to purchase sufficient power from MISO to continue to provide uninterrupted service to our customers. Certain intervenors in the reconciliation case have challenged the recovery of some or all of the Fermi-related purchased power costs. Resolution of this matter is expected in 2014.

**Low Income Energy Assistance Fund (LIEAF)**

On July 1, 2013, Michigan Public Act 95 was signed into law and created the LIEAF. The legislation allows the use of a LIEAF funding factor to be determined by the MPSC and assessed on all customer classes of Michigan electric

Edgar Filing: DTE ENERGY CO - Form 10-Q

utilities to fund the LIEAF. On July 29, 2013, the MPSC adopted a funding factor of \$0.99 per meter per month for all Michigan electric utilities that are participating in the program, including DTE Electric, effective with the September 2013 billing month. The surcharge billed by DTE Electric is remitted to the State of Michigan for subsequent distribution through a grant process to social service agencies and utilities to assist low income customers.

DTE Gas Uncollectible Expense True-Up Mechanism (UETM)

In March 2013, DTE Gas filed an application with the MPSC for approval of its UETM reconciliation for 2012 requesting authority to refund approximately \$20 million. On September 10, 2013, the MPSC approved a settlement agreement approving the requested 2012 UETM refund over a twelve-month period beginning in October 2013.

## DTE Energy Company

## Notes to Consolidated Financial Statements (Unaudited) — (Continued)

## NOTE 8 — COMMON STOCK

During 2013, the Company contributed the following amounts of DTE Energy Common stock to the DTE Energy Company Affiliates Employee Benefit Plans Master Trust:

Date	Number of Shares	Price Per Share	Amount (In millions)
March 12, 2013	750,075	\$66.66	\$50
June 12, 2013	753,579	\$66.35	50
September 12, 2013	1,522,301	\$65.69	100
			\$200

The shares for all the contributions were valued at the closing market price of DTE Energy common stock on the contribution dates in accordance with fair value measurement and accounting requirements.

## NOTE 9 — EARNINGS PER SHARE

The Company reports both basic and diluted earnings per share. The calculation of diluted earnings per share assumes the issuance of potentially dilutive common shares outstanding during the period from the exercise of stock options. A reconciliation of both calculations is presented in the following table for the three months and nine months ended September 30:

	Three Months Ended September 30, 2013	Nine Months Ended September 30, 2013	Three Months Ended September 30, 2012	Nine Months Ended September 30, 2012
(In millions, except per share amounts)				
<b>Basic Earnings per Share</b>				
Net income attributable to DTE Energy Company	\$198	\$227	\$537	\$529
Average number of common shares outstanding	175	172	174	171
Weighted average net restricted shares outstanding	—	1	1	1
Dividends declared — common shares	\$115	\$106	\$337	\$307
Dividends declared — net restricted shares	1	1	1	2
Total distributed earnings	\$116	\$107	\$338	\$309
Net income less distributed earnings	\$82	\$120	\$199	\$220
Distributed (dividends per common share)	\$0.66	\$0.62	\$1.93	\$1.80
Undistributed	0.47	0.70	1.14	1.29
<b>Total Basic Earnings per Common Share</b>	<b>\$1.13</b>	<b>\$1.32</b>	<b>\$3.07</b>	<b>\$3.09</b>
<b>Diluted Earnings per Share</b>				
Net income attributable to DTE Energy Company	\$198	\$227	\$537	\$529
Average number of common shares outstanding	176	172	175	171
Average incremental shares from assumed exercise of options—	—	—	—	—
Common shares for dilutive calculation	176	172	175	171
Weighted average net restricted shares outstanding	—	1	1	1
Dividends declared — common shares	\$115	\$106	\$337	\$307
Dividends declared — net restricted shares	1	1	1	2
<b>Total distributed earnings</b>	<b>\$116</b>	<b>\$107</b>	<b>\$338</b>	<b>\$309</b>

Edgar Filing: DTE ENERGY CO - Form 10-Q

Net income less distributed earnings	\$82	\$120	\$199	\$220
Distributed (dividends per common share)	\$0.66	\$0.62	\$1.93	\$1.80
Undistributed	0.47	0.69	1.14	1.28
Total Diluted Earnings per Common Share	\$1.13	\$1.31	\$3.07	\$3.08

27

---

DTE Energy Company  
 Notes to Consolidated Financial Statements (Unaudited) — (Continued)

## NOTE 10 — LONG-TERM DEBT

### Debt Issuances

In 2013, the following debt was issued:

Company	Month Issued	Type	Interest Rate	Maturity	Amount (In millions)
DTE Electric	March	Mortgage Bonds (a)	4.00	% 2043	\$375
DTE Electric	August	Mortgage Bonds (a)	3.65	% 2024	400

---

(a) Proceeds were used for the redemption of DTE Electric long-term debt, for the repayment of short-term borrowings, and for general corporate purposes.

In September 2013, DTE Gas agreed to issue \$50 million of 3.64%, 10-year mortgage bonds, \$70 million of 3.74%, 12-year mortgage bonds, and \$50 million of 3.94%, 15-year mortgage bonds to a group of institutional investors in a private placement transaction. The bonds are expected to close and fund in December 2013. The aggregate proceeds are planned to be used for general corporate purposes.

### Debt Redemptions

In 2013, the following debt was redeemed:

Company	Month	Type	Interest Rate	Maturity	Amount (In millions)
DTE Electric	March	Securitization Bonds	6.42	% 2013	\$88
DTE Electric	March	Tax Exempt Revenue Bonds (a)	5.30	% 2030	51
DTE Electric	April	Other Long-Term Debt	Various	2013	13
DTE Gas	April	Senior Notes	5.26	% 2013	60
DTE Energy	Various	Other Long-Term Debt	Various	2013	4
DTE Energy	June	Senior Notes	Variable	2013	300
DTE Electric	September	Securitization Bonds	6.62	% 2015	89
DTE Electric	September	Senior Notes	6.40	% 2013	250

---

(a) DTE Electric Tax Exempt Revenue Bonds are issued by a public body that loans the proceeds to DTE Electric on terms substantially mirroring the Revenue Bonds.

## NOTE 11 — SHORT-TERM CREDIT ARRANGEMENTS AND BORROWINGS

DTE Energy and its wholly owned subsidiaries, DTE Electric and DTE Gas, have unsecured revolving credit agreements with a syndicate of 19 banks that can be used for general corporate borrowings, but are intended to provide liquidity support for each of the companies' commercial paper programs. No one bank provides more than

8.7% of the commitment in any facility. Borrowings under the facilities are available at prevailing short-term interest rates. Additionally, DTE Energy has other facilities to support letter of credit issuance.

The agreements require the Company to maintain a total funded debt to capitalization ratio of no more than 0.65 to 1. In the agreements, “total funded debt” means all indebtedness of the Company and its consolidated subsidiaries, including capital lease obligations, hedge agreements and guarantees of third parties’ debt, but excluding contingent obligations, nonrecourse and junior subordinated debt and certain equity-linked securities and, except for calculations at the end of the second quarter, certain DTE Gas short-term debt. “Capitalization” means the sum of (a) total funded debt plus (b) “consolidated net worth,” which is equal to consolidated total stockholders’ equity of the Company and its consolidated subsidiaries (excluding pension effects under certain FASB statements), as determined in accordance with accounting principles generally accepted in the United States of America. At September 30, 2013, the total funded debt to total capitalization ratios for DTE Energy, DTE Electric and DTE Gas are 0.48 to 1, 0.53 to 1 and 0.44 to 1, respectively, and are in compliance with this financial covenant. The availability under the facilities in place at September 30, 2013 is shown in the following table:

## DTE Energy Company

## Notes to Consolidated Financial Statements (Unaudited) — (Continued)

	DTE Energy (In millions)	DTE Electric	DTE Gas	Total
Unsecured letter of credit facility, expiring in May 2014	\$50	\$—	\$—	\$50
Unsecured letter of credit facility, expiring in August 2015	125	—	—	125
Unsecured revolving credit facility, expiring April 2018	1,200	300	300	1,800
Total credit facilities at September 30, 2013	1,375	300	300	1,975
Amounts outstanding at September 30, 2013:				
Commercial paper issuances	44	11	216	271
Letters of credit	235	—	—	235
	279	11	216	506
Net availability at September 30, 2013	\$1,096	\$289	\$84	\$1,469

The Company has other outstanding letters of credit which are not included in the above described facilities totaling approximately \$47 million which are used for various corporate purposes.

In conjunction with maintaining certain exchange traded risk management positions, the Company may be required to post cash collateral with its clearing agent. The Company has a demand financing agreement for up to \$100 million with its clearing agent. The agreement, as amended, also allows for up to \$50 million of additional margin financing provided that the Company posts a letter of credit for the incremental amount. At September 30, 2013, a \$40 million letter of credit was in place, raising the capacity under this facility to \$140 million. The \$40 million letter of credit is included in the table above. The amount outstanding under this agreement was \$75 million and \$65 million at September 30, 2013 and December 31, 2012, respectively.

## NOTE 12 — COMMITMENTS AND CONTINGENCIES

## Environmental

## Electric

Air - DTE Electric is subject to the EPA ozone and fine particulate transport and acid rain regulations that limit power plant emissions of sulfur dioxide and nitrogen oxides. Since 2005, the EPA and the State of Michigan have issued additional emission reduction regulations relating to ozone, fine particulate, regional haze, mercury, and other air pollution. These rules have led to additional controls on fossil-fueled power plants to reduce nitrogen oxide, sulfur dioxide, mercury and other emissions. To comply with these requirements, DTE Electric spent approximately \$1.9 billion through 2012. The Company estimates DTE Electric will make capital expenditures of approximately \$190 million in 2013 and up to approximately \$1.8 billion of additional capital expenditures through 2021 based on current regulations. Further, additional rulemakings are expected over the next few years which could require additional controls for sulfur dioxide, nitrogen oxides and hazardous air pollutants. The Cross State Air Pollution Rule (CSAPR), finalized in July 2011, required further reductions of sulfur dioxide and nitrogen oxides emissions beginning in 2012. On December 30, 2011, the U.S. Court of Appeals for the District of Columbia (D.C.) Circuit granted the motions to stay the rule, leaving DTE Electric temporarily subject to the previously existing Clean Air Interstate Rule (CAIR). On August 21, 2012, the Court issued its decision, vacating CSAPR and leaving CAIR in place. The EPA's petition seeking a rehearing of the U.S. Court of Appeals' decision regarding the CSAPR was denied on January 24, 2013. On June 24, 2013, the U.S. Supreme Court granted EPA's petition asking the Court to review the D.C. Circuit Court's

decision on CSAPR. A ruling by the Supreme Court is not expected before 2014. Notwithstanding the appeal filed with the Supreme Court, the EPA and a number of states have started working on the framework of revised CSAPR regulations which we anticipate to be proposed in the next few years.

The Mercury and Air Toxics Standard (MATS) rule, formerly known as the Electric Generating Unit Maximum Achievable Control Technology (EGU MACT) Rule was finalized on December 16, 2011. The MATS rule requires reductions of mercury and other hazardous air pollutants beginning in April 2015, with a potential extension to April 2016. DTE Electric has requested and been granted compliance date extensions for some units to April 2016. DTE Electric has tested technologies to determine technological and economic feasibility as MATS compliance alternatives to Flue Gas Desulfurization (FGD) systems. Implementation of Dry Sorbent Injection (DSI) and Activated Carbon Injection (ACI) technologies will allow several units that would not have been economical for FGD installations to continue operation in compliance with MATS.

DTE Energy Company

Notes to Consolidated Financial Statements (Unaudited) — (Continued)

In July 2009, DTE Energy received a Notice of Violation/Finding of Violation (NOV/FOV) from the EPA alleging, among other things, that five DTE Electric power plants violated New Source Performance standards, Prevention of Significant Deterioration requirements, and operating permit requirements under the Clean Air Act. In June 2010, the EPA issued a NOV/FOV making similar allegations related to a project and outage at Unit 2 of the Monroe Power Plant. In March 2013, DTE Energy received a supplemental NOV from the EPA relating to the July 2009 NOV/FOV. The supplemental NOV alleged additional violations relating to the New Source Review provisions under the Clean Air Act, among other things.

In August 2010, the U.S. Department of Justice, at the request of the EPA, brought a civil suit in the U.S. District Court for the Eastern District of Michigan against DTE Energy and DTE Electric, related to the June 2010 NOV/FOV and the outage work performed at Unit 2 of the Monroe Power Plant, but not relating to the July 2009 NOV/FOV. Among other relief, the EPA requested the court to require DTE Electric to install and operate the best available control technology at Unit 2 of the Monroe Power Plant. Further, the EPA requested the court to issue a preliminary injunction to require DTE Electric to (i) begin the process of obtaining the necessary permits for the Monroe Unit 2 modification and (ii) offset the pollution from Monroe Unit 2 through emissions reductions from DTE Electric's fleet of coal-fired power plants until the new control equipment is operating. On August 23, 2011, the U.S. District Court judge granted DTE Energy's motion for summary judgment in the civil case, dismissing the case and entering judgment in favor of DTE Energy and DTE Electric. On October 20, 2011, the EPA caused to be filed a Notice of Appeal to the U.S. Court of Appeals for the Sixth Circuit. On March 28, 2013, the Court of Appeals remanded the case to the U.S. District Court for review of the procedural component of the New Source Review notification requirements. On September 3, 2013, the EPA caused to be filed a motion seeking leave to amend their complaint regarding the June 2010 NOV/FOV adding additional claims related to outage work performed at the Trenton Channel and Belle River power plants as well as additional claims related to work performed at the Monroe Power Plant. In addition, the Sierra Club caused to be filed a motion to add a claim regarding the River Rouge Power Plant. The EPA and Sierra Club motions are currently pending with the U. S. District Court Judge.

DTE Energy and DTE Electric believe that the plants identified by the EPA, including Unit 2 of the Monroe Power Plant, have complied with all applicable federal environmental regulations. Depending upon the outcome of discussions with the EPA regarding the two NOVs/FOVs, DTE Electric could be required to install additional pollution control equipment at some or all of the power plants in question, implement early retirement of facilities where control equipment is not economical, engage in supplemental environmental programs, and/or pay fines. The Company cannot predict the financial impact or outcome of this matter, or the timing of its resolution.

On March 13, 2013, the Sierra Club filed suit against DTE Energy and DTE Electric alleging violations of the Clean Air Act at four of DTE Electric's coal-fired power plants. The plaintiffs allege 1,499 6-minute periods of excess opacity of air emissions from 2007-2012 at those facilities. The suit asks that the court enjoin DTE Energy and DTE Electric from operating the power plants except in complete compliance with applicable laws and permit requirements, pay civil penalties, conduct beneficial environmental mitigation projects, pay attorney fees and require the installation of any necessary pollution controls or to convert and/or operate the plants' boilers on natural gas to avoid additional violations and to off-set historic unlawful emissions. The resolution of this matter is not expected to have a material effect on the Company's operations or financial statements.

Water — In response to an EPA regulation, DTE Electric would be required to examine alternatives for reducing the environmental impacts of the cooling water intake structures at several of its facilities. Based on the results of completed studies and expected future studies, DTE Electric may be required to install technologies to reduce the impacts of the water intake structures. The initial rule published in 2004 was subsequently remanded and a proposed rule published in 2011. The proposed rule specified an eight year compliance timeline. In July 2012, the EPA

Edgar Filing: DTE ENERGY CO - Form 10-Q

announced that a notice of its final action on the rule will be issued in June 2013. On June 27, 2013, the EPA announced an agreement to extend the deadline for issuance of the final rule until November 4, 2013. On April 19, 2013, the EPA proposed revised steam electric effluent guidelines regulating wastewater streams from coal-fired power plants including multiple possible options for compliance. The rules are expected to be finalized by May 2014. DTE Electric has provided comments to the EPA. However, it is not possible at this time to quantify the impacts of these developing requirements.

30

---

DTE Energy Company

Notes to Consolidated Financial Statements (Unaudited) — (Continued)

**Contaminated and Other Sites** — Prior to the construction of major interstate natural gas pipelines, gas for heating and other uses was manufactured locally from processes involving coal, coke or oil. The facilities, which produced gas, have been designated as manufactured gas plant (MGP) sites. DTE Electric conducted remedial investigations at contaminated sites, including three former MGP sites. The investigations have revealed contamination related to the by-products of gas manufacturing at each site. In addition to the MGP sites, the Company is also in the process of cleaning up other contaminated sites, including the area surrounding an ash landfill, electrical distribution substations, electric generating power plants, and underground and aboveground storage tank locations. The findings of these investigations indicated that the estimated cost to remediate these sites is expected to be incurred over the next several years. At September 30, 2013 and December 31, 2012, the Company had \$9 million accrued for remediation. Any change in assumptions, such as remediation techniques, nature and extent of contamination and regulatory requirements, could impact the estimate of remedial action costs for the sites and affect the Company's financial position and cash flows. The Company believes that the likelihood of a materially greater liability than the accrued amount is remote based on current knowledge of the conditions at each site.

DTE Electric owns and operates a permitted engineered ash storage facility at the Monroe Power Plant to dispose of fly ash from the coal fired power plant. The EPA has published proposed rules to regulate coal ash under the authority of the Resources Conservation and Recovery Act (RCRA). The proposed rule published in June 2010 contains two primary regulatory options to regulate coal ash residue. The EPA is currently considering either designating coal ash as a "Hazardous Waste" as defined by RCRA or regulating coal ash as non-hazardous waste under RCRA. Agencies and legislatures have urged the EPA to regulate coal ash as a non-hazardous waste. If the EPA designates coal ash as a hazardous waste, the agency could apply some, or all, of the disposal and reuse standards that have been applied to other existing hazardous wastes to disposal and reuse of coal ash. Some of the regulatory actions currently being contemplated could have a significant impact on our operations and financial position and the rates we charge our customers. It is not possible to quantify the impact of those expected rulemakings at this time.

**Gas**

**Contaminated Sites** — Gas segment, owns or previously owned, 15 former MGP sites. Investigations have revealed contamination related to the by-products of gas manufacturing at each site. In addition to the MGP sites, the Company is also in the process of cleaning up other contaminated sites. Cleanup activities associated with these sites will be conducted over the next several years. The MPSC has established a cost deferral and rate recovery mechanism for investigation and remediation costs incurred at former MGP sites. Accordingly, Gas segment recognizes a liability and corresponding Regulatory asset for estimated investigation and remediation costs at former MGP sites. As of September 30, 2013 and December 31, 2012, the Company had \$29 million accrued for remediation. Any change in assumptions, such as remediation techniques, nature and extent of contamination and regulatory requirements, could impact the estimate of remedial action costs for the sites and affect the Company's financial position and cash flows. The Company anticipates the cost amortization methodology approved by the MPSC for DTE Gas, which allows DTE Gas to amortize the MGP costs over a ten-year period beginning with the year subsequent to the year the MGP costs were incurred and the cost deferral and rate recovery mechanism for Citizens Fuel Gas approved by the City of Adrian, will prevent environmental costs from having a material adverse impact on the Company's results of operations.

**Non-utility**

The Company's non-utility businesses are subject to a number of environmental laws and regulations dealing with the protection of the environment from various pollutants.

Edgar Filing: DTE ENERGY CO - Form 10-Q

The Michigan coke battery facility received and responded to information requests from the EPA that resulted in the issuance of a NOV in June 2007 alleging potential maximum achievable control technologies and new source review violations. The EPA is in the process of reviewing the Company's position of demonstrated compliance and has not initiated escalated enforcement. At this time, the Company cannot predict the impact of this issue. Furthermore, the Michigan coke battery facility is the subject of an investigation by the MDEQ concerning visible emissions readings that resulted from the Company self reporting to MDEQ questionable activities by an employee of a contractor hired by the Company to perform the visible emissions readings. At this time, the Company cannot predict the impact of this investigation.

DTE Energy Company

Notes to Consolidated Financial Statements (Unaudited) — (Continued)

The Company received two NOVs from the Pennsylvania Department of Environmental Protection (PADEP) in 2010 alleging violations of the permit for the Pennsylvania coke battery facility in connection with coal pile storm water runoff. The Company has implemented best management practices to address this issue. The Company recently received a permit to upgrade its existing waste water treatment system and is currently seeking a permit from the PADEP to upgrade its wastewater treatment technology to a biological treatment facility. The Company expects to spend less than \$7 million on the existing waste water treatment system to comply with existing water discharge requirements and to upgrade its coal pile storm water runoff management program.

The Company believes that its non-utility businesses are substantially in compliance with all environmental requirements, other than as noted above.

Other

In March 2011, the EPA finalized a new set of regulations regarding the identification of non-hazardous secondary materials that are considered solid waste, industrial boiler and process heater maximum achievable control technologies (IBMACT) for major and area sources, and commercial/industrial solid waste incinerator new source performance standard and emission guidelines (CISWI). The effective dates of the major source IBMACT and CISWI regulations were stayed and a re-proposal was issued by the EPA in December 2011. Final IBMACT and CISWI were issued by the EPA in December 2012. The Company is developing compliance plans to upgrade or convert existing industrial boilers to natural gas and to perform required energy assessments in compliance with the applicable new standards. Capital costs for the boiler conversions and the expenses for the one-time energy assessments are not expected to be material.

In 2010, the EPA finalized a new 1-hour sulfur dioxide ambient air quality standard that requires states to submit plans for non-attainment areas to be in compliance by 2017. Michigan's non-attainment area includes DTE Energy facilities in southwest Detroit and areas of Wayne County. Preliminary modeling runs by the MDEQ suggest that emission reductions may be required by significant sources of sulfur dioxide emissions in these areas, including DTE Electric power plants and our Michigan coke battery. The state implementation plan process is in the information gathering stage and any required emission reductions for DTE Energy sources to meet the standard cannot be estimated currently.

Nuclear Operations

Property Insurance

DTE Electric maintains property insurance policies specifically for the Fermi 2 plant. These policies cover such items as replacement power and property damage. The Nuclear Electric Insurance Limited (NEIL) is the primary supplier of the insurance policies.

DTE Electric maintains a policy for extra expenses, including replacement power costs necessitated by Fermi 2's unavailability due to an insured event. This policy has a 12-week waiting period and provides an aggregate \$490 million of coverage over a three-year period.

DTE Electric has \$500 million in primary coverage and \$2.25 billion of excess coverage for stabilization, decontamination, debris removal, repair and/or replacement of property and decommissioning. The combined coverage limit for total property damage is \$2.75 billion, subject to a \$1 million deductible. As of April 1, 2013, the total limit for property damage for non-nuclear events is \$1.8 billion and an aggregate of \$327 million of coverage for

extra expenses over a two-year period.

In 2007, the Terrorism Risk Insurance Extension Act of 2005 (TRIA) was extended through December 31, 2014. A major change in the extension is the inclusion of “domestic” acts of terrorism in the definition of covered or “certified” acts. For multiple terrorism losses caused by acts of terrorism not covered under the TRIA occurring within one year after the first loss from terrorism, the NEIL policies would make available to all insured entities up to \$3.2 billion, plus any amounts recovered from reinsurance, government indemnity, or other sources to cover losses.

Under the NEIL policies, DTE Electric could be liable for maximum assessments of up to approximately \$34 million per event if the loss associated with any one event at any insured nuclear plant should exceed the accumulated funds available to NEIL.

DTE Energy Company

Notes to Consolidated Financial Statements (Unaudited) — (Continued)

Public Liability Insurance

As required by federal law, DTE Electric maintains \$375 million of public liability insurance for a nuclear incident. For liabilities arising from a terrorist act outside the scope of TRIA, the policy is subject to one industry aggregate limit of \$300 million. Further, under the Price-Anderson Amendments Act of 2005, deferred premium charges up to \$127.3 million could be levied against each licensed nuclear facility, but not more than \$19 million per year per facility. Thus, deferred premium charges could be levied against all owners of licensed nuclear facilities in the event of a nuclear incident at any of these facilities.

Nuclear Fuel Disposal Costs

In accordance with the Federal Nuclear Waste Policy Act of 1982, DTE Electric has a contract with the U.S. Department of Energy (DOE) for the future storage and disposal of spent nuclear fuel from Fermi 2. DTE Electric is obligated to pay the DOE a fee of 1 mill per kWh of Fermi 2 electricity generated and sold. The fee is a component of nuclear fuel expense. The DOE's Yucca Mountain Nuclear Waste Repository program for the acceptance and disposal of spent nuclear fuel was terminated in 2011. DTE Electric currently employs a spent nuclear fuel storage strategy utilizing a fuel pool. The Company continues to develop its on-site dry cask storage facility and anticipates initial offload from the spent fuel pool in 2014. The dry cask storage facility is expected to provide sufficient spent fuel storage capability for the life of the plant as defined by the original operating license.

DTE Electric is a party in the litigation against the DOE for both past and future costs associated with the DOE's failure to accept spent nuclear fuel under the timetable set forth in the Federal Nuclear Waste Policy Act of 1982. In July 2012, DTE Electric executed a settlement agreement with the federal government for costs associated with the DOE's delay in acceptance of spent nuclear fuel from Fermi 2 for permanent storage. The settlement provided for a payment of approximately \$48 million, received in August 2012, for delay-related costs experienced by DTE Electric through 2010, and a claims process for submittal of delay-related costs from 2011 through 2013. DTE Electric has begun the claims process and all claims submitted have been accepted. The settlement proceeds reduced the cost of the dry cask storage facility assets. In February 2013, the U.S. Court of Appeals for the District of Columbia granted a motion to reopen the fee adequacy litigation to review the DOE's latest fee adequacy report which was released in January 2013. DTE Electric will continue to pay fees to the U.S. government's nuclear waste fund pending further action by the D.C. Circuit. The federal government continues to maintain its legal obligation to accept spent nuclear fuel from Fermi 2 for permanent storage. Issues relating to long-term waste disposal policy and to the disposition of funds contributed by DTE Electric ratepayers to the federal waste fund await future governmental action.

Synthetic Fuel Guarantees

The Company discontinued the operations of its synthetic fuel production facilities throughout the United States as of December 31, 2007. The Company provided certain guarantees and indemnities in conjunction with the sales of interests in its synfuel facilities. The guarantees cover potential commercial, environmental, oil price and tax-related obligations and will survive until 90 days after expiration of all applicable statutes of limitations. The Company estimates that its maximum potential liability under these guarantees at September 30, 2013 is approximately \$1.2 billion. Payment under these guarantees is considered remote.

Reduced Emissions Fuel Guarantees

The Company has provided certain guarantees and indemnities in conjunction with the sales of interests in its reduced emissions fuel facilities. The guarantees cover potential commercial, environmental, and tax-related obligations and

will survive until 90 days after expiration of all applicable statutes of limitations. The Company estimates that its maximum potential liability under these guarantees at September 30, 2013 is approximately \$125 million. Payment under these guarantees is considered remote.

#### Other Guarantees

In certain limited circumstances, the Company enters into contractual guarantees. The Company may guarantee another entity's obligation in the event it fails to perform. The Company may provide guarantees in certain indemnification agreements. Finally, the Company may provide indirect guarantees for the indebtedness of others. The Company's guarantees are not individually material with maximum potential payments totaling \$60 million at September 30, 2013. Payment under these guarantees is considered remote.

DTE Energy Company

Notes to Consolidated Financial Statements (Unaudited) — (Continued)

The Company is periodically required to obtain performance surety bonds in support of obligations to various governmental entities and other companies in connection with its operations. As of September 30, 2013, the Company had approximately \$41 million of performance bonds outstanding. In the event that such bonds are called for nonperformance, the Company would be obligated to reimburse the issuer of the performance bond. The Company is released from the performance bonds as the contractual performance is completed and does not believe that a material amount of any currently outstanding performance bonds will be called.

Labor Contracts

Our contracts with several bargaining units for the majority of our represented employees were due to expire in June 2013, October 2013 and June 2014. Early negotiations resulted in new contracts that became effective in March 2013. The new contracts will expire in March, June and October 2017.

Purchase Commitments

As of September 30, 2013, the Company was party to numerous long-term purchase commitments relating to a variety of goods and services required for the Company's business. These agreements primarily consist of fuel supply commitments, renewable energy contracts and energy trading contracts. The Company estimates that these commitments will be approximately \$6.2 billion from 2013 through 2052.

The Company also estimates that 2013 capital expenditures will be approximately \$2.1 billion. The Company has made certain commitments in connection with expected capital expenditures.

Bankruptcies

The Company purchases and sells electricity, natural gas, coal, coke and other energy products from and to governmental entities and numerous companies operating in the steel, automotive, energy, retail, financial and other industries. Certain of its customers have filed for bankruptcy protection under the U.S. Bankruptcy Code. The Company regularly reviews contingent matters relating to these customers and its purchase and sale contracts and records provisions for amounts considered at risk of probable loss. The Company believes its accrued amounts are adequate for probable loss.

The Company's utilities provide services to the city of Detroit, Michigan (Detroit). Detroit filed for Chapter 9 bankruptcy protection on July 18, 2013. The Company had pre-petition accounts receivable of approximately \$20 million outstanding as of the bankruptcy filing date. Detroit has been paying amounts owed in a timely manner and its accounts are substantially current. The Company does not expect Detroit's bankruptcy filing to have a material impact on its financial results.

Other Contingencies

The Company is involved in certain other legal, regulatory, administrative and environmental proceedings before various courts, arbitration panels and governmental agencies concerning claims arising in the ordinary course of business. These proceedings include certain contract disputes, additional environmental reviews and investigations, audits, inquiries from various regulators, and pending judicial matters. The Company cannot predict the final disposition of such proceedings. The Company regularly reviews legal matters and records provisions for claims that it can estimate and are considered probable of loss. The resolution of these pending proceedings is not expected to have a material effect on the Company's operations or financial statements in the periods they are resolved.

Edgar Filing: DTE ENERGY CO - Form 10-Q

See Notes 4 and 7 for a discussion of contingencies related to derivatives and regulatory matters.

## DTE Energy Company

## Notes to Consolidated Financial Statements (Unaudited) — (Continued)

## NOTE 13 — RETIREMENT BENEFITS AND TRUSTEED ASSETS

The following table details the components of net periodic benefit costs for pension benefits and other postretirement benefits:

	Pension Benefits		Other Postretirement Benefits	
	2013	2012	2013	2012
<b>Three Months Ended September 30</b>				
Service cost	\$22	\$20	\$9	\$15
Interest cost	49	51	21	29
Expected return on plan assets	(67	) (61	) (28	) (23
Amortization of:				
Net actuarial loss	55	48	16	21
Prior service credit	—	—	(36	) (6
Net periodic benefit cost (credit)	\$59	\$58	\$(18	) \$36
<b>Nine Months Ended September 30</b>				
Service cost	\$71	\$61	\$37	\$51
Interest cost	144	153	66	90
Expected return on plan assets	(200	) (183	) (82	) (69
Amortization of:				
Net actuarial loss	156	133	48	60
Prior service credit	—	—	(95	) (20
Net transition liability	—	—	—	1
Settlements	—	2	—	—
Net periodic benefit cost (credit)	\$171	\$166	\$(26	) \$113

## Pension and Other Postretirement Contributions

During the first nine months of 2013, the Company contributed \$250 million to its pension plans, including contributions of DTE Energy common stock of \$200 million. See Note 8. At the discretion of management, and depending upon financial market conditions, the Company may make up to an additional \$25 million contribution to its pension plans in 2013.

In January 2013, the Company contributed \$145 million to its other postretirement benefit plans. At the discretion of management, the Company may make up to an additional \$120 million contribution to its other postretirement benefit plans in 2013.

## Re-Measurement of Other Postretirement Benefit Obligation

In March 2013, the Company reached agreements on new four-year labor contracts with certain represented employees under several bargaining units. As a term of the agreements, the Company replaced sponsored retiree medical, prescription drug and dental coverage for future Medicare eligible retirees with a Retiree Health Care Allowance (RHCA) account of \$3,250 per year. The modification in retiree health coverage will reduce future postretirement benefit costs.



## DTE Energy Company

## Notes to Consolidated Financial Statements (Unaudited) — (Continued)

Based on the impact of such benefit cost savings on the financial statements, the Company re-measured its retiree health plan as of March 31, 2013. In performing the re-measurement, the Company updated its significant actuarial assumptions, including an adjustment to the discount rate from 4.15% at December 31, 2012 to 4.30% at March 31, 2013. Plan assets were also updated to reflect fair value as of the re-measurement date. As a result of the re-measurement, the accumulated postretirement benefit obligation (APBO) was reduced by \$258 million. The Company's Accrued postretirement benefit liability at March 31, 2013 was \$721 million as compared to \$1.2 billion at December 31, 2012, a reduction of \$439 million. The reduction reflects the impact of the re-measurement of the plan, January 2013 plan contributions and recognition of first quarter 2013 postretirement benefit costs and benefit payments.

Beginning April 2013, net postretirement benefit costs were recorded based on the updated actuarial assumptions and benefit changes resulting from the new labor contracts. As a result of the re-measurement, fiscal year 2013 postretirement benefit costs are expected to decrease by approximately \$69 million to an annual net benefit of approximately \$40 million.

## NOTE 14 — STOCK-BASED COMPENSATION

The following table summarizes the components of stock-based compensation:

	Three Months Ended September 30, 2013		Nine Months Ended September 30, 2013	
	2013	2012	2013	2012
(In millions)				
Stock-based compensation expense	\$18	\$21	\$81	\$61
Tax benefit	\$7	\$8	\$31	\$23
Stock-based compensation cost capitalized in property, plant and equipment	\$1	\$1	\$5	\$3

## Stock Options

The following table summarizes our stock option activity for the nine months ended September 30, 2013:

	Number of Options	Weighted Average Exercise Price	Aggregate Intrinsic Value (In millions)
Options outstanding at December 31, 2012	1,192,670	\$41.86	
Exercised	(399,139)	) \$40.54	
Forfeited or expired	(10,370)	) \$41.46	
Options outstanding at September 30, 2013	783,161	\$42.54	\$20
Options exercisable at September 30, 2013	783,161	\$42.54	\$20

As of September 30, 2013, the weighted average remaining contractual life for the exercisable shares is 4.17 years. During the nine months ended September 30, 2013, 200,844 options vested. As of September 30, 2013, all options were vested.

The intrinsic value of options exercised for the nine months ended September 30, 2013 and 2012 was \$11 million and \$21 million, respectively. No option expense was recognized for the nine months ended September 30, 2013 and \$0.5 million of option expense was recognized for the nine months ended September 30, 2012.

Edgar Filing: DTE ENERGY CO - Form 10-Q

The Company includes both historical and implied share-price volatility in option volatility. Implied volatility is derived from exchange traded options on DTE Energy common stock. The Company's expected option life estimate is based on historical data.

**DTE Energy Company**  
**Notes to Consolidated Financial Statements (Unaudited) — (Continued)**

**Restricted Stock Awards**

The following table summarizes the Company's restricted stock awards activity for the nine months ended September 30, 2013:

	Restricted Stock	Weighted Average Grant Date Fair Value
Balance at December 31, 2012	597,648	\$48.33
Grants	127,785	\$64.72
Forfeitures	(5,621	) \$53.53
Vested and issued	(218,600	) \$45.39
Balance at September 30, 2013	501,212	\$53.71

**Performance Share Awards**

The following table summarizes the Company's performance share activity for the nine months ended September 30, 2013:

	Performance Shares
Balance at December 31, 2012	1,634,364
Grants	549,360
Forfeitures	(36,168 )
Payouts	(548,624 )
Balance at September 30, 2013	1,598,932

**Unrecognized Compensation Costs**

As of September 30, 2013, there was \$72 million of total unrecognized compensation cost related to non-vested stock incentive plan arrangements. That cost is expected to be recognized over a weighted-average period of 1.18 years.

**NOTE 15 — SEGMENT AND RELATED INFORMATION**

The Company sets strategic goals, allocates resources and evaluates performance based on the following structure:

Electric segment consists principally of DTE Electric, which is engaged in the generation, purchase, distribution and sale of electricity to approximately 2.1 million residential, commercial and industrial customers in southeastern Michigan.

Gas segment consists of DTE Gas and Citizens. DTE Gas is engaged in the purchase, storage, transportation, distribution and sale of natural gas to approximately 1.2 million residential, commercial and industrial customers throughout Michigan and the sale of storage and transportation capacity. Citizens distributes natural gas in Adrian, Michigan to approximately 17,000 customers.

Gas Storage and Pipelines consists of natural gas pipeline, gathering and storage businesses.

**Edgar Filing: DTE ENERGY CO - Form 10-Q**

Power and Industrial Projects is comprised primarily of projects that deliver energy and utility-type products and services to industrial, commercial and institutional customers; produce reduced emissions fuel (REF) and sell electricity from biomass-fired energy projects.

Energy Trading consists of energy marketing and trading operations.

Corporate and Other, includes various holding company activities, holds certain non-utility debt and energy-related investments.

## DTE Energy Company

## Notes to Consolidated Financial Statements (Unaudited) — (Continued)

The federal income tax provisions or benefits of DTE Energy's subsidiaries are determined on an individual company basis and recognize the tax benefit of production tax credits and net operating losses if applicable. The state and local income tax provisions of the utility subsidiaries is determined on an individual company basis and recognizes the tax benefit of various tax credits and net operating losses if applicable. The subsidiaries record federal, state and local income taxes payable to or receivable from DTE Energy based on the federal, state and local tax provisions of each company.

Inter-segment billing for goods and services exchanged between segments is based upon tariffed or market-based prices of the provider and primarily consists of the sale of reduced emissions fuel, power sales and natural gas sales in the following segments:

	Three Months Ended September 30, 2013		Nine Months Ended September 30, 2013	
	2013	2012	2013	2012
	(In millions)			
<b>Inter-segment Revenues</b>				
Electric	\$6	\$7	\$19	\$22
Gas	2	1	4	3
Gas Storage and Pipelines	(2	) 1	2	5
Power and Industrial Projects	231	225	621	608
Energy Trading	13	10	36	34
Corporate and Other	(8	) (11	) (23	) (28
Discontinued Operations	—	1	—	1
	<b>\$242</b>	<b>\$234</b>	<b>\$659</b>	<b>\$645</b>

Financial data of the business segments follows:

	Three Months Ended September 30, 2013		Nine Months Ended September 30, 2013	
	2013	2012	2013	2012
	(In millions)			
<b>Operating Revenues</b>				
Electric	\$1,458	\$1,543	\$3,942	\$4,031
Gas	161	160	1,013	883
Gas Storage and Pipelines	34	21	92	73
Power and Industrial Projects	512	477	1,431	1,375
Energy Trading	463	223	1,307	723
Corporate & Other	1	—	2	2
Reconciliation & Eliminations	(242	) (234	) (659	) (645
Total	<b>\$2,387</b>	<b>\$2,190</b>	<b>\$7,128</b>	<b>\$6,442</b>
<b>Net Income (Loss) Attributable to DTE Energy by Segment:</b>				
Electric	\$179	\$194	\$383	\$417
Gas	(13	) 4	91	60
Gas Storage and Pipelines	16	14	49	48
Power and Industrial Projects	27	22	46	40
Energy Trading	(6	) 1	(1	) 3
Corporate & Other	(5	) (9	) (31	) (39
Discontinued operations	—	1	—	—
Net Income Attributable to DTE Energy	<b>\$198</b>	<b>\$227</b>	<b>\$537</b>	<b>\$529</b>



## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

### OVERVIEW

DTE Energy is a diversified energy company and is the parent company of DTE Electric and DTE Gas, regulated electric and natural gas utilities engaged primarily in the business of providing electricity and natural gas sales, distribution and storage services throughout Michigan. We operate three energy-related non-utility segments with operations throughout the United States.

Net income attributable to DTE Energy in the third quarter of 2013 was \$198 million, or \$1.13 per diluted share, compared to net income attributable to DTE Energy of \$227 million, or \$1.31 per diluted share, in the third quarter of 2012. Net income attributable to DTE Energy in the nine months ended September 30, 2013 was \$537 million, or \$3.07 per diluted share, compared to net income attributable to DTE Energy of \$529 million, or \$3.08 per diluted share, in the comparable period of 2012. The decrease in net income in the third quarter is primarily due to lower earnings in the Electric, Gas and Energy Trading segments, partially offset by higher earnings in the Power and Industrial Projects segment. The increase in net income for the nine months ended September 30, 2013 is primarily due to higher earnings in the Gas and Power and Industrial projects segments, partially offset by lower earnings in the Electric and Energy Trading segments.

Please see detailed explanations of segment performance in the following Results of Operations section.

DTE Energy's strategy is to achieve long-term earnings growth, a strong balance sheet and an attractive dividend yield.

Our utilities' growth will be driven by environmental and renewable investments in addition to base infrastructure investments. We are focused on executing plans to achieve operational excellence and customer satisfaction with a focus on customer affordability. We operate in a constructive regulatory environment and have solid relationships with our regulators.

We have significant investments in our non-utility businesses. We employ disciplined investment criteria when assessing meaningful, low-risk growth opportunities that leverage our assets, skills and expertise and provide diversity in earnings and geography. Specifically, we invest in targeted energy markets with attractive competitive dynamics where meaningful scale is in alignment with our risk profile. We expect growth opportunities in the Gas Storage and Pipelines and Power and Industrial Projects segments.

A key priority for DTE Energy is to maintain a strong balance sheet which facilitates access to capital markets and reasonably priced short-term and long-term financing. Near-term growth will be funded through internally generated cash flows, issuance of debt and issuance of equity through our dividend reinvestment plan and pension and other employee benefit plans. We have an enterprise risk management program that, among other things, is designed to monitor and manage our exposure to earnings and cash flow volatility related to commodity price changes, interest rates and counterparty credit risk.

### CAPITAL INVESTMENTS

Our utility businesses require significant base capital investments each year in order to maintain and improve the reliability of asset bases, including power generation plants, distribution systems, storage fields and other facilities and fleets. DTE Electric's capital investments over the 2013-2017 period are estimated at \$5.0 billion for base infrastructure, \$900 million for environmental compliance requirements and \$500 million for renewable energy and

energy efficiency expenditures. DTE Electric plans to seek regulatory approval in general rate case filings and renewable energy plan filings for capital expenditures consistent with prior ratemaking treatment.

DTE Gas's capital investments over the 2013-2017 period are estimated at \$680 million for base infrastructure and \$400 million for gas main renewal and meter move out and pipeline integrity programs. In April 2013, the MPSC issued an order approving an infrastructure recovery mechanism (IRM) and authorized the recovery of the cost of service related to \$77 million of annual investment in its gas main renewal and meter move out and pipeline integrity programs. DTE Gas plans to seek regulatory approval in general rate case filings for base infrastructure capital expenditures consistent with prior ratemaking treatment.

## ENVIRONMENTAL MATTERS

We are subject to extensive environmental regulation. Additional costs may result as the effects of various substances on the environment are studied and governmental regulations are developed and implemented. Actual costs to comply could vary substantially. We expect to continue recovering environmental costs related to utility operations through rates charged to our customers.

DTE Electric is subject to the EPA ozone and fine particulate transport and acid rain regulations that limit power plant emissions of sulfur dioxide and nitrogen oxides. Since 2005, the EPA and the State of Michigan have issued additional emission reduction regulations relating to ozone, fine particulate, regional haze and mercury air pollution. These rules will lead to additional emission controls on fossil-fueled power plants to reduce nitrogen oxide, sulfur dioxide and mercury emissions. To comply with these requirements, DTE Electric spent approximately \$1.9 billion through 2012. It is estimated that DTE Electric will make capital expenditures of approximately \$190 million in 2013 and up to approximately \$1.8 billion of additional capital expenditures through 2021 based on current regulations.

Climate regulation and/or legislation has been proposed and discussed within the U.S. Congress and the EPA. The EPA is implementing regulatory actions under the Clean Air Act to address emissions of greenhouse gases (GHGs). EPA regulation of GHGs requires the best available control technology (BACT) for new major sources or modifications to existing major sources that cause significant increases in GHG emissions. In June 2012, the EPA proposed new source performance standards for carbon dioxide emissions from new fossil-fueled power plants. These new source performance standards were re-proposed on September 20, 2013, under a presidential directive issued on June 25, 2013. Under the same presidential directive, the EPA is expected to propose performance standards for carbon dioxide emissions from existing and modified plants by June 1, 2014 and issue final standards by June 1, 2015. DTE Energy will be an active participant in working with the EPA and other stakeholders to shape the final performance standards for new and existing power plants. The standards for new sources are not expected to have a material impact on the Company. It is not possible to determine the potential impact of future regulations on existing sources at this time. Pending or future legislation or other regulatory actions could have a material impact on our operations and financial position and the rates we charge our customers. Impacts include expenditures for environmental equipment beyond what is currently planned, financing costs related to additional capital expenditures, the purchase of emission offsets from market sources and the retirement of facilities where control equipment is not economical. We would seek to recover these incremental costs through increased rates charged to our utility customers. Increased costs for energy produced from traditional sources could also increase the economic viability of energy produced from renewable and/or nuclear sources and energy efficiency initiatives and the development of market-based trading of carbon offsets providing business opportunities for our utility and non-utility segments. It is not possible to quantify these impacts on DTE Energy or its customers at this time.

See Note 12 of the Notes to the Consolidated Financial Statements.

## OUTLOOK

The next few years will be a period of rapid change for DTE Energy and for the energy industry. Our strong utility base, combined with our integrated non-utility operations, position us well for long-term growth.

Looking forward, we will focus on several areas that we expect will improve future performance:

- improving Electric and Gas customer satisfaction;

- effectively managing rate competitiveness and affordability;

Edgar Filing: DTE ENERGY CO - Form 10-Q

- continuing to pursue regulatory stability and investment recovery for our utilities;
- managing the growth of our utility asset base;
- continuing to improve employee engagement;
- optimizing our cost structure across all business segments;
- managing cash, capital and liquidity to maintain or improve our financial strength; and
- investing in businesses that integrate our assets and leverage our skills and expertise.

40

---

We will continue to pursue opportunities to grow our businesses in a disciplined manner if we can secure opportunities that meet our strategic, financial and risk criteria.

## RESULTS OF OPERATIONS

The following sections provide a detailed discussion of the operating performance and future outlook of our segments.

	Three Months Ended September 30, 2013	Nine Months Ended September 30, 2013	Three Months Ended September 30, 2012	Nine Months Ended September 30, 2012
	(In millions)			
<b>Net Income (Loss) Attributable to DTE Energy by Segment:</b>				
Electric	\$179	\$194	\$383	\$417
Gas	(13 )	4	91	60
Gas Storage and Pipelines	16	14	49	48
Power and Industrial Projects	27	22	46	40
Energy Trading	(6 )	1	(1 )	3
Corporate and Other	(5 )	(9 )	(31 )	(39 )
Income From Continuing Operations Attributable to DTE Energy Company	198	226	537	529
Discontinued Operations	—	1	—	—
<b>Net Income Attributable to DTE Energy Company</b>	<b>\$198</b>	<b>\$227</b>	<b>\$537</b>	<b>\$529</b>

## ELECTRIC

Our Electric segment consists principally of DTE Electric.

Electric results are discussed below:

	Three Months Ended September 30, 2013	Nine Months Ended September 30, 2013	Three Months Ended September 30, 2012	Nine Months Ended September 30, 2012
	(In millions)			
<b>Operating Revenues</b>				
Fuel and Purchased Power	\$1,458	\$1,543	\$3,942	\$4,031
Gross Margin	487	543	1,294	1,348
Operation and Maintenance	971	1,000	2,648	2,683
Depreciation and Amortization	336	338	1,010	1,027
Taxes Other Than Income	236	220	671	611
Net	66	65	200	193
Asset (Gains) and Losses, Reserves and Impairments,	(3 )	—	(3 )	(1 )
<b>Operating Income</b>	<b>336</b>	<b>377</b>	<b>770</b>	<b>853</b>
Other (Income) and Deductions	61	68	183	190
Income Tax Expense	96	115	204	246
<b>Net Income Attributable to DTE Energy Company</b>	<b>\$179</b>	<b>\$194</b>	<b>\$383</b>	<b>\$417</b>
<b>Operating Income as a Percent of Operating Revenues</b>	<b>23%</b>	<b>24%</b>	<b>20%</b>	<b>21%</b>

Edgar Filing: DTE ENERGY CO - Form 10-Q

Gross margin decreased \$29 million and \$35 million in the three and nine months ended September 30, 2013, respectively. Revenues associated with certain tracking mechanisms and surcharges are offset by related expenses elsewhere in the Consolidated Statement of Operations.

41

---

The following table details changes in various gross margin components relative to the comparable prior period:

	Three Months (In millions)	Nine Months (In millions)
Base sales, inclusive of weather effect	\$(46)	\$(59)
Securitization bond and tax surcharge	5	29
Renewable energy program	12	20
Low income energy assistance surcharge	—	(20)
Regulatory mechanisms and other	—	(5)
Decrease in gross margin	\$(29)	\$(35)

	Three Months Ended September 30, 2013	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2012
	(In thousands of MWh)		
Electric Sales			
Residential	4,401	4,894	11,600
Commercial	4,504	4,602	12,585
Industrial	2,635	2,707	7,746
Other	233	238	701
	11,773	12,441	32,632
Interconnection sales (a)	711	441	2,276
Total Electric Sales	12,484	12,882	34,908
Electric Deliveries			
Retail and Wholesale	11,773	12,441	32,632
Electric Customer Choice, including self generators (b)	1,393	1,372	3,940
Total Electric Sales and Deliveries	13,166	13,813	36,572
			37,214

(a) Represents power that is not distributed by DTE Electric.

(b) Represents deliveries for self generators who have purchased power from alternative energy suppliers to supplement their power requirements.

Operation and maintenance expense decreased \$2 million and \$17 million in the three and nine months ended September 30, 2013, respectively. The decrease in the third quarter was due primarily to lower employee benefit expenses of \$21 million and lower distribution operations expenses of \$4 million, partially offset by higher corporate administrative expenses of \$11 million, higher restoration and line clearance expenses of \$4 million, increased energy optimization and renewable energy expenses of \$4 million, increased uncollectible expenses of \$2 million and increased low income energy assistance expenses of \$2 million. The decrease in the nine-month period was primarily due to lower employee benefit expenses of \$52 million, decreased low income energy assistance expenses of \$18 million and lower power plant generation expenses of \$2 million, partially offset by higher corporate administrative expenses of \$22 million, higher energy optimization and renewable energy expenses of \$12 million, increased uncollectible expenses of \$11 million, higher restoration and line clearance expenses of \$7 million and increased distribution operations expenses of \$4 million.

Depreciation and amortization expense increased \$16 million and \$60 million in the three and nine months ended September 30, 2013, respectively. The increase in the third quarter was due to higher amortization of regulatory assets of \$11 million and \$5 million of increased expense due to a higher depreciable base. The increase in the nine-month period was due to \$45 million of higher amortization of regulatory assets and \$15 million of increased expense due to a higher depreciable base.

Edgar Filing: DTE ENERGY CO - Form 10-Q

Income tax expense decreased \$19 million and \$42 million in the three and nine months ended September 30, 2013, respectively, due to lower pre-tax income and a decrease in the effective income tax rate primarily due to higher production tax credits.

**Outlook** — We continue to move forward in our efforts to achieve operational excellence, sustained strong cash flows and earn our authorized return on equity. We expect that our planned significant environmental and renewable expenditures will result in earnings growth. Looking forward, additional factors may impact earnings such as weather, the outcome of regulatory proceedings, benefit plan design changes, investment returns and changes in discount rate assumptions in benefit plans and health care costs, and uncertainty of legislative or regulatory actions regarding climate change and electric choice. We expect to continue our efforts to improve productivity and decrease our costs while improving customer satisfaction with consideration of customer rate affordability.

In June 2013, the City of Detroit announced a transition of its Public Lighting Department's customers to the DTE Electric distribution system over a five to seven year system conversion period. See Note 7 of the Notes to Consolidated Financial Statements.

## GAS

Our Gas segment consists of DTE Gas and Citizens.

Gas results are discussed below:

	Three Months Ended September 30, 2013	September 30, 2012	Nine Months Ended September 30, 2013	September 30, 2012
	(In millions)			
Operating Revenues	\$161	\$160	\$1,013	\$883
Cost of Gas	29	21	408	359
Gross Margin	132	139	605	524
Operation and Maintenance	105	89	316	286
Depreciation and Amortization	24	23	71	69
Taxes Other Than Income	12	10	43	42
Operating Income (Loss)	(9 )	17	175	127
Other (Income) and Deductions	11	11	34	35
Income Tax Expense (Benefit)	(7 )	2	50	32
Net Income (Loss) Attributable to DTE Energy Company	\$(13 )	\$4	\$91	\$60
Operating Income (Loss) as a Percent of Operating Revenues	(6 )%	11	% 17	% 14

Gross margin decreased \$7 million and increased \$81 million in the three and nine months ended September 30, 2013, respectively. Revenues associated with certain tracking mechanisms and surcharges are offset by related expenses elsewhere in the Consolidated Statement of Operations.

The following table details changes in various gross margin components relative to the comparable prior period:

	Three Months (In millions)	Nine Months
Weather	\$—	\$51
2012 rate order	—	14
Lost and stolen gas	(4 )	) 9
Energy optimization revenue	(2 )	) 4
Uncollectible tracking mechanism	1	22
Revenue decoupling mechanism	(3 )	) (14 )
Other	1	(5 )
Increase (decrease) in gross margin	\$(7 )	) \$81

	Three Months Ended September 30, 2013	September 30, 2012	Nine Months Ended September 30, 2013	September 30, 2012
Gas Markets (in Bcf)				
Gas sales	10	7	86	68
End user transportation	24	33	111	115
	34	40	197	183
Intermediate transportation	81	42	233	186



Operation and maintenance expense increased \$16 million and \$30 million in the three and nine months ended September 30, 2013, respectively. The increase in the third quarter was primarily due to higher maintenance and repair costs of \$7 million, higher gas operations expenses of \$6 million, higher transmission expenses of \$3 million and increased uncollectible expenses of \$2 million, partially offset by lower employee benefit expenses of \$4 million and lower energy optimization expenses of \$2 million. The increase in the nine-month period was primarily due to higher maintenance and repair costs of \$12 million, higher gas operations expenses of \$10 million, higher transmission expenses of \$9 million, higher uncollectible expenses of \$5 million and increased energy optimization expenses of \$4 million, partially offset by lower employee benefit expenses of \$13 million.

**Outlook —** We continue to move forward in our efforts to achieve operational excellence, sustained strong cash flows and earn our authorized return on equity. We expect that our planned significant infrastructure capital expenditures will result in earnings growth. Looking forward, additional factors may impact earnings such as weather, the outcome of regulatory proceedings, benefit plan design changes, and investment returns and changes in discount rate assumptions in benefit plans and health care costs. We expect to continue our efforts to improve productivity and decrease our costs while improving customer satisfaction with consideration of customer rate affordability.

## GAS STORAGE AND PIPELINES

Our Gas Storage and Pipelines segment consists of our non-utility gas pipelines and storage businesses.

Gas Storage and Pipelines results are discussed below:

	Three Months Ended September 30, 2013	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2012
	(In millions)		
Operating Revenues	\$34	\$21	\$92
Operation and Maintenance	7	5	19
Depreciation and Amortization	6	1	14
Taxes Other Than Income	1	1	3
Operating Income	20	14	56
Other (Income) and Deductions	(7 )	(10 )	(26 )
Income Tax Expense	10	9	31
Net Income	17	15	51
Noncontrolling interest	1	1	2
Net Income Attributable to DTE Energy	\$16	\$14	\$49
			\$48

Net income attributable to DTE Energy increased \$2 million and increased \$1 million in the three and nine months ended September 30, 2013, respectively. The increases were primarily driven by higher net income from the Bluestone and Susquehanna projects and higher earnings from equity investments, offset by lower gas storage revenue.

**Outlook —** Our Gas Storage and Pipelines business expects to maintain its steady growth by developing an asset portfolio with multiple growth platforms through investment in new projects and expansions. Millennium Pipeline has secured customers for its Phase One and Phase Two expansions, which are scheduled to be in service in 2013 and 2014, respectively. Millennium's total capacity with the Phase One and Two expansions will increase from 525,000 dth/d to over 800,000 dth/d. Additionally, Bluestone, a 44-mile lateral pipeline in Susquehanna County, Pennsylvania and Broome County, New York designed to initially flow over 600,000 dth/d to Millennium Pipeline and Tennessee Pipeline, is in service and volumes are increasing. Through our agreement with Southwestern Energy, Bluestone lateral and Susquehanna gathering system are strategically positioned for future growth of the Marcellus shale.

## POWER AND INDUSTRIAL PROJECTS

Power and Industrial Projects is comprised primarily of projects that deliver energy and utility-type products and services to industrial, commercial and institutional customers; produce reduced emissions fuel (REF) and sell electricity from biomass-fired energy projects.

Power and Industrial Projects results are discussed below:

	Three Months Ended September 30, 2013	Nine Months Ended September 30, 2013	Three Months Ended September 30, 2012	Nine Months Ended September 30, 2012
	(In millions)			
Operating Revenues	\$512	\$477	\$1,431	\$1,375
Operation and Maintenance	499	455	1,402	1,338
Depreciation and Amortization	18	14	53	43
Taxes other than Income	4	3	12	12
Asset (Gains) and Losses, Reserves and Impairments, Net	(3 )	(2 )	(2 )	(9 )
Operating Income (Loss)	(6 )	7	(34 )	(9 )
Other (Income) and Deductions	(29 )	(13 )	(54 )	(28 )
Income Taxes				
Expense	7	7	6	6
Production Tax Credits	(12 )	(11 )	(35 )	(31 )
	(5 )	(4 )	(29 )	(25 )
Net Income	28	24	49	44
Noncontrolling interest	1	2	3	4
Net Income Attributable to DTE Energy Company	\$27	\$22	\$46	\$40

Operating revenues increased \$35 million and \$56 million in the three and nine months ended September 30, 2013, respectively. The increase in the third quarter of 2013 was primarily due to a \$52 million increase associated with higher volumes from REF projects, of which \$9 million represent affiliate transactions, and a \$33 million increase primarily due to newly acquired on-site projects, offset by a \$30 million decrease from lower volumes associated with coal transportation and marketing activities due to the sale of our coal transloading terminal in December 2012, and a \$20 million decrease from lower prices and volumes associated with the steel business. The increase in the nine-month period was primarily due to a \$103 million increase from newly acquired on-site projects, a \$68 million increase associated with higher volumes from REF projects, of which \$18 million represent affiliate transactions, partially offset by a \$62 million decrease due to lower volumes associated with coal transportation and marketing activities, and a \$53 million decrease from lower prices and volumes associated with the steel business.

Operation and maintenance expense increased \$44 million and \$64 million in the three and nine months ended September 30, 2013, respectively. The increase in the third quarter of 2013 was primarily due to a \$53 million increase associated with higher volumes from REF projects, of which \$9 million represent affiliate transactions, a \$27 million increase primarily due to newly acquired on-site projects, and a \$3 million increase associated with the mobilization and start-up of a biomass-fired power project, offset by a \$25 million decrease from lower volumes associated with coal transportation and marketing activities, and a \$15 million decrease from lower prices and volumes associated with the steel business. The increase in the nine-month period was primarily due to a \$91 million increase from newly acquired on-site projects, a \$72 million increase associated with higher volumes from REF projects, of which \$18 million represent affiliate transactions, partially offset by a \$55 million decrease due to lower volumes associated with coal transportation and marketing activities, and a \$44 million decrease in prices and volumes associated with the steel business.

Asset (gains) losses, reserves and impairments, net decreased by \$7 million in the nine months ended September 30, 2013, due primarily to a \$6 million asset impairment at an on-site facility.

Other (income) and deductions increased by \$16 million and \$26 million in the three and nine months ended September 30, 2013, respectively. The increase in the third quarter was due primarily to a \$8 million increase in gains recognized in connection with sales of a membership interests in REF facilities (treated as sales of tax credits for financial reporting purposes), and a \$2 million increase related to higher equity earnings at various projects. The year

Edgar Filing: DTE ENERGY CO - Form 10-Q

to date increase was due primarily to a \$14 million increase in gains recognized in connection with sales of membership interests in REF facilities (treated as sales of tax credits for financial reporting purposes), and a \$7 million increase related to higher equity earnings at various projects.

**Outlook** - The Company has constructed and placed in service nine REF facilities including four facilities located at third party owned coal-fired power plants. The Company has sold membership interests in four of the facilities. We continue to optimize these facilities by seeking investors for facilities operating at DTE Electric and other utility sites. Additionally, we intend to relocate two underutilized facilities, located at DTE Electric sites, to alternative coal-fired power plants which may provide increased production and emission reduction opportunities in 2014 and future years. The proceeds from executed and planned sales of membership interests in the REF facilities are expected to be received by the Company on an installment basis, and the Company will recognize the related gains (treated as sales of tax credits for financial reporting purposes) as production tax credits are generated by the respective facilities.

We expect sustained production levels of metallurgical coke and pulverized coal supplied to steel industry customers for 2014. Substantially all of the metallurgical coke margin is maintained under long-term contracts. We have four biomass-fired power generation facilities in operation, and we are converting an additional facility to be placed in service in 2013. Our on-site energy services will continue to be delivered in accordance with the terms of long-term contracts. We will begin construction on a new natural gas-fired cogeneration facility and two landfill gas to energy projects during the year which will be completed in 2014. We will continue to look for additional investment opportunities and other energy projects at favorable prices.

Power and Industrial Projects will continue to leverage its extensive energy-related operating experience and project management capability to develop additional energy projects to serve energy intensive industrial customers.

#### ENERGY TRADING

Energy Trading focuses on physical and financial power, natural gas and coal marketing and trading, structured transactions, enhancement of returns from DTE Energy's asset portfolio, and optimization of contracted natural gas pipeline transportation and storage, and generating capacity positions. Energy Trading also provides natural gas, power and related services, which may include the management of associated storage and transportation contracts on the customers' behalf, and the supply or purchase of renewable energy credits to various customers.

Energy Trading results are discussed below:

	Three Months Ended September 30, 2013	Nine Months Ended September 30, 2013	Three Months Ended September 30, 2012	Nine Months Ended September 30, 2012
	(In millions)			
Operating Revenues	\$463	\$223	\$1,307	\$723
Fuel, Purchased Power and Gas	453	202	1,242	658
Gross Margin	10	21	65	65
Operation and Maintenance	17	17	57	52
Depreciation and Amortization	—	1	1	1
Taxes Other Than Income	1	—	3	2
Operating Income (Loss)	(8 )	3	4	10
Other (Income) and Deductions	2	2	6	6
Income Tax Expense (Benefit)	(4 )	—	(1 )	1
Net Income (Loss) Attributable to DTE Energy Company	\$(6 )	\$1	\$(1 )	\$3

Gross margin decreased \$11 million and was consistent with 2012 for the three and nine months ended September 30, 2013, respectively. The overall decrease in gross margin for the third quarter was primarily due to timing related losses in the gas structured strategy.

Edgar Filing: DTE ENERGY CO - Form 10-Q

The third quarter decrease of \$11 million represents a \$13 million decrease in unrealized margins and a \$2 million increase in realized margins. The \$13 million decrease in unrealized margins is due to \$30 million of unfavorable results, primarily due to timing related losses in our gas structured strategy, and unfavorable results in our power full requirements strategy, partially offset by \$17 million of favorable results, primarily in our gas full requirements and gas trading strategies. The \$2 million increase in realized margins is due to \$11 million of favorable results, primarily in our power and gas trading strategies, partially offset by \$9 million of unfavorable results, primarily in our gas transportation, gas storage and power origination strategies.

The nine months ended September 30, 2013 represents a \$10 million increase in realized margins and \$10 million decrease in unrealized margins. The \$10 million increase in realized margins is due to \$27 million of favorable results, primarily in our gas trading, gas full requirements, and gas storage strategies, partially offset by \$17 million of unfavorable results, primarily in our gas transportation, power trading and power origination strategies. The \$10 million decrease in unrealized margins is due to \$19 million of unfavorable results, primarily in our gas trading and gas structured strategies, partially offset by \$9 million of favorable results, primarily in our gas full requirements, gas storage, and power trading strategies.

**Outlook** - In the near-term, we expect market conditions to remain challenging and the profitability of this segment may be impacted by the volatility or lack thereof in commodity prices in the markets we participate in and the uncertainty of impacts associated with financial reform, regulatory changes and changes in operating rules of regional transmission organizations.

The Energy Trading portfolio includes financial instruments, physical commodity contracts and natural gas inventory, as well as contracted natural gas pipeline transportation and storage, and generation capacity positions. Energy Trading also provides natural gas, power and related services, which may include the management of associated storage and transportation contracts on the customers' behalf under FERC Asset Management Arrangements, and the supply or purchase of renewable energy credits to various customers. Significant portions of the Energy Trading portfolio are economically hedged. Most financial instruments and physical power and natural gas contracts are deemed derivatives, whereas natural gas inventory, pipeline transportation, renewable energy credits, and storage assets are not derivatives. As a result, we will experience earnings volatility as derivatives are marked-to-market without revaluing the underlying non-derivative contracts and assets. Our strategy is to economically manage the price risk of these underlying non-derivative contracts and assets with futures, forwards, swaps and options. This results in gains and losses that are recognized in different interim and annual accounting periods.

See Notes 3 and 4 of the Notes to Consolidated Financial Statements.

## CORPORATE AND OTHER

Corporate and Other includes various holding company activities and holds certain non-utility debt and energy-related investments. Net losses of \$5 million and \$31 million in the three and nine months ended September 30, 2013, respectively, were improvements of \$4 million and \$8 million, respectively, from the losses in the comparable 2012 periods.

## DISCONTINUED OPERATIONS

### Unconventional Gas Production

In December 2012, the Company sold its 100% equity interest in its Unconventional Gas Production business which consisted of gas and oil production assets in the western Barnett and Marble Falls shale areas of Texas. See Note 5 of the Notes to Consolidated Financial Statements.

## CAPITAL RESOURCES AND LIQUIDITY

### Cash Requirements

We use cash to maintain and expand our electric and natural gas utilities and to grow our non-utility businesses, retire and pay interest on long-term debt and pay dividends. We believe that we will have sufficient internal and external

Edgar Filing: DTE ENERGY CO - Form 10-Q

capital resources to fund anticipated capital and operating requirements. In 2013, we expect that cash from operations will be approximately \$1.9 billion. We anticipate base level utility capital investments, environmental, renewable and energy optimization expenditures and expenditures for non-utility businesses in 2013 of approximately \$2.1 billion. We plan to seek regulatory approval to include utility capital expenditures in our regulatory rate base consistent with prior treatment. Capital spending for growth of existing or new non-utility businesses will depend on the existence of opportunities that meet our strict risk-return and value creation criteria.

	Nine Months Ended September 30, 2013	2012
(In millions)		
Cash and Cash Equivalents		
Cash Flow From (Used For)		
Operating activities:		
Net income	\$542	\$535
Depreciation, depletion and amortization	811	747
Nuclear fuel amortization	25	25
Allowance for equity funds used during construction	(10	) (10
Deferred income taxes	162	96
Asset (gains) and losses, reserves and impairments, net	(5	) (7
Working capital and other	190	343
	1,715	1,729
Investing activities:		
Plant and equipment expenditures — utility	(1,101	) (1,008
Plant and equipment expenditures — non-utility	(270	) (214
Proceeds from sale of assets	20	20
Other	14	18
	(1,337	) (1,184
Financing activities:		
Issuance of long-term debt	768	495
Redemption of long-term debt	(855	) (447
Short-term borrowings, net	31	(321
Issuance of common stock	29	29
Dividends on common stock and other	(345	) (310
	(372	) (554
Net Increase (Decrease) in Cash and Cash Equivalents	\$6	\$(9

### Cash from Operating Activities

A majority of our operating cash flow is provided by our electric and natural gas utilities, which are significantly influenced by factors such as weather, electric Customer Choice, regulatory deferrals, regulatory outcomes, economic conditions and operating costs.

Cash from operations in the nine months ended September 30, 2013 was \$14 million lower than the comparable 2012 period. The operating cash flow comparison reflects lower cash generated from working capital items partially offset by higher net income after adjusting for non-cash and non-operating items (primarily depreciation, depletion and amortization, and deferred income taxes).

### Cash from Investing Activities

Cash inflows associated with investing activities are primarily generated from the sale of assets, while cash outflows are the result of plant and equipment expenditures. In any given year, we will look to realize cash from under-performing or non-strategic assets or matured fully valued assets.

Capital spending within the utility businesses is primarily to maintain and improve our electric generation and electric and natural gas distribution infrastructure and to comply with environmental regulations and renewable energy

requirements.

Capital spending within our non-utility businesses is primarily for ongoing maintenance, expansion and growth. We look to make growth investments that meet strict criteria in terms of strategy, management skills, risks and returns. All new investments are analyzed for their rates of return and cash payback on a risk adjusted basis. We have been disciplined in how we deploy capital and will not make investments unless they meet our criteria. For new business lines, we initially invest based on research and analysis. We start with a limited investment, we evaluate results and either expand or exit the business based on those results. In any given year, the amount of growth capital will be determined by the underlying cash flows of the Company with a clear understanding of any potential impact on our credit ratings.

Net cash used for investing activities was higher by \$153 million in 2013 due primarily to increased capital expenditures by our utility and non-utility businesses.

#### Cash from Financing Activities

We rely on both short-term borrowing and long-term financing as a source of funding for our capital requirements not satisfied by our operations.

Our strategy is to have a targeted debt portfolio blend of fixed and variable interest rates and maturity. We continually evaluate our leverage target, which is currently 50 percent to 52 percent, to ensure it is consistent with our objective to have a strong investment grade debt rating.

Net cash used for financing activities was lower by \$182 million in 2013 due primarily to increased short-term borrowings and issuances of long-term debt, partially offset by increased redemption of long-term debt and higher dividends on common stock.

#### Outlook

We expect cash flow from operations to increase over the long-term primarily as a result of growth from our utilities and non-utility businesses. We expect growth in our utilities to be driven primarily by capital spending to maintain and improve our electric generation and electric and natural gas distribution infrastructure and to comply with new and existing state and federal regulations that will result in additional environmental and renewable energy investments which will increase the base from which rates are determined. Our non-utility growth is expected from additional investments primarily in our Gas Storage and Pipelines and Power and Industrial Projects segments.

We may be impacted by the timing of collection or refund of various recovery and tracking mechanisms as a result of timing of MPSC orders. Energy prices are likely to be a source of volatility with regard to working capital requirements for the foreseeable future. We are continuing our efforts to identify opportunities to improve cash flow through working capital initiatives and maintaining flexibility in the timing and extent of our long-term capital projects.

We have approximately \$900 million in long-term debt maturing in the next twelve months. The repayment of the principal amount of the Securitization debt is funded through a surcharge payable by DTE Electric's customers. The repayment of the other debt is expected to be paid through internally generated funds or the issuance of long-term debt.

DTE Energy has approximately \$1.5 billion of available liquidity at September 30, 2013, consisting of cash and amounts available under unsecured revolving credit agreements.

During the first nine months of 2013, the Company contributed \$250 million to its pension plans, including a contribution of DTE Energy common stock of \$200 million. At the discretion of management, and depending upon financial market condition, the Company may make up to an additional \$25 million contribution to its pension plans in 2013. In January 2013, the Company contributed \$145 million to its other postretirement benefit plans. At the discretion of management, the Company may make up to an additional \$120 million contribution to its other postretirement benefit plans in 2013.

Various subsidiaries of the Company have entered into contracts which contain ratings triggers and are guaranteed by DTE Energy. These contracts contain provisions which allow the counterparties to request that the Company post cash or letters of credit as collateral in the event that DTE Energy's credit rating is downgraded below investment grade. As

Edgar Filing: DTE ENERGY CO - Form 10-Q

of September 30, 2013, the value of the transactions for which the Company would have been exposed to collateral requests had DTE Energy's credit rating been below investment grade on such date was approximately \$327 million. In circumstances where an entity is downgraded below investment grade and collateral requests are made as a result, the requesting parties often agree to accept less than the full amount of their exposure to the downgraded entity. In addition, the Company maintains adequate credit facilities to meet this obligation should such an occurrence arise.

We believe we have sufficient operating flexibility, cash resources and funding sources to maintain adequate amounts of liquidity and to meet our future operating cash and capital expenditure needs. However, virtually all of our businesses are capital intensive, or require access to capital, and the inability to access adequate capital could adversely impact earnings and cash flows.

See Notes 7, 8, 10, 11 and 13 of the Notes to Consolidated Financial Statements.

49

---

## FAIR VALUE

Derivatives are generally recorded at fair value and shown as Derivative Assets or Liabilities. Contracts we typically classify as derivative instruments include power, natural gas, oil and certain coal forwards, futures, options and swaps, and foreign currency exchange contracts. Items we do not generally account for as derivatives include natural gas inventory, pipeline transportation, renewable energy credits and storage assets. See Notes 3 and 4 of the Notes to Consolidated Financial Statements.

The tables below do not include the expected earnings impact of non-derivative natural gas storage, transportation, certain power contracts and renewable energy credits which are subject to accrual accounting. Consequently, gains and losses from these positions may not match with the related physical and financial hedging instruments in some reporting periods, resulting in volatility in DTE Energy's reported period-by-period earnings; however, the financial impact of the timing differences will reverse at the time of physical delivery and/or settlement.

The Company manages its mark-to-market (MTM) risk on a portfolio basis based upon the delivery period of its contracts and the individual components of the risks within each contract. Accordingly, it records and manages the energy purchase and sale obligations under its contracts in separate components based on the commodity (e.g. electricity or natural gas), the product (e.g. electricity for delivery during peak or off-peak hours), the delivery location (e.g. by region), the risk profile (e.g. forward or option), and the delivery period (e.g. by month and year).

The Company has established a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value in three broad levels. The fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). For further discussion of the fair value hierarchy. See Note 3 of the Notes to Consolidated Financial Statements.

The following tables provide details on changes in our MTM net asset (or liability) position for the nine months ended September 30, 2013:

	Total (In millions)
MTM at December 31, 2012	\$(4 )
Reclassify to realized upon settlement	(49 )
Changes in fair value recorded to income	56
Amounts recorded to unrealized income	7
Changes in fair value recorded in regulatory liabilities	7
Amounts recorded in other comprehensive income, pretax	1
Change in collateral held by (for) others	(9 )
Option premiums paid and other	17
MTM at September 30, 2013	\$19

The table below shows the maturity of our MTM positions:

Source of Fair Value	2013	2014	2015	2016 and Beyond	Total
					Fair Value
Level 1	\$27	\$(12 )	\$(5 )	\$—	\$10
Level 2	24	(1 )	(1 )	—	22
Level 3	(17 )	9	2	2	(4 )
MTM before collateral adjustments	\$34	\$(4 )	\$(4 )	\$2	28
Collateral adjustments					(9 )

Edgar Filing: DTE ENERGY CO - Form 10-Q

MTM at September 30, 2013

\$19

50

---

### Item 3. Quantitative and Qualitative Disclosures About Market Risk

#### Market Price Risk

DTE Energy has commodity price risk in both utility and non-utility businesses arising from market price fluctuations.

The Electric and Gas business segments have risks in conjunction with the anticipated purchases of coal, natural gas, uranium, electricity, and base metals to meet their service obligations. However, the Company does not bear significant exposure to earnings risk as such changes are included in the PSCR and GCR regulatory rate-recovery mechanisms. In addition, changes in the price of natural gas can impact the valuation of lost and stolen gas, storage sales revenue and uncollectible expenses at the Gas segment. Gas segment manages its market price risk related to storage sales revenue primarily through the sale of long-term storage contracts. The Company is exposed to short-term cash flow or liquidity risk as a result of the time differential between actual cash settlements and regulatory rate recovery.

Our Gas Storage and Pipelines business segment has exposure to natural gas price fluctuations which impact the pricing for natural gas storage and transportation. The Company manages its exposure through the use of short, medium and long-term storage and transportation contracts.

Our Power and Industrial Projects business segment is subject to electricity and natural gas product price risk. The Company manages its exposures to commodity price risk through the use of long-term contracts.

Our Energy Trading business segment has exposure to electricity, natural gas, coal, crude oil, heating oil, and foreign currency exchange price fluctuations. These risks are managed by our energy marketing and trading operations through the use of forward energy, capacity, storage, options and futures contracts, within pre-determined risk parameters.

#### Credit Risk

##### Bankruptcies

The Company purchases and sells electricity, natural gas, coal, coke and other energy products from and to governmental entities and numerous companies operating in the steel, automotive, energy, retail, financial and other industries. Certain of its customers have filed for bankruptcy protection under the U.S. Bankruptcy Code. The Company regularly reviews contingent matters relating to these customers and its purchase and sale contracts and records provisions for amounts considered at risk of probable loss. The Company believes its accrued amounts are adequate for probable loss.

The Company's utilities provide services to the city of Detroit, Michigan (Detroit). Detroit filed for Chapter 9 bankruptcy protection on July 18, 2013. The Company had pre-petition accounts receivable of approximately \$20 million outstanding as of the bankruptcy filing date. Detroit has been paying amounts owed in a timely manner and its account is substantially current. The Company does not expect Detroit's bankruptcy filing to have a material impact on its financial results.

##### Other

We engage in business with customers that are non-investment grade. We closely monitor the credit ratings of these customers and, when deemed necessary, we request collateral or guarantees from such customers to secure their obligations.



## Trading Activities

We are exposed to credit risk through trading activities. Credit risk is the potential loss that may result if our trading counterparties fail to meet their contractual obligations. We utilize both external and internal credit assessments when determining the credit quality of our trading counterparties. The following table displays the credit quality of our trading counterparties as of September 30, 2013:

	Credit Exposure Before Cash Collateral (In millions)	Cash Collateral	Net Credit Exposure
Investment Grade (a)			
A– and Greater	\$ 149	\$—	\$ 149
BBB+ and BBB	235	—	235
BBB–	109	—	109
Total Investment Grade	493	—	493
Non-investment grade (b)	1	—	1
Internally Rated — investment grade (c)	121	—	121
Internally Rated — non-investment grade (d)	28	(9 )	19
Total	\$ 643	\$ (9 )	\$ 634

This category includes counterparties with minimum credit ratings of Baa3 assigned by Moody's Investors Service (Moody's) and BBB- assigned by Standard & Poor's Rating Group, a division of McGraw-Hill Companies, Inc. (Standard & Poor's). The five largest counterparty exposures combined for this category represented approximately 34 percent of the total gross credit exposure.

This category includes counterparties with credit ratings that are below investment grade. The five largest (b) counterparty exposures combined for this category represented less than 1 percent of the total gross credit exposure.

This category includes counterparties that have not been rated by Moody's or Standard & Poor's, but are considered (c) investment grade based on DTE Energy's evaluation of the counterparty's creditworthiness. The five largest counterparty exposures combined for this category represented approximately 12 percent of the total gross credit exposure.

This category includes counterparties that have not been rated by Moody's or Standard & Poor's, and are considered (d) non-investment grade based on DTE Energy's evaluation of the counterparty's creditworthiness. The five largest counterparty exposures combined for this category represented approximately 4 percent of the total gross credit exposure.

## Interest Rate Risk

We are subject to interest rate risk in connection with the issuance of debt. In order to manage interest costs, we may use treasury locks and interest rate swap agreements. Our exposure to interest rate risk arises primarily from changes in U.S. Treasury rates, commercial paper rates and London Inter-Bank Offered Rates (LIBOR). As of September 30, 2013, we had a floating rate debt-to-total debt ratio of approximately 4 percent (excluding securitized debt).

## Foreign Currency Exchange Risk

We have foreign currency exchange risk arising from market price fluctuations associated with fixed priced contracts. These contracts are denominated in Canadian dollars and are primarily for the purchase and sale of natural gas and power as well as for long-term transportation capacity. To limit our exposure to foreign currency exchange

Edgar Filing: DTE ENERGY CO - Form 10-Q

fluctuations, we have entered into a series of foreign currency exchange forward contracts through July 2016.

52

---

## Summary of Sensitivity Analysis

We performed a sensitivity analysis on the fair values of our commodity contracts, long-term debt obligations and foreign currency exchange forward contracts. The commodity contracts and foreign currency exchange risk listed below principally relate to our energy marketing and trading activities. The sensitivity analysis involved increasing and decreasing forward rates at September 30, 2013 and 2012 by a hypothetical 10% and calculating the resulting change in the fair values.

The results of the sensitivity analysis calculations as of September 30, 2013 and 2012:

Activity	Assuming a 10% Increase in Rates		Assuming a 10% Decrease in Rates		Change in the Fair Value of	
	As of September 30,		As of September 30,			
	2013	2012	2013	2012		
(In millions)						
Coal contracts	\$1	\$3	\$1	\$(1)	Commodity contracts	
Natural gas contracts	\$10	\$(9)	\$10	\$10	Commodity contracts	
Electricity contracts	\$11	\$3	\$(6)	\$(3)	Commodity contracts	
Interest rate risk	\$(303)	\$(225)	\$322	\$237	Long-term debt	
Foreign currency exchange risk	\$—	\$(1)	\$—	\$1	Forward contracts	
Discount rates	\$—	\$—	\$—	\$—	Commodity contracts	

For further discussion of market risk, see Note 4 of the Notes to Consolidated Financial Statements.

Item 4. Controls and Procedures

(a) Evaluation of disclosure controls and procedures

Management of the Company carried out an evaluation, under the supervision and with the participation of DTE Energy's Chief Executive Officer (CEO) and Chief Financial Officer (CFO), of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of September 30, 2013, which is the end of the period covered by this report. Based on this evaluation, the Company's CEO and CFO have concluded that such disclosure controls and procedures are effective in providing reasonable assurance that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act (i) is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and (ii) is accumulated and communicated to the Company's management, including its CEO and CFO, as appropriate to allow timely decisions regarding required disclosure. Due to the inherent limitations in the effectiveness of any disclosure controls and procedures, management cannot provide absolute assurance that the objectives of its disclosure controls and procedures will be attained.

(b) Changes in internal control over financial reporting

There have been no changes in the Company's internal control over financial reporting during the quarter ended September 30, 2013 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

## Part II — OTHER INFORMATION

### Item 1. Legal Proceedings

In July 2009, DTE Energy received a Notice of Violation/Finding of Violation (NOV/FOV) from the EPA alleging, among other things, that five DTE Electric power plants violated New Source Performance standards, Prevention of Significant Deterioration requirements, and operating permit requirements under the Clean Air Act. In June 2010, the EPA issued a NOV/FOV making similar allegations related to a project and outage at Unit 2 of the Monroe Power Plant. In March 2013, DTE Energy received a supplemental NOV from the EPA relating to the July 2009 NOV/FOV. The supplemental NOV alleged additional violations relating to the New Source Review provisions under the Clean Air Act, among other things.

In August 2010, the U.S. Department of Justice, at the request of the EPA, brought a civil suit in the U.S. District Court for the Eastern District of Michigan against DTE Energy and DTE Electric, related to the June 2010 NOV/FOV and the outage work performed at Unit 2 of the Monroe Power Plant, but not relating to the July 2009 NOV/FOV. Among other relief, the EPA requested the court to require DTE Electric to install and operate the best available control technology at Unit 2 of the Monroe Power Plant. Further, the EPA requested the court to issue a preliminary injunction to require DTE Electric to (i) begin the process of obtaining the necessary permits for the Monroe Unit 2 modification and (ii) offset the pollution from Monroe Unit 2 through emissions reductions from DTE Electric's fleet of coal-fired power plants until the new control equipment is operating. On August 23, 2011, the U.S. District Court judge granted DTE Energy's motion for summary judgment in the civil case, dismissing the case and entering judgment in favor of DTE Energy and DTE Electric. On October 20, 2011, the EPA caused to be filed a Notice of Appeal to the U.S. Court of Appeals for the Sixth Circuit. On March 28, 2013, the Court of Appeals remanded the case to the U.S. District Court for review of the procedural component of the New Source Review notification requirements. On September 3, 2013, the EPA caused to be filed a motion seeking leave to amend their complaint regarding the June 2010 NOV/FOV adding additional claims related to outage work performed at the Trenton Channel and Belle River power plants as well as additional claims related to work performed at the Monroe Power Plant. In addition, the Sierra Club caused to be filed a motion to add a claim regarding the River Rouge Power Plant. The EPA and Sierra Club motions are currently pending with the U. S. District Court Judge.

DTE Energy and DTE Electric believe that the plants identified by the EPA, including Unit 2 of the Monroe Power Plant, have complied with all applicable federal environmental regulations. Depending upon the outcome of discussions with the EPA regarding the two NOVs/FOVs, DTE Electric could be required to install additional pollution control equipment at some or all of the power plants in question, implement early retirement of facilities where control equipment is not economical, engage in supplemental environmental programs, and/or pay fines. The Company cannot predict the financial impact or outcome of this matter, or the timing of its resolution.

On March 13, 2013, the Sierra Club filed suit against DTE Energy and DTE Electric alleging violations of the Clean Air Act at four of DTE Electric's coal-fired power plants. The plaintiffs allege 1,499 6-minute periods of excess opacity of air emissions from 2007-2012 at those facilities. The suit asks that the court enjoin DTE Energy and DTE Electric from operating the power plants except in complete compliance with applicable laws and permit requirements, pay civil penalties, conduct beneficial environmental mitigation projects, pay attorney fees and require the installation of any necessary pollution controls or to convert and/or operate the plants' boilers on natural gas to avoid additional violations and to off-set historic unlawful emissions. The resolution of this matter is not expected to have a material effect on the Company's operations or financial statements.

For additional discussion on legal matters, see Notes 7 and 12 of the Notes to Consolidated Financial Statements.

#### Item 1A. Risk Factors

There are various risks associated with the operations of DTE Energy's utility and non-utility businesses. To provide a framework to understand the operating environment of DTE Energy, we have provided a brief explanation of the more significant risks associated with our businesses in Part 1, Item 1A. Risk Factors in the Company's 2012 Form 10-K. Although we have tried to identify and discuss key risk factors, others could emerge in the future. In addition to the risk factors set forth in our 10-K, the following updated risk could affect our performance.

A work interruption may adversely affect us. Unions represent approximately 4,900 of our employees. Our contracts with several bargaining units for the majority of our represented employees were due to expire in June and October 2013. Early negotiations resulted in new contracts that became effective in March 2013. The new contracts will expire in June 2017 for the DTE Electric bargaining units and in October 2017 for the DTE Gas bargaining units. A union choosing to strike would have an impact on our business. We are unable to predict the effect a work stoppage would have on our costs of operation and financial performance.

#### Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

On September 12, 2013, the Company contributed \$100 million of DTE Energy common stock to the DTE Energy Company Affiliates Employee Benefit Plans Master Trust. The contribution consisted of 1,522,301 shares valued at \$65.69 per share, the closing market price of DTE Energy common stock on that date in accordance with fair value measurement and accounting requirements. The shares were contributed to the trust in a private placement transaction made in reliance upon the exemption from registration provided by Section 4(2) of the Securities Act of 1933 as amended.

The following table provides information about our purchases of equity securities that are registered by the Company pursuant to Section 12 of the Exchange Act for the quarter ended September 30, 2013:

	Number of Shares Purchased (a)	Average Price Paid per Share (a)	Purchased as Part of Publicly Announced Plans or Programs	Average Price Paid per Share	Maximum Dollar Value that May Yet Be Purchased Under the Plans or Programs
07/01/2013 — 07/31/2013	1,005	\$65.77	—	—	—
08/01/2013 — 08/31/2013	2,152	\$68.95	—	—	—
09/01/2013 — 09/30/2013	1,000	\$68.34	—	—	—
Total	4,157		—		

(a) Represents shares of common stock withheld to satisfy income tax obligations upon the vesting of restricted stock.

#### Item 6. Exhibits

##### (i) Exhibits filed herewith:

- 10-87      DTE Energy Affiliates Nonqualified Plans Master Trust, effective as of August 15, 2013
- 12-55      Computation of Ratio of Earnings to Fixed Charges
- 31-85      Chief Executive Officer Section 302 Form 10-Q Certification of Periodic Report
- 31-86      Chief Financial Officer Section 302 Form 10-Q Certification of Periodic Report
- 101.INS      XBRL Instance Document

Edgar Filing: DTE ENERGY CO - Form 10-Q

101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Database
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase (ii) Exhibits incorporated herein by reference:  Supplemental Indenture, dated as of August 1, 2013, to the Mortgage and Deed of Trust dated as of October 1, 1924, between DTE Electric Company and The Bank of New York Mellon, N.A., as successor trustee (Exhibit 4-281 to DTE Electric Form 10-Q for the quarter ended September 30, 2013). (2013 Series B)
4-281	

(iii) Exhibits furnished herewith:

32-85 Chief Executive Officer Section 906 Form 10-Q Certification of Periodic Report

32-86 Chief Financial Officer Section 906 Form 10-Q Certification of Periodic Report

57

---

Signature

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

DTE ENERGY COMPANY  
(Registrant)

Date: October 25, 2013

By /s/ DONNA M. ENGLAND  
Donna M. England  
Chief Accounting Officer  
(Principal Accounting Officer)